

# LONDON BOROUGH OF TOWER HAMLETS

## STATEMENT OF ACCOUNTS 2009-10



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### CONTENTS

	Page
Foreword by the Corporate Director of Resources	1
Review of the Year	2
The Accounting Statements	7
Statement of Accounting Policies	8
Income and Expenditure Account	17
Statement of Movement on the General Fund Balance	18
Statement of Total Recognised Gains and Losses	19
Balance Sheet	20
Cash Flow Statement	21
Notes to the Core Financial Statements	22
Housing Revenue Account	56
Statement of Movement on the Housing Revenue Account Balance	57
Notes to the Housing Revenue Account	58
Collection Fund	62
Group Accounts	65
Pension Fund Accounts	71
Auditor's Report	78
Statement of Responsibilities	80
Annual Governance Statement	81
Glossary and Abbreviations	92

## **EXPLANATORY FOREWORD**

### **Overview by the Corporate Director of Resources**

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

The accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 and the Best Value Accounting Code of Practice 2009. These constitute "proper accounting practice" with which councils must comply by statute. The Council has also produced a summary of the accounts, which is less detailed than the full statement. This has been produced following consultation with stakeholders and is available from the Council's website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk).

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

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

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

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

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

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

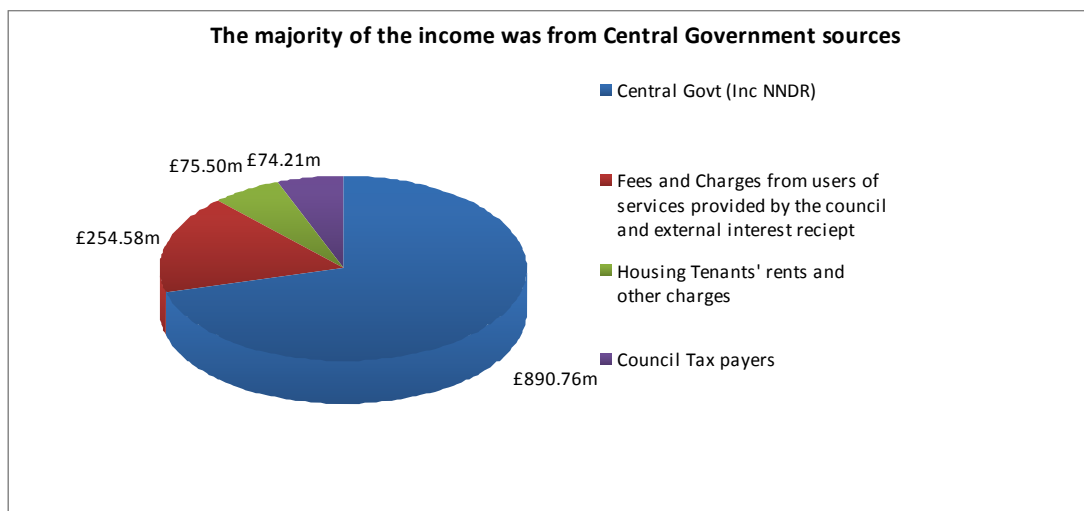
**Chris Naylor ACA CPFA MA Cantab**  
**Corporate Director of Resources**

## REVIEW OF THE YEAR

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

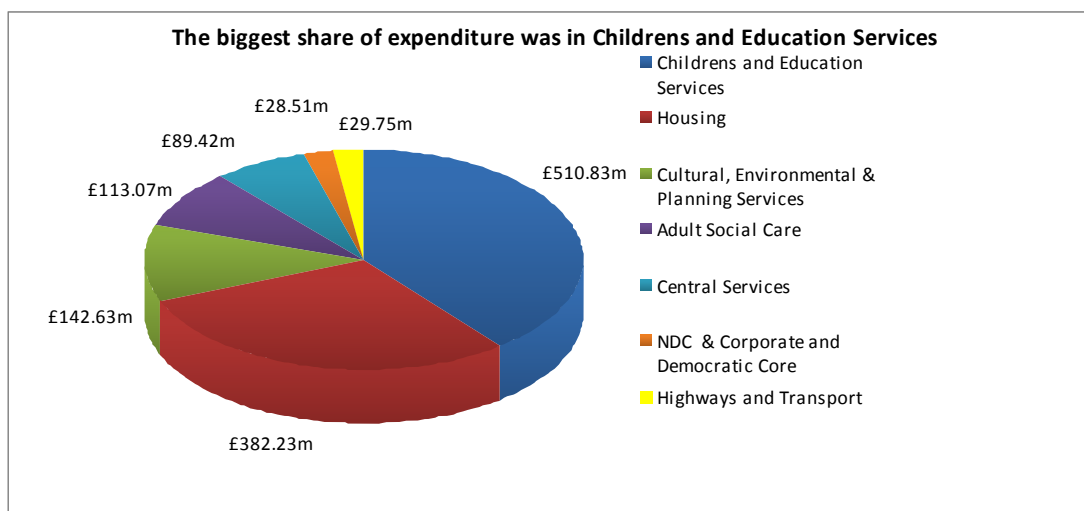
### WHERE THE MONEY CAME FROM

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



### HOW THE MONEY WAS SPENT

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



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

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

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

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

## REVENUE SPEND COMPARED TO BUDGET

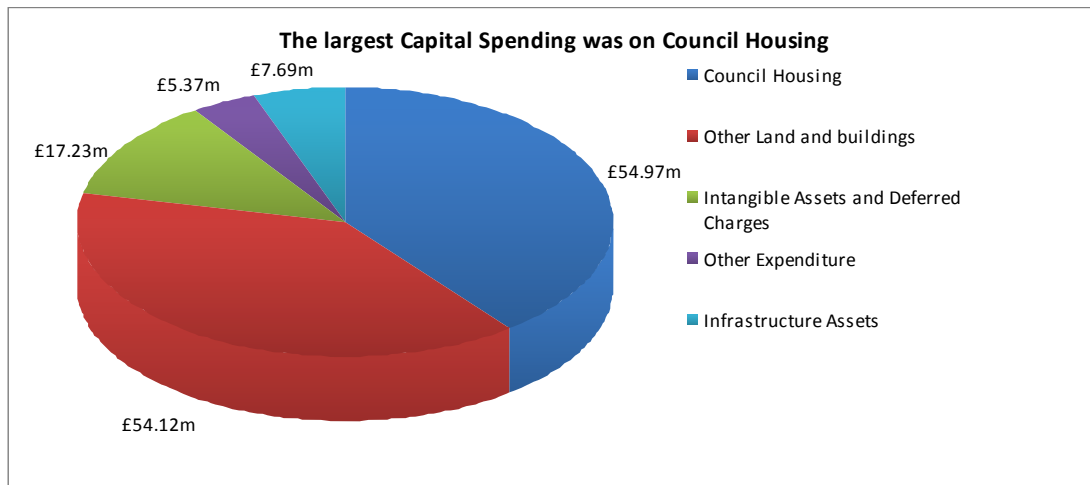
The Council's revenue expenditure and income is divided between "General Fund" (services excluding council housing) and the "Housing Revenue Account" (HRA) - a separate account for the Council acting as a housing landlord. The General Fund net budget requirement for the year was agreed at £297.9 million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

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

## PENSIONS

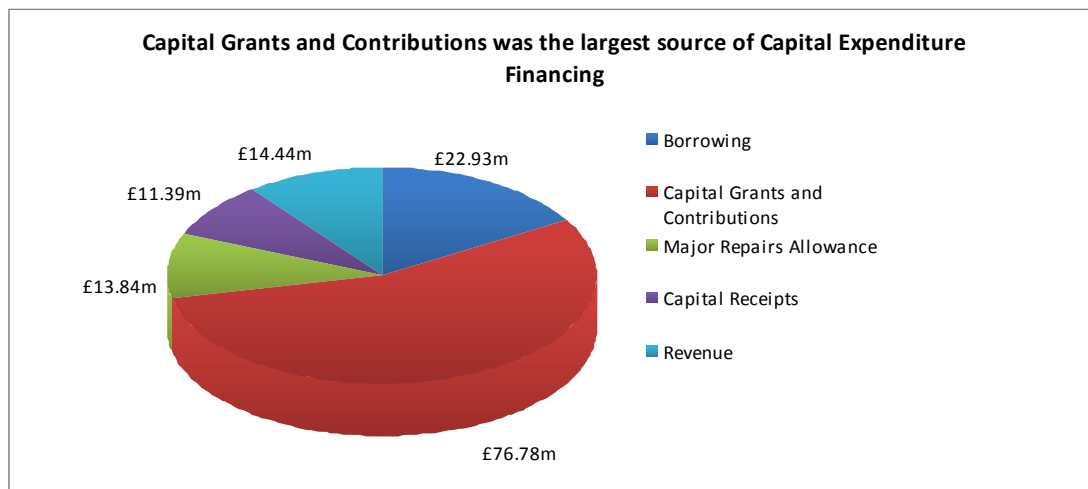
The Council offers retirement pensions to its staff under a statutory scheme and makes contributions to pension schemes on their behalf. Although the pension benefits are not payable until employees retire, the Council has a commitment to make the payments and must account for them in the year in which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

## CAPITAL SPENDING



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

## HOW CAPITAL SPENDING WAS PAID FOR



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

### **FURTHER INFORMATION**

Further information about the accounts and a copy of the summary of accounts are available from the Head of Corporate Finance, Mulberry Place, 5 Clove Crescent, London, E14 2BG. The summary is also on the Council's website at [www.towerhamlets.gov.uk](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 **Income and Expenditure Account** which reports the net cost for the year of all the functions for which the Council is responsible and demonstrates how the cost has been financed from general Government grants and income from local taxpayers. It brings together income and expenditure relating to all the Council's functions in three distinct sections, each divided by a sub-total, to give the net deficit or surplus for the year.

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

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

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

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

**Notes to the Core Financial Statements**

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

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

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

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

We try to produce the statements in a form that is understandable to most stakeholders. However, they include some technical terms which are explained in the **Glossary**, which starts at page 92.

## STATEMENT OF ACCOUNTING POLICIES

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2009-10 financial year and its position at the year-end of 31<sup>st</sup> March 2010. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2009* (the "SORP"). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets. Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

### 2. Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as stocks on the Balance Sheet.
- Works are charged as expenditure less deposits and are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income or expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.

### 3. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, if the Council were to be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

#### **4. Reserves**

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

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

#### **5. Government Grants and Contributions (Revenue)**

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

#### **6. Retirement Benefits**

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

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

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

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

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

The Local Government scheme is a defined benefits scheme.

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

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

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

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

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension funds and any amounts payable to the funds but unpaid at the year-end.

### **Discretionary Benefits**

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

## **7. VAT**

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

## **8. Overheads and Support Services**

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2009* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.
- Non-material end of year balances on support services treated as trading accounts.

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

## 9. Intangible Fixed Assets

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

## 10. Tangible Fixed Assets

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

**Recognition:** Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. The de minimis level above which expenditure on tangible fixed assets is classified as capital is £50,000 except where the expenditure is financed by grants or contributions; or where lesser amounts on the same scheme accumulate above that level.

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

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

Net current replacement cost is assessed as:

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

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

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

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

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

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

**Disposals:** When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 received from disposals are categorised as capital receipts.

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

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

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

Depreciation is calculated on the following bases:

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

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

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

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

## 11. Charges to Revenue for Fixed Assets

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

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

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, impairment losses and amortizations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

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

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

## **13. Leases**

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

### **Finance Leases**

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

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

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

### **Operating Leases**

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

## **14. Financial Liabilities**

Financial liabilities in relation to borrowing are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

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

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

## **15. Financial Assets**

Financial assets are classified into two types:

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

The Council has no available-for-sale assets. Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

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

## **16. Stocks and Work in Progress**

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

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

The Council has a material interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council and which requires group accounts to be prepared. The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. The group accounts are at pages 65 to 70 In the Council's own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.



## **18. Private Finance Initiative (PFI)**

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

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

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

The original recognition of these fixed assets has been balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council. The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Income and Expenditure Account
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Income and Expenditure Account
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Income and Expenditure Account
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator lifecycle replacement costs – recognised as fixed assets on the Balance Sheet.

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

There is also a contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. This agreement is not to be treated as a finance lease and that any costs are charged to revenue.

## **19. Collection Fund**

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR).

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

Up to 2008-09 NNDR taxpayers' debtor and creditor balances and an allowance for doubtful debts were included on the Council's Balance Sheet. The 2009 SORP determines that the Council collects NNDR under what is in substance an agency arrangement with the Government. From 1<sup>st</sup> April 2009 the amount included in the Council's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of a cost of collection allowance) that has not yet been paid to the Government or has been overpaid to the Government on the Balance Sheet date. This is a change in accounting policy which requires a prior year adjustment. See note 57 page 55.

## INCOME AND EXPENDITURE ACCOUNT

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

	Note	2009/10 Gross Expenditure	2009/10 Gross Income	2009/10 Net Expenditure	2008/09 Gross Expenditure As Restated <sup>1</sup>	2008/09 Gross Income	2008/09 Net Expenditure As Restated <sup>1</sup>
		£'000	£'000	£'000	£'000	£'000	£'000
Cultural, Environmental, Regulatory and Planning Services	4	142,626	48,701	93,925	130,252	53,909	76,343
Central Services		89,424	77,339	12,085	55,655	47,018	8,637
Children's and Education Services	55	510,826	425,197	85,629	470,703	374,075	96,628
Highways and Transport Services		29,754	24,141	5,613	30,989	27,693	3,296
Local Authority Housing (Housing Revenue Account)	6	96,701	90,760	5,941	110,565	91,599	18,966
Other Housing Services	6	285,533	279,240	6,293	259,630	255,347	4,283
Adult Social Care	19	113,069	20,948	92,121	102,959	17,201	85,758
Corporate and Democratic Core		10,719	6,334	4,385	21,072	6,339	14,733
Non-distributed Costs		17,791	26	17,765	15,185	481	14,704
<b>NET COST OF SERVICES</b>		<b>1,296,443</b>	<b>972,686</b>	<b>323,757</b>	<b>1,197,010</b>	<b>873,662</b>	<b>323,348</b>
Net (gain)/loss on disposal of fixed assets	3			21,428			(13,394)
Total net (surplus)/deficit on trading accounts	8			11			1,555
Amounts due to levying authorities	9			1,636			1,641
Contribution to housing pooled capital receipts				572			4,766
Interest payable and similar charges				27,379			28,544
Interest and investment income				(1,313)			(6,144)
Amortisation of premiums and discounts				0			2,849
Unattached capital receipts				(8,734)			(1,331)
Pensions interest cost and expected return on pensions assets	47			22,887			12,234
<b>NET OPERATING EXPENDITURE</b>				<b>387,623</b>			<b>354,068</b>
<b>INCOME FROM TAXATION AND GENERAL GOVERNMENT GRANT</b>							
Council Tax income				(74,206)			(70,073)
Government grants (not attributable to specific services)	14			(76,714)			(55,384)
Distribution from non-domestic rate pool				(185,907)			(197,503)
<b>(SURPLUS)/DEFICIT FOR THE YEAR TRANSFERRED TO THE GENERAL FUND</b>				<b>50,796</b>	<b>31,108</b>		

<sup>1</sup> See note 57

## STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

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

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

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

	Note	2009/10 £'000	2008/09 As Restated <sup>1</sup> £'000
(Surplus)/Deficit for the year on the Income and Expenditure Account		50,796	31,108
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	2	(49,402)	(24,883)
<b>(Increase)/decrease in General Fund Balance for the year</b>		<b>1,394</b>	<b>6,225</b>
General Fund Balance brought forward		(47,638)	(53,863)
<b>General Fund Balance (including schools' balances) carried forward</b>		<b>(46,244)</b>	<b>(47,638)</b>
<b>Amount of General Fund Balances Held by Schools under Local Management Schemes</b>			
Schools' Balances brought forward		(20,536)	(28,349)
Movement on Schools Balances in year		1,425	7,813
<b>Schools' Balances carried forward <sup>2</sup></b>		<b>(19,111)</b>	<b>(20,536)</b>
<b>Amount of General Fund Balance Generally Available for New Expenditure</b>		<b>(27,133)</b>	<b>(27,102)</b>

<sup>1</sup> See note 57

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

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

	2009/10	2008/09
		As Restated <sup>1</sup>
	£'000	£'000
(Surplus)/Deficit on the Income and Expenditure Account for the year	50,796	31,108
(Surplus)/Deficit arising on revaluation of fixed assets	(39,641)	(168,154)
Actuarial (gains)/losses on pension fund assets and liabilities	396,292	85,644
Other (gains) and losses <sup>2</sup>	(487)	481
<b>Total recognised (gains) and losses for the year</b>	<b>406,960</b>	<b>(50,921)</b>
Cumulative effect on reserves of prior period adjustments		93,579
<b>Aggregate (increase)/decrease in net worth</b>	<b>406,960</b>	<b>42,658</b>

<sup>1</sup> See note 57

<sup>2</sup> The 2008-09 amount represents the Council element of the Collection Fund deficit. The 2009-10 amount represents the amortisation of premiums and discounts in respect of the premature redemption of debt.

## BALANCE SHEET

as at 31st March

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

	Note	2010	2010	2009	2009
		£'000	£'000	As Restated <sup>1</sup>	As Restated <sup>1</sup>
				£'000	£'000
<b>Fixed Assets</b>					
<b>Tangible Fixed Assets</b>	20				
<b>Operational assets</b>					
Council dwellings		925,378		901,291	
Other land and buildings		983,324		968,157	
Infrastructure assets		91,170		86,397	
Equipment		4,456		3,643	
Community assets		48,410		45,220	
<b>Non-operational assets</b>					
Investment properties		52,769		50,042	
Surplus assets		5,072		802	
<b>Total Fixed Assets</b>			2,110,579		2,055,552
Long Term Debtors	27		1,067		855
<b>Total Long Term Assets</b>			<b>2,111,646</b>		<b>2,056,407</b>
<b>Current Assets</b>					
Stocks and Work in Progress	28	531		303	
Debtors	29	88,620		80,618	
Investments	31	85,508		78,427	
Cash and Bank		37,010	211,669	27,452	186,800
<b>Total Assets</b>			<b>2,323,315</b>		<b>2,243,207</b>
<b>Current liabilities</b>					
Short-term borrowing	31	15,324		16,310	
Creditors	32	129,702	145,026	132,166	148,476
<b>Total Assets less Current Liabilities</b>			<b>2,178,289</b>		<b>2,094,731</b>
<b>Long Term Liabilities</b>					
Long-term borrowing	31	302,475		249,075	
Capital Grants Unapplied	34	38,511		37,363	
Capital Grants and Contributions Deferred	35	130,864		96,139	
Deferred liabilities	10	38,287		38,637	
Deferred Income - Receipts in Advance	36	9,817		11,006	
Provisions	37	11,216		8,560	
Liability related to defined benefit pension schemes	47	670,693	1,201,863	270,565	711,345
<b>TOTAL ASSETS LESS LIABILITIES</b>			<b>976,426</b>		<b>1,383,386</b>
<b>Financed by</b>					
Revaluation Reserve	39		510,138		486,712
Capital Adjustment Account	41		975,634		994,431
Capital Receipts Reserve	42		16,309		18,091
Deferred Capital Receipts	43		298		412
Pensions Reserve <sup>1</sup>	47		(670,693)		(270,565)
Major Repairs Reserve	38		1,074		2,354
Council Tax Adjustment Account	47		3,902		(597)
Financial Instruments Adjustment Account	40		764		280
Balances					
General Fund	38		27,133		27,102
Housing Revenue Account	38		12,978		23,301
Earmarked Reserves	46		98,889		101,865
<b>TOTAL NET WORTH</b>			<b>976,426</b>		<b>1,383,386</b>

<sup>1</sup> See note 57

## CASH FLOW STATEMENT

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

	Note	2009/2010	2009/2010	2008/2009	2008/2009
		£'000	£'000	As Restated <sup>1</sup>	As Restated <sup>1</sup>
				£'000	£'000
<b>NET REVENUE ACTIVITIES CASH FLOW</b>	50		<b>41,194</b>		<b>17,276</b>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>					
<i>Cash outflows</i>					
Interest paid		(22,455)		(21,038)	
Interest element of finance lease rental payments		(5,846)		(5,348)	
<i>Cash inflows</i>					
Interest received		1,385		6,434	
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			<b>(26,916)</b>		<b>(19,952)</b>
<b>CAPITAL ACTIVITIES</b>					
<i>Cash outflows</i>					
Purchase of fixed assets		(119,730)		(66,564)	
Other capital cash payments		(554)		-	
<i>Cash inflows</i>					
Sale of fixed assets		1,383		25,873	
Other capital cash receipts		243		67	
Capital grants received		69,124		36,716	
<b>NET CASH OUTFLOW FROM CAPITAL ACTIVITIES</b>			<b>(49,534)</b>		<b>(3,908)</b>
<b>NET CASH INFLOW/OUTFLOW BEFORE FINANCING</b>			<b>(35,257)</b>		<b>(6,584)</b>
<b>MANAGEMENT OF LIQUID RESOURCES</b>					
Net increase/decrease in other liquid resources	54	(8,402)		22,390	
<b>FINANCING</b>			<b>(8,402)</b>		<b>22,390</b>
<i>Cash outflows</i>					
Repayments of amounts borrowed		(12,901)		(21,719)	
Capital Element of Finance Lease Rental Payments & PFI payments		(350)			
<i>Cash inflows</i>					
New loans raised		66,467		7,000	
<b>NET CASH INFLOW FROM FINANCING</b>			<b>53,216</b>		<b>(14,719)</b>
<b>INCREASE/(DECREASE) IN CASH</b>			<b>9,558</b>		<b>1,087</b>

<sup>1</sup> See note 57

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1 SERVICE EXPENDITURE ANALYSIS

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

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

	2009/2010 £'000	2009/2010 £'000	2008/2009 As Restated <sup>1</sup> £'000	2008/2009 As Restated <sup>1</sup> £'000
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund balance for the year</b>				
Amortisation of intangible fixed assets	(1,374)		(969)	
Depreciation and impairment of fixed assets	(61,712)		(28,908)	
Excess of depreciation of Housing Revenue Account compared with Major Repairs Allowance	(335)		(734)	
Impairment relating to Housing Stock transfer	(6,842)		(23,363)	
Deferred considerations adjustment			(1,434)	
Government Grants Deferred amortisation	37,275		25,851	
Difference between amounts debited/credited to the Income and Expenditure account and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	484		(2,284)	
Revenue expenditure funded from capital under statute	(15,045)		(16,281)	
Unattached capital receipts	8,734		1,331	
Gain or loss on sale of Housing Revenue Account fixed assets	(2,379)		3,720	
Net profit/(loss) on sale of fixed assets	(19,049)		9,674	
Net charges made for retirement benefits in accordance with FRS 17	(38,081)	(98,324)	(38,249)	(71,646)
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on the General Fund balance for the year</b>				
Minimum revenue provision for capital financing	7,260		7,302	
Capital expenditure financed from the General Fund	14,437		3,316	
Transfer from Capital Receipts Reserve to meet payments to the housing capital receipts pool	(572)		(4,766)	
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	34,245		36,353	
Transfer from the Council Tax Adjustment Account	5,097	60,467	(427)	41,778
<b>Transfers (to) or from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund balance for the year</b>				
Transfer of statutory surplus/(deficit) for the year on the Housing Revenue Account	(10,323)		(11,887)	
Transfers made at the discretion of the Council to or from reserves that have been earmarked for specific purpose	(1,222)	(11,545)	16,872	4,985
<b>Net additional amount required to be credited to the General Fund balance for the year</b>		<b>(49,402)</b>		<b>(24,883)</b>

<sup>1</sup> See note 57

### 3 GAIN OR LOSS ON DISPOSAL OF FIXED ASSETS

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

	2009/10 Disposal £'000	2008/2009 Disposal £'000
Market value of assets sold	483	5,911
*Adjustments for demolitions/transfers/disposals	27,056	0
Book value of disposals	27,539	5,911
Capital receipts received	(1,340)	(19,387)
Cost of disposal on dwellings	10	82
Deferred contributions written off	(4,781)	0
<b>Loss/(Gain) on Disposal</b>	<b>21,428</b>	<b>(13,394)</b>

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



#### 4 BUILDING CONTROL ACCOUNT

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

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

#### 5 CONTROLLED PARKING ACCOUNT

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

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

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

## 6 HOUSING SERVICES

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

	2009/2010 Gross Expenditure £'000	2009/2010 Gross Income £'000	2009/2010 Net Expenditure £'000	2008/2009 Net Expenditure £'000
Housing Revenue Account (page 56)	97,203	(90,760)	6,443	19,294
Internal recharges				
Corporate and Democratic Core	(502)	0	(502)	(328)
<b>Local Authority Housing</b>	<b>96,701</b>	<b>(90,760)</b>	<b>5,941</b>	<b>18,966</b>
Other Housing	285,533	(278,526)	7,007	5,215
Internal recharges				
Supporting people	0	(714)	(714)	(932)
<b>Other Housing Services</b>	<b>285,533</b>	<b>(279,240)</b>	<b>6,293</b>	<b>4,283</b>
<b>NET COST OF SERVICES</b>	<b>382,234</b>	<b>(370,000)</b>	<b>12,234</b>	<b>23,249</b>

## 7 MEMBERS' ALLOWANCES

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

## 8 TRADING ACCOUNTS

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

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

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

## 9 LEVIES

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

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

## 10. PRIVATE FINANCE INITIATIVE SCHEMES - ASSETS, LIABILITIES AND PAYMENTS

The Council is party to two Private Finance Initiative (PFI) schemes in respect of the design, construction, maintenance and servicing of 28 schools - the Mulberry and Group Schools schemes - until the year 2029. Prior to 2009-10 the assets involved were treated as "off balance sheet" in accordance with relevant accounting standards. SORP 2009 requires that the schemes are now accounted for under International Financial Reporting Standards and that the position as at 31 March 2009 is restated. The assets are now included on the Council's Balance Sheet, matched by a finance lease liability.

### Movement on PFI Assets

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

### Movement on PFI Liabilities

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

### Consisting of:

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

### Payments due under PFI schemes

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

#### Liability

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

#### Interest

Within 1 year	836	4,638	5,474
Within 2 - 5 years	3,147	19,362	22,509
Within 6 - 10 years	3,310	22,229	25,538
Within 11 - 15 years	2,338	16,485	18,823
Within 16 - 19 years	777	3,501	4,278

#### Service Charges

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

## 11 AGENCY INCOME AND EXPENDITURE

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

## 12 OFFICERS' EMOLUMENTS

### All Employees except Senior Employees

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

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

### Senior Employees <sup>1</sup>

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

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

**12 OFFICERS' EMOLUMENTS (Continued)**

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

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

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

**13 PUBLICITY**

The Council's expenditure on publicity was as follows:

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

## 14 GOVERNMENT GRANTS (NOT ATTRIBUTABLE TO SPECIFIC SERVICES)

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

	2009/10 £'000	2008/09 £'000
Revenue Support Grant	(42,910)	(27,494)
Local Authority Business Growth Incentives Scheme Grant (LABGI)	(306)	(215)
Area Based Grant	(31,171)	(27,675)
Housing and Planning Delivery Grant (HPDG) <sup>1</sup>	(2,327)	(3,416)
<b>Total</b>	<b>(76,714)</b>	<b>(58,800)</b>

<sup>1</sup> HPDG was included in Net Cost of Services in the 2008-09 Income and Expenditure Account. The above note has been restated for 2008-09 for comparative purposes.

## 15 AUDIT FEES

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

	2009/2010 £'000	2008/2009 £'000
External audit services carried out by the appointed auditor	500	442
Statutory inspection	-	27
Certification of grant claims and returns	119	113
Other services provided by the appointed auditor	13	2
<b>Total</b>	<b>632</b>	<b>584</b>

The fees for other services related to the National Fraud Initiative.

## 16 ECONOMIC DEVELOPMENT

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

## 17 RELATED PARTY TRANSACTIONS

The Code of Practice on Local Authority Accounting requires disclosure of additional information regarding transactions between the Council and related parties in accordance with Financial Reporting Standard 8. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### (i) Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transaction that the Council has with other parties. Details of transactions with Government departments are set out in a note to the Cash Flow Statement.

### (ii) Partnerships

The Council has partnership arrangements with the following organisations:

NDC (New Deal for the Community)

PCT (Primary Care Trust)

### (iii) Pension Fund

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

### (iv) Membership of and relationship with other organisations

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

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

\* indicates former Councillor

**17 RELATED PARTY TRANSACTIONS (continued)**

**(iv) Membership of and relationship with other organisations (continued)**

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

\* indicates former Councillor



## 18 INTERESTS IN COMPANIES

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

## 19 POOLED BUDGETS

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

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

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

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

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

20 MOVEMENT ON FIXED ASSETS	Council	Other Land				Total	Investment	Surplus Assets	Total Non-	Total
	Dwellings	and Buildings	Infrastructure	Equipment	Community	Operational	Properties	Held for Disposal	Operational	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Cost or valuation</b>										
<b>At 1st April 2009<sup>1</sup></b>	<b>1,051,615</b>	<b>1,037,745</b>	<b>109,690</b>	<b>12,281</b>	<b>45,220</b>	<b>2,256,551</b>	<b>54,449</b>	<b>802</b>	<b>55,251</b>	<b>2,311,802</b>
Additions	54,973	54,121	7,688	1,866	3,503	122,151	806	0	806	122,957
Disposals	(17,685)	(24,512)	(190)	0	(313)	(42,700)	(4,543)	0	(4,543)	(47,243)
Reclassifications	0	(3,307)	0	0	0	(3,307)	(963)	4,270	3,307	0
Revaluations	(12,469)	(13,934)	0	0	0	(26,403)	7,283	0	7,283	(19,120)
<b>At 31 March 2010</b>	<b>1,076,434</b>	<b>1,050,113</b>	<b>117,188</b>	<b>14,147</b>	<b>48,410</b>	<b>2,306,292</b>	<b>57,032</b>	<b>5,072</b>	<b>62,104</b>	<b>2,368,396</b>
<b>Depreciation and impairments</b>										
<b>At 1st April 2009<sup>1</sup></b>	<b>150,324</b>	<b>69,588</b>	<b>23,293</b>	<b>8,638</b>	<b>0</b>	<b>251,843</b>	<b>4,407</b>	<b>0</b>	<b>4,407</b>	<b>256,250</b>
Depreciation charge for 2009-10	12,556	13,717	2,768	1,053	0	30,094	0	0	0	30,094
Disposals	0	(2,028)	(43)	0	0	(2,071)	(72)	0	(72)	(2,143)
Revaluations	(11,824)	(14,488)	0	0	0	(26,312)	(72)	0	(72)	(26,384)
<b>Depreciation as at 31st March 2010</b>	<b>151,056</b>	<b>66,789</b>	<b>26,018</b>	<b>9,691</b>	<b>0</b>	<b>253,554</b>	<b>4,263</b>	<b>0</b>	<b>4,263</b>	<b>257,817</b>
<b>Balance sheet amount at 31st March 2010</b>	<b>925,378</b>	<b>983,324</b>	<b>91,170</b>	<b>4,456</b>	<b>48,410</b>	<b>2,052,738</b>	<b>52,769</b>	<b>5,072</b>	<b>57,841</b>	<b>2,110,579</b>
<b>Balance sheet amount at 31st March 2009<sup>1</sup></b>	<b>901,291</b>	<b>968,157</b>	<b>86,397</b>	<b>3,643</b>	<b>45,220</b>	<b>2,004,708</b>	<b>50,042</b>	<b>802</b>	<b>50,844</b>	<b>2,055,552</b>

<sup>1</sup> See note 57

**Nature of asset holding**

Owned	925,378	712,403	91,170	4,456	48,410	1,781,817	52,769	5,072	57,841	1,839,658
Private Finance Initiative	0	270,921	0	0	0	270,921	0	0	0	270,921
	<b>925,378</b>	<b>983,324</b>	<b>91,170</b>	<b>4,456</b>	<b>48,410</b>	<b>2,052,738</b>	<b>52,769</b>	<b>5,072</b>	<b>57,841</b>	<b>2,110,579</b>

21 FIXED ASSET VALUATIONS	Council	Other Land				Total	Investment	Surplus Assets	Total Non-	Total
	Dwellings	and Buildings	Infrastructure	Equipment	Community	Operational	Properties	Held for Disposal	Operational	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
The following shows the progress of the Council's rolling programme for the revaluation of fixed assets.										
Valued at historic cost	0	0	91,170	4,456	48,410	144,036	0	0	0	144,036
Valued at current value in:										
2009/10	925,378	100,641	0	0	0	1,026,019	0	0	0	1,026,019
2008/09	0	857,943	0	0	0	857,943	0	5,072	5,072	863,015
2007/08	0	0	0	0	0	0	0	0	0	0
2006/07	0	24,740	0	0	0	24,740	0	0	0	24,740
2005/06	0	0	0	0	0	0	52,769	0	52,769	52,769
<b>Total</b>	<b>925,378</b>	<b>983,324</b>	<b>91,170</b>	<b>4,456</b>	<b>48,410</b>	<b>2,052,738</b>	<b>52,769</b>	<b>5,072</b>	<b>57,841</b>	<b>2,110,579</b>

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

Dwellings - M.Checksfield, MRICS

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

#### **General Fund Property Valuation**

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

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

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

#### **Housing Revenue Account Property Valuation**

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

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

#### **Depreciation**

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

## 22 CAPITAL EXPENDITURE AND FINANCING

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

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

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

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

<sup>1</sup> Capital Financing Requirement (CFR) excludes Private Finance Initiative schemes.

## 23 ANALYSIS OF TANGIBLE FIXED ASSETS

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

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

## 24 CAPITAL COMMITMENTS

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

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

## 25 LEASES

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

### Operating Leases

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

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

## 26 INTANGIBLE FIXED ASSETS

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

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

## 27 LONG TERM DEBTORS

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

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

## 28 STOCK AND WORK IN PROGRESS

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

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

## 29 DEBTORS AND PAYMENTS IN ADVANCE

	2009/2010 £'000	2008/2009 As Restated <sup>1</sup> £'000
Government	8,725	11,256
Her Majesty's Revenue and Customs	14,782	8,002
Council Taxpayers	14,496	10,566
Other local authorities	307	243
Rents: sundry tenants	4,421	4,792
Rents: homeless families	13,049	13,368
Employees	352	306
Payments in advance	4,695	3,563
Housing benefits overpayments	13,731	11,317
Controlled parking fees	7,534	5,749
Sundry	58,474	63,195
<b>TOTAL DEBTORS</b>	<b>140,566</b>	<b>132,357</b>
<b>Provisions for bad debts</b>		
Rents: sundry tenants	(2,631)	(3,207)
Housing benefits overpayments	(11,080)	(10,277)
Rents: homeless families	(13,192)	(13,154)
Controlled parking fees	(6,865)	(5,437)
Council Taxpayers	(5,135)	(4,979)
Sundry	(13,043)	(14,685)
<b>TOTAL PROVISIONS FOR BAD DEBTS</b>	<b>(51,946)</b>	<b>(51,739)</b>
<b>TOTAL NET DEBTORS</b>	<b>88,620</b>	<b>80,618</b>

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

<sup>2</sup>See Note 30

## 30 DEFERRED CONSIDERATIONS

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

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

## 31 FINANCIAL ASSETS AND LIABILITIES

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

### Amortised Cost

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

### Fair Value

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

## 31 FINANCIAL ASSETS AND LIABILITIES (contd)

### Compliance

The Council has:

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

### Types of Financial Instruments

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

Financial Instrument Balances	Long-Term		Current		Total	
	2009/2010	2008/2009	2009/2010	2008/2009	2009/2010	2008/2009
	£'000	As Restated <sup>1</sup> £'000	£'000	As Restated <sup>1</sup> £'000	£'000	As Restated <sup>1</sup> £'000
Financial Liabilities						
Borrowings at amortised cost	302,475	249,075	14,633	15,611	317,108	264,686
Deferred Liabilities (PFI)	38,287	38,637	691	699	38,978	39,336
Investments						
Loans and receivables	0	0	85,508	78,427	85,508	78,427

The adjustments are as set out below:

	2009/2010	2008/2009
	£000s	As Restated <sup>1</sup> £000s
Balance Sheet: long term loans	302,475	249,075
Balance Sheet: deferred liability	38,287	38,637
Balance Sheet: short term loans	15,324	16,310
<b>Total Borrowing</b>	<b>356,086</b>	<b>304,022</b>

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

### Gains and Losses on Financial Instruments

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

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

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

### Fair Value of Assets and Liabilities carried at Amortised Cost

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

### Methods and Assumptions in valuation technique

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

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling.

The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31st March, using bid prices where applicable.



### 31 FINANCIAL ASSETS AND LIABILITIES (contd)

The calculations are made with the following assumptions:

- The PWLB liabilities have been calculated by reference to the "Premature Redemption" set of rates in force on the 31st March 2010.
- For other market debt and investments the discount rate used is the rates available for an instrument with the same terms from a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- Fair values for all instruments in the portfolio have been calculated, but only those which are materially different from the carrying value are disclosed.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are as follows

	2009/2010	2009/2010	2008/2009	2008/2009
	£'000	£'000	As Restated <sup>1</sup> £'000	£'000
	Carrying amount	Fair value	Carrying amount	Fair value
Fair Value of Liabilities Carried at Amortised Cost				
Public Works Loans Board	233,723	298,874	247,113	330,715
Lender's option, borrower's option loans	77,608	85,606	17,573	18,337
Short term	5,777	5,777	0	0
PFI	38,978	38,978	39,336	39,336
Financial liabilities	356,086	429,235	304,022	388,388

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

	2009/2010	2009/2010	2008/2009	2008/2009
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Fair Value of Assets Carried at Amortised Cost				
Cash deposits with banks and other financial institutions	44,690	44,690	49,170	49,170
Fixed term deposits with banks and building societies	40,466	40,484	25,541	25,626
Advance to Pension Fund	-	-	3,364	3,364
Equity Shares (not quoted in an active market)	352	352	352	352
<b>TOTAL</b>	<b>85,508</b>	<b>85,526</b>	<b>78,427</b>	<b>78,512</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 is receivable is lower/higher than the rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above/below current market rates increases the amount that the authority would receive if it agreed to early repayment of loans.

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

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

#### 1. Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. The Council also has a policy of limiting deposits with institutions to a maximum of £10 million - £25 million.

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

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

## 31 FINANCIAL ASSETS AND LIABILITIES (contd)

The Council does not generally allow credit for customers, such that £2,588 million of the £28,191 million balance is past its due date for payment, but not impaired. The past due amount can be analysed by age as follows:

	31 March 2010 £'000	31 March 2009 £'000
Credit Risk		
Three to six months	474	598
Six months to one year	1,061	1,336
More than one year	1,053	1,327
<b>TOTAL</b>	<b>2,588</b>	<b>3,261</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):

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

### 3. Market Risk

#### Interest rate risk

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

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

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Income and Expenditure Account.

• The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value in the Balance Sheet, which would also be reflected in the Statement of Recognised Gains & Losses.

• The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 20% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of higher costs.

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

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

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

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

#### Price risk

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

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

### 32 CREDITORS AND RECEIPTS IN ADVANCE

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

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

### 33 EVENTS AFTER THE BALANCE SHEET DATE

No post balance sheet events have been identified that would materially affect the financial statements.

### 34 CAPITAL GRANTS UNAPPLIED

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

### 35 DEFERRED GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

### 36 DEFERRED INCOME - RECEIPT IN ADVANCE

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

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

## 37 PROVISIONS

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

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

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

### 38 MOVEMENT ON RESERVES

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

	Balance at 1/4/2009 As Restated <sup>1</sup> £'000	Movement in year £'000	Balance at 31/03/2010 £'000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve <sup>1</sup>	486,712	23,426	510,138	To record unrealised revaluation gains (since 1 April 2007) from holding fixed assets. The balance does not represent cash resources available to the Council.	See note 39
Capital Adjustment Account <sup>1</sup>	994,431	(18,797)	975,634	A balancing mechanism between the different rates at which assets are depreciated under the SORP and financed through the capital controls system. The balance does not represent cash resources available to the Council.	See note 41
Capital Receipts Reserve	18,091	(1,782)	16,309	Proceeds of fixed asset sales available to meet future capital investment	See note 42
Financial Instruments Adjustment Account	280	484	764	Premia and discounts on the premature redemption of debt to be transferred to revenue over the residual term of the loan	See note 40
Pensions Reserve	(270,565)	(400,128)	(670,693)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	See note 47
Housing Revenue Account	23,301	(10,323)	12,978	Resources available to meet future costs for council houses	See pages 56-61
Major Repairs Reserve	2,354	(1,280)	1,074	Resources available to meet capital investment in council housing	See page 59
General Fund	27,102	31	27,133	Resources available to meet future costs for non-housing services. Schools' Balances are included in Earmarked Reserves.	See page 18
Earmarked Reserves (including schools' balances)	101,865	(2,976)	98,889	Amounts carried forward to meet known liabilities in the future.	See note 46
<b>TOTAL</b>	<b>1,383,571</b>	<b>(411,345)</b>	<b>972,226</b>		

<sup>1</sup> As adjusted. See note 57

### 39 REVALUATION RESERVE

	2009/2010 £'000	2008/2009 As Restated <sup>1</sup> £'000
<b>Balance at 1st April</b>	486,712	335,449
Revaluation gains on assets revalued in year	39,641	301,288
Balances written off on assets disposed of in year	(8,759)	(587)
Balances written off on impairment losses in year	0	(141,342)
Difference between depreciation on current value and depreciation on historic cost	(7,456)	(8,096)
<b>BALANCE AT 31st MARCH</b>	<b>510,138</b>	<b>486,712</b>

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

<sup>1</sup> See note 57

### 40 FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

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

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

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

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

#### 41 CAPITAL ADJUSTMENT ACCOUNT

	2009/2010 £'000	2008/2009 As Restated <sup>1</sup> £'000
<b>BALANCE AT 1st APRIL</b>	<b>994,431</b>	<b>1,019,095</b>
<b>Fixed Asset Adjustments</b>		
Depreciation (General Fund)	(17,202)	(20,528)
Depreciation (HRA)	(12,892)	(12,558)
Impairment (GF)	(30,073)	(31,750)
Difference between depreciation on current value and depreciation on historic cost	5,152	8,096
Sales of Fixed Assets	(483)	(5,911)
Write-off of Fixed Assets	(27,038)	0
Impairment relating to Housing Stock Transfer	(6,842)	0
Impairment relating to Demolitions of Fixed Assets	(10,718)	0
Write out Revaluation Reserve Balance on Assets Disposed of in Year	8,741	587
Write out Deferred Capital Contributions Balance on Assets Disposed of in Year	4,782	0
<b>Amortisation of Revenue Expenditure Funded from Capital under Statute</b>	<b>(16,419)</b>	<b>(18,684)</b>
<b>Resources set aside to finance Capital Expenditure</b>		
Capital Receipts	11,387	7,306
Capital Grants and Contributions	37,275	25,851
Direct Revenue Financing (General Fund)	8,437	3,315
Direct Revenue Financing (HRA)	6,000	0
Major Repairs Allowance	13,836	12,311
Minimum Revenue Provision	7,260	7,301
<b>BALANCE AT 31st MARCH</b>	<b>975,634</b>	<b>994,431</b>

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

<sup>1</sup> See note 57

#### 42 CAPITAL RECEIPTS RESERVE

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

#### 43 DEFERRED CAPITAL RECEIPTS

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

	2009/2010 £'000	2008/2009 £'000
Mortgages	298	412
	<b>298</b>	<b>412</b>

## 44 STREET TRADING ACCOUNT

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

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

## 45 CONTINGENT LIABILITIES

### Housing Transfers to Registered Social Landlords

Between March 1998 and March 2010 the Council transferred tenanted and leasehold properties to other landlords - 7,457 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to Eastend Homes; 1,985 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields HA. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council. The amount of the potential liability cannot be determined with any certainty at present.

## 46 EARMARKED RESERVES

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

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

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



## 46 EARMARKED RESERVES (contd)

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

## 46 EARMARKED RESERVES (contd)

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

### Participation in pensions schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not be payable until employees retire, the Council has a commitment to make the payments which needs to be disclosed at the time the employees earn their future entitlement.

The Council participates in three pensions schemes:

- The Local Government Pension (LGP) Scheme administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority
- The Teachers' Pension Scheme (TPS), administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).

The LGP schemes are funded defined benefit final salary schemes, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The TPS is an unfunded defined benefit final salary scheme meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet pensions payments as they eventually fall due. It does, however, use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities (LEAs) of which the Council is one. It is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees and it is therefore accounted for on the same basis as a defined contribution scheme. This means that contributions are included on the basis of the actual amount paid into the scheme.

### Transactions Relating to Retirement Benefits

The cost of LGPS retirement benefits is recognised in the Net Cost of Services when the benefits are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year. The real cost of retirement benefits is therefore reversed out in the Statement of Movement in the General Fund Balance (SMGFB). The following transactions have been made in the Income and Expenditure Account and SMGFB during the year:

	The Council		LPFA		Total	
	2009/2010	2008/2009	2009/2010	2008/2009	2009/2010	2008/2009
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Income and Expenditure Account</b>						
<b>Net Cost of Services</b>						
Current service costs	13,755	16,732	342	407	14,097	17,139
Past service costs	0	6,681	0	237	0	6,918
Impact of settlements and curtailments	1,097	1,958	0	0	1,097	1,958
<b>Net Operating Expenditure</b>						
Interest cost	55,993	57,960	3,175	3,309	59,168	61,269
Expected return on assets in the scheme	(34,741)	(47,033)	(1,540)	(2,002)	(36,281)	(49,035)
<b>Net Charge to the Income and Expenditure Account</b>	<b>36,104</b>	<b>36,298</b>	<b>1,977</b>	<b>1,951</b>	<b>38,081</b>	<b>38,249</b>
<b>Statement of Movement in the General Fund Balance</b>						
Reversal of net charges made for retirement benefits in accordance with FRS 17	(36,104)	(36,298)	(1,977)	(1,951)	(38,081)	(38,249)
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>	<b>33,232</b>	<b>35,272</b>	<b>1,013</b>	<b>1,082</b>	<b>34,245</b>	<b>36,354</b>

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

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £379.599 million (£83.135 million in 2008-09) were included in the Statement of Total Recognised Gains and Losses (STRGL). The cumulative amount of actuarial losses recognised in the STRGL is £435.431 million.

## Assets and Liabilities in Relation to Retirement Benefits

## Reconciliation of present value of scheme liabilities (LGPS):

	The Council		LPFA		Total	
	2009/2010 £'000	2008/2009 £'000	2009/2010 £'000	2008/2009 £'000	2009/2010 £'000	2008/2009 £'000
1st April	(815,900)	(837,851)	(47,051)	(48,839)	(862,951)	(886,690)
Current service cost	(13,755)	(16,732)	(342)	(407)	(14,097)	(17,139)
Interest cost	(55,993)	(57,960)	(3,175)	(3,309)	(59,168)	(61,269)
Contributions	(8,478)	(8,610)	(142)	(148)	(8,620)	(8,758)
Actuarial gains / (losses)	(525,563)	84,292	(19,369)	3,309	(544,932)	87,601
Benefits paid	32,294	29,600	2,577	2,580	34,871	32,180
Past service costs	0	(6,681)	0	(237)	0	(6,918)
Losses on curtailments	(1,097)	(1,958)		0	(1,097)	(1,958)
31st March	(1,388,492)	(815,900)	(67,502)	(47,051)	(1,455,994)	(862,951)

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

	The Council		LPFA		Total	
	2009/2010 £'000	2008/2009 As restated £'000	2009/2010 £'000	2008/2009 As restated £'000	2009/2010 £'000	2008/2009 As restated £'000
1st April	555,794	661,906	36,592	41,758	592,386	703,664
Expected rate of return	34,741	47,033	1,540	2,002	36,281	49,035
Actuarial (losses) / gains	145,965	(167,427)	2,676	(5,818)	148,641	(173,245)
Contributions						
Members	8,478	8,610	142	148	8,620	8,758
Employer	33,232	35,272	1,013	1,082	34,245	36,354
Benefits paid	(32,294)	(29,600)	(2,577)	(2,580)	(34,871)	(32,180)
31st March	745,916	555,794	39,386	36,592	785,302	592,386

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

## Scheme history

	2009/2010 £'000	2008/2009 £'000	2007/2008 £'000	2006/2007 £'000	2005/2006* £'000
Present value of liabilities:					
The Council	(1,388,492)	(815,900)	(837,851)	(986,327)	(989,200)
LPFA	(67,502)	(47,051)	(48,839)	(54,198)	(55,110)
Fair value of assets					
The Council	745,916	555,794	661,906	692,748	639,300
LPFA	39,386	36,592	41,758	39,087	39,031
Deficit in the scheme					
The Council	(642,576)	(260,106)	(175,945)	(293,579)	(349,900)
LPFA	(28,116)	(10,459)	(7,081)	(15,111)	(16,079)
<b>Total deficit in the schemes</b>	<b>(670,692)</b>	<b>(270,565)</b>	<b>(183,026)</b>	<b>(308,690)</b>	<b>(365,979)</b>

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

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total deficit in the schemes of £670.7 million has a significant impact on the net worth of the Council as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The contributions expected to be made by the Council in the year to 31st March 2011 are £33.72 million to the Council's scheme and £0.50 million to the LPFA scheme.

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

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

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

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

The major categories of assets are as follows.

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

### History of experience gains and losses

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

	2009-10	2008-09	2007-08	2006-07	2005-06
	%	%	%	%	%
<b>The Council</b>					
Experience gains and (losses) on assets	19.57	-30.12	-14.34	0.07	13.08
Experience gains and (losses) on liabilities	0.00	0.00	-4.38	0.00	-0.02
<b>London Pensions Fund Authority</b>					
Experience gains and (losses) on assets	6.79	-15.90	6.17	0.00	3.72
Experience gains and (losses) on liabilities	-0.78	0.27	-4.24	0.29	0.19

## 48 TRUST FUNDS

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

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

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

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

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

## 49 STATEMENT OF NET ASSETS EMPLOYED

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

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

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

	2009/2010 £'000	2009/2010 £'000	2008/2009 As Restated <sup>1</sup> £'000	2008/2009 As Restated <sup>1</sup> £'000
Surplus/(deficit) for the year		(50,796)		(31,108)
<b>Non Cash Transactions</b>				
Depreciation and impairment	77,727		64,628	
Deferred grants amortised in year	(37,275)		(25,851)	
PFI debtor adjustments	0		1,434	
Pension fund adjustments	3,836		1,896	
Other non cash financial instrument adjustments	(484)		(372)	
Contribution to provisions	2,656	46,460	(3,091)	38,644
<b>Adjustments for items reported separately in cashflow statement</b>				
Interest and investment income		(1,313)		(6,144)
Interest payable		21,551		22,656
Interest element of finance lease rental payments		5,846		5,348
Revenue Expenditure Funded from Capital Under Statute		16,419		16,281
Gains/losses on disposal of fixed assets		21,428		(13,394)
<b>Items on an accruals basis</b>				
(Increase)/decrease in stock		(228)		2,581
(Increase)/decrease in debtors		(5,569)		(825)
Increase/(decrease) in creditors		(12,604)		(16,763)
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>		<b>41,194</b>		<b>17,276</b>

<sup>1</sup> See note 57

## 51 OTHER GOVERNMENT GRANTS

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

## 52 ANALYSIS OF NET DEBT

	Short term investments £000	Short term investments Short term investments £000	Total £000	Loans due within one year £000	Loans due more than one year £000	Deferred Liabilities £000	Net Debt £000
Balance as at 1st April 2009	27,452	78,427	105,879	(13,600)	(251,785)	(49,643)	(209,149)
Cashflows in year	9,558	7,081	16,639	(1,724)	(51,144)	1,539	(34,690)
Other non cash changes	0	0	0	0	454	0	454
<b>Balance as at 31st March 2010</b>	<b>37,010</b>	<b>85,508</b>	<b>122,518</b>	<b>(15,324)</b>	<b>(302,475)</b>	<b>(48,104)</b>	<b>(243,385)</b>

## 53 RECONCILIATION OF CHANGES IN CASH TO MOVEMENT IN NET DEBT

	2009/2010 £'000	2008/2009 £'000
Increase/(Decrease) in cash in year	9,558	1,087
Cash inflow/(outflow) from management of liquid resources	7,081	(21,962)
<b>Cash inflow from:</b>		
New loans raised	(65,769)	(7,000)
<b>Cash outflow from:</b>		
Loans repaid	12,901	20,321
Deferred Liabilities Repaid	1,539	385
<b>Change in net debt resulting from cashflows</b>	<b>(34,690)</b>	<b>(7,169)</b>
<b>Other non cash changes:</b>		
New deferred liabilities	0	(38,637)
Net adjustments for difference between effective interest rate and interest payable	454	(2,645)
<b>Net Debt Brought Forward</b>	<b>(209,149)</b>	<b>(160,698)</b>
<b>Net Debt Carried Forward</b>	<b>(243,385)</b>	<b>(209,149)</b>

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

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

## 55 DEDICATED SCHOOLS GRANT

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

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

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

- A DSG figure as issued by DCSF on 25 June 2009 plus Exceptional Circumstances Grant notified in December 2009.
- B Figure brought forward from 2008-09 (restated by way of correction).
- C The amount which the Council decided after consultation with the schools forum to carry forward to 2010-11 rather than distribute in 2009-10.
- D Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
- E Actual amount of central expenditure items in 2009-10.
- F Amount of ISB distributed to schools.
- G Contribution from the Council in 2009-10 which substituted for DSG in funding the Schools Budget.
- H Difference between budgeted distributions and actuals plus carry forward agreed in advance.



## 56 AUTHORISED FOR ISSUE DATE

The accounts were authorised for issue by Mr. Chris Naylor ACA CPFA MACantab on 29th June 2010.

## 57 PRIOR YEAR ADJUSTMENTS

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

	2008-09 Statement of Accounts £'000s	Borrowing Restated £'000s	PFI Adjustments £'000s	Council Tax Adjustments £'000s	NNDR Adjustments £'000s	2008-09 Restated £'000s
<b>INCOME &amp; EXPENDITURE ACCOUNT (NET)</b>						
Children's and Education Services	97,168		(540)			96,628
<b>NET COST OF SERVICES</b>	<b>323,888</b>		<b>(540)</b>			<b>323,348</b>
Interest payable and similar charges	22,656		5,888			28,544
<b>NET OPERATING EXPENDITURE</b>	<b>346,544</b>		<b>5,348</b>			<b>351,892</b>
<b>INCOME FROM TAXATION AND GENERAL GOVERNMENT GRANT</b>						
Council Tax income	70,501			(428)		70,073
<b>(SURPLUS)/DEFICIT FOR THE YEAR TRANSFERRED TO THE GENERAL FUND</b>	<b>25,332</b>		<b>5,348</b>	<b>428</b>		<b>31,108</b>

### Statement of Movement on the General Fund Balance

(Surplus)/Deficit for the year on the Income and Expenditure Account	25,332	5,348	428	31,108
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(19,107)	(5,348)	(428)	(24,883)
<b>(Increase)/decrease in General Fund Balance for the year</b>	<b>6,225</b>			<b>6,225</b>
<b>Amount of General Fund Balance Generally Available for New Expenditure</b>	<b>(27,102)</b>	<b>0</b>	<b>0</b>	<b>(27,102)</b>

### Note of Reconciling Items for the Statement of Movement on the General Fund Balance

Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund balance for the year

Depreciation and impairment of fixed assets	(23,241)	(5,667)		(28,908)
Transfer from the Council Tax Adjustment Account			(427)	(427)
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>				
Minimum revenue provision for capital financing	6,984	318		7,302
<b>Net additional amount required to be credited to the General Fund balance for the year</b>	<b>(19,107)</b>	<b>(5,349)</b>	<b>(427)</b>	<b>(24,883)</b>

### Balance Sheet

#### Fixed Assets

#### Tangible Fixed Assets

#### Operational assets

Other land and buildings

**Total Fixed Assets**

Long Term Debtors

**Total Long Term Assets**

#### Current Assets

Debtors

**Total Assets**

#### Current liabilities

Short-term borrowing

Creditors

**Total Assets less Current Liabilities**

#### Long Term Liabilities

Long-term borrowing

Deferred liabilities

**TOTAL ASSETS LESS LIABILITIES**

#### Financed by

Revaluation Reserve

Capital Adjustment Account

Collection Fund

Collection Fund Adjustment Account

**TOTAL NET WORTH**

### Statement of Total Recognised Gains and Losses

(Surplus)/Deficit on the Income and Expenditure Account for the year	25,332	5,349	427	31,108
(Surplus)/Deficit arising on revaluation of fixed assets	54,771	(222,925)		(168,154)
<b>Total recognised (gains) and losses for the year</b>	<b>166,228</b>	<b>(217,576)</b>	<b>427</b>	<b>(50,921)</b>
Cumulative effect on reserves of prior period adjustments		93,579		93,579
<b>Aggregate (increase)/decrease in net worth</b>	<b>166,228</b>	<b>(123,997)</b>	<b>427</b>	<b>42,658</b>

## HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

The Housing Revenue Account (HRA) deals with the provision and maintenance of council housing by the Council acting as landlord. It also shows income from rents and Government grant. There is a statutory requirement to keep this account separate from other Council activities (including other housing activities).

	Note	2009/2010	2008/2009
		£'000	£'000
<b>INCOME</b>			
Gross rental income			
Rents of dwellings		54,601	54,117
Non dwelling rents		2,614	3,525
Charges for services and facilities			
Heating and other charges		7,003	6,605
Leaseholder charges		11,283	8,466
HRA subsidy receivable			
General		2,374	6,947
Major Repairs Allowance		12,556	11,824
Contribution towards expenditure		115	115
Reduction in provision for bad debts		214	0
<b>TOTAL INCOME</b>		<b>90,760</b>	<b>91,599</b>
<b>EXPENDITURE</b>			
Repairs, maintenance and management			
Repairs and maintenance		24,315	28,220
Supervision and management		31,939	33,454
Rents, rates, taxes and other charges		2,749	2,982
Rent rebates		0	215
Increase in provision for bad debts		0	1,464
Depreciation of fixed assets	6		
On dwellings		12,556	11,824
On other assets		335	734
Impairment		18,191	23,363
Revenue expenditure funded from capital under statute	13	6,403	8,113
Debt management costs		213	196
<b>TOTAL EXPENDITURE</b>		<b>96,701</b>	<b>110,565</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		<b>5,941</b>	<b>18,966</b>
HRA services share of Corporate and Democratic Core		502	328
<b>NET COST OF HRA SERVICES</b>		<b>6,443</b>	<b>19,294</b>
<b>HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account</b>			
Gain or loss on sale of HRA fixed assets		2,379	(3,720)
Amortisation of premiums and discounts <sup>1</sup>	10	0	2,849
Interest payable		14,293	17,804
Interest and investment income		(192)	(1,002)
Pensions interest cost	7	3,163	3,776
Expected return on pension assets	7	(1,955)	(3,058)
<b>DEFICIT/(SURPLUS) FOR THE YEAR ON HRA SERVICES</b>		<b>24,131</b>	<b>35,943</b>

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

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

The Housing Revenue Account (HRA) Income and Expenditure Account discloses the income received and expenditure incurred in providing council dwellings to tenants for the year. However, the Council is required to raise council rents based on the balance on 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	2009/2010	2008/2009
	£'000	£'000
Deficit/(Surplus) for the year on the HRA Income and Expenditure Account	24,131	35,943
Net additional amount required by statute to be credited to the HRA balance for the year	1 (13,808)	(24,056)
(Increase)/decrease in the HRA Balance	<b>10,323</b>	<b>11,887</b>
Balance on the Statutory HRA Brought Forward	(23,301)	(35,188)
<b>Balance on the Statutory HRA Carried Forward</b>	<b>(12,978)</b>	<b>(23,301)</b>

# NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2009/2010		2008/2009	
	£'000	£'000	£'000	£'000
<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	(6,403)		(8,113)	
Capital expenditure financed from revenue	6,000		0	
Government Grants Deferred amortisation	6,995		6,434	
Gain or loss on sale of HRA fixed assets	(2,379)		3,720	
Depreciation and impairment of fixed assets	(11,349)		(23,363)	
Impairment relating to housing stock transfer	(6,842)		0	
Difference between amounts charged to the Income & Expenditure Account for premiums and discounts and the charge for the year determined in accordance with statute	585		(2,183)	
Net charges made for retirement benefits in accordance with FRS 17	(1,211)		(1,175)	
Transfers from General Fund (as directed by Secretary of State)	(714)	(15,318)	(932)	(25,612)
<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year</b>				
Transfer to/from the Major Repairs Reserve	(335)		(734)	
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	1,845	1,510	2,290	1,556
<b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>		<b>(13,808)</b>		<b>(24,056)</b>

## 2. HOUSING STOCK

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

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

## 3. FIXED ASSETS

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

	2009/2010	2008/2009
	£'000	£'000
Dwellings	925,378	901,291
Other Land & Buildings	14,345	25,368
Non-Operational	50,713	46,520
<b>TOTAL</b>	<b>990,436</b>	<b>973,179</b>

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

	Operational Dwellings	Operational Other land and buildings	Non- Operational	TOTAL
	£'000	£'000	£'000	£'000
Total value at 31st March 2008	986,081	30,181	50,634	1,066,896
Additions, disposals, transfers and revaluations	(84,790)	(4,813)	(4,114)	(93,717)
Total value at 31st March 2009	901,291	25,368	46,520	973,179
Additions, disposals, transfers and revaluations	24,087	(11,023)	4,193	17,257
<b>TOTAL VALUE AT 31st MARCH 2010</b>	<b>925,378</b>	<b>14,345</b>	<b>50,713</b>	<b>990,436</b>

The vacant possession value of dwellings within the Council's HRA was £2,391 million in 2009/2010 (£2,785 million in 2008/2009). The difference between the vacant possession value and the balance sheet value shows the economic cost to the Government of providing council housing at less than open market rents.

## 4. MAJOR REPAIRS RESERVE

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

## 5. CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

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

### (ii) Capital Receipts

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

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

## 6. DEPRECIATION

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

	2009/2010 £'000	2008/2009 £'000
<b>Operational Assets</b>		
Council dwellings	12,556	11,824
Other land and buildings	330	729
Equipment	-	-
Infrastructure	5	5
<b>TOTAL DEPRECIATION</b>	<b>12,891</b>	<b>12,558</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 47 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note. The following transactions have been made in the account for the year.

	The Council		LPFA		Total	
	2009/2010 £'000	2008/2009 £'000	2009/2010 £'000	2008/2009 £'000	2009/2010 £'000	2008/2009 £'000
<b>Income and Expenditure Account</b>						
<b>Net Cost of Services</b>						
Current service costs	31	452	6	5	37	457
<b>Net Operating Expenditure</b>						
Interest cost	3,109	3,747	54	29	3,163	3,776
Expected return on assets in the scheme	(1,929)	(3,041)	(26)	(17)	(1,955)	(3,058)
<b>Net Charge to the Income and Expenditure Account</b>	<b>1,211</b>	<b>1,158</b>	<b>34</b>	<b>17</b>	<b>1,245</b>	<b>1,175</b>
<b>Statement of Movement in the HRA Balance</b>						
Reversal of net charges made for retirement benefits in accordance with FRS17	(1,211)	(1,158)	(34)	(17)	(1,245)	(1,175)
<b>Employer's contribution to scheme</b>	<b>1,845</b>	<b>2,281</b>	<b>7</b>	<b>9</b>	<b>1,852</b>	<b>2,290</b>

## 8. RENT ARREARS

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

## 9. TRANSFERS FROM GENERAL FUND (AS DIRECTED BY SECRETARY OF STATE)

Authorities are allowed to transfer sums to the HRA from another revenue account on the basis of directions issued by the Government. The £0.7 million transferred during 2009/10 relates to "Supporting People" services provided by the Council.

## 10. AMORTISED PREMIUMS AND DISCOUNTS

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

## 11. HOUSING REVENUE ACCOUNT SUBSIDY ENTITLEMENT

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

## 12. IMPAIRMENT OF FIXED ASSETS

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

## 13. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

## COLLECTION FUND

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



## NOTES TO THE COLLECTION FUND

### 1. GENERAL

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

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

### 2. COUNCIL TAX

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

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

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

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

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

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

### **3. NATIONAL NON-DOMESTIC RATES (NNDR)**

Under the arrangements for National Non-Domestic Rates the Council collects business rates for its area which it pays to the Government. The Government then redistributes the total NNDR back to local authorities on the basis of a fixed amount per head of population. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2009/10 was 48.5p in the £ (46.2p in the £ in 2008/09). The total rateable value in the borough as at 29 March 2010 was £677.4 million (£673.0 million at 31 March 2009). A periodic revaluation of business properties took place in April 2010. The new 2010 valuation list shows a total rateable value in the borough as at 29 March 2010 of £817.9 million.

### **4. ADJUSTMENTS FOR PRIOR YEARS' COMMUNITY CHARGE**

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

### **5. PROVISION FOR IRRECOVERABLE COUNCIL TAX DEBTS**

Contributions are made to or from the Collection Fund Income and Expenditure Account to a provision for bad debts. For 2009/10 the Council Tax bad debt provision was increased by £0.21 million (reduced by £0.017 million in 2008/09) and £1.767 million of irrecoverable debts were written off (£1.621 million in 2008/09).

# GROUP ACCOUNTS

## 1 INTRODUCTION

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

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

	Number	Voting Rights
Council nominees	5	5
Housing tenants and leaseholders	5	5
Independent	5	5
Total	15	15

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

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

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

A copy of THH's accounts is available from the company's registered office at:

Tower Hamlets Homes Limited  
Jack Dash House, 2 Lawn Close, London E14 9YQ

or from Companies House, Cardiff

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

THH's appointed auditors are:

KPMG LLP  
2 Cornwall Street  
Birmingham  
B3 2DL

## GROUP INCOME AND EXPENDITURE ACCOUNT

	2009/10 Gross Expenditure	2009/10 Gross Income	2009/10 Net Expenditure	2008/09 Gross Expenditure As Restated <sup>1</sup>	2008/09 Gross Income	2008/09 Net Expenditure As Restated <sup>1</sup>
	£'000	£'000	£'000	£'000	£'000	£'000
Cultural, Environmental, Regulatory and Planning Services	142,626	48,701	93,925	130,252	53,909	76,343
Central Services	89,424	77,339	12,085	55,655	47,018	8,637
Children's and Education Services	510,826	425,197	85,629	470,703	374,075	96,628
Highways and Transport Services	29,754	24,141	5,613	30,989	27,693	3,296
Local Authority Housing (HRA)	97,776	90,760	7,016	110,408	91,599	18,809
Other Housing Services	285,533	279,240	6,293	259,630	255,347	4,283
Adult Social Care	113,069	20,948	92,121	102,959	17,201	85,758
Corporate and Democratic Core	10,719	6,334	4,385	21,072	6,339	14,733
Non-distributed Costs	17,792	26	17,766	15,185	481	14,704
<b>NET COST OF SERVICES</b>	<b>1,297,519</b>	<b>972,687</b>	<b>324,832</b>	<b>1,196,853</b>	<b>873,662</b>	<b>323,191</b>
Net (gain)/loss on disposal of fixed assets			21,428			(13,394)
Total net (surplus)/deficit on Trading Accounts			11			1,555
Amounts due to levying authorities			1,636			1,641
Contribution to Housing Pooled capital receipts			572			4,766
Interest payable and similar charges			27,379			28,547
Interest and investment income			(1,324)			(6,166)
Pensions interest cost and Expected return on pensions assets			23,143			12,267
Amortisation of premiums and discounts			0			2,849
Unattached Capital Receipts			(8,734)			(1,331)
Corporation tax			2			5
<b>NET OPERATING EXPENDITURE</b>			<b>388,945</b>			<b>353,930</b>
<b>INCOME FROM TAXATION AND GENERAL GOVERNMENT GRANT:</b>						
Council Tax income			(74,206)			(70,073)
Government grants (not attributable to specific services)			(76,714)			(55,384)
Distribution from non-domestic rate pool			(185,907)			(197,503)
<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>			<b>52,118</b>			<b>30,970</b>

<sup>1</sup> See note 57

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

	2009/10	2008/09 As Restated <sup>1</sup>
	£'000	£'000
(Surplus)/Deficit on the Council's Income and Expenditure Account for the year	50,796	31,108
Adjustments for transactions with THH	1,075	(157)
(Surplus)/Deficit on the Group Income and Expenditure Account attributable to the Council	51,871	30,951
(Surplus)/Deficit attributable to THH	247	19
<b>(Surplus)/Deficit for the year on the Group Income and Expenditure Account</b>	<b>52,118</b>	<b>30,970</b>

<sup>1</sup> See note 57

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2009/10	2008/09 As Restated <sup>1</sup>
	£'000	£'000
(Surplus)/Deficit on the Income and Expenditure Account for the year	52,118	30,970
(Surplus)/Deficit arising on revaluation of fixed assets	(39,641)	(168,154)
Actuarial (gains)/losses on pension fund assets and liabilities	414,996	84,532
Other (gains) and losses <sup>2</sup>	(487)	481
<b>Total recognised (gains) and losses for the year</b>	<b>426,986</b>	<b>(52,171)</b>
Cumulative effect on reserves of prior period adjustments		93,579
<b>Aggregate (increase)/decrease in net worth</b>	<b>426,986</b>	<b>41,408</b>

<sup>1</sup> See note 57

<sup>2</sup>The 2008-09 amount represents the Council element of the Collection Fund deficit. The 2009-10 amount represents the amortisation of premiums and discounts in respect of the premature redemption of debt.

## GROUP BALANCE SHEET

as at 31st March

	Note	2010	2010	2009	2009
		£'000	£'000	As Restated <sup>1</sup>	As Restated <sup>1</sup>
				£'000	£'000
<b>Fixed Assets</b>					
<b>Tangible Fixed Assets</b>					
<b>Operational assets</b>					
Council dwellings		925,378		901,291	
Other land and buildings		983,324		968,157	
Infrastructure assets		91,170		86,397	
Equipment	3	4,711		3,780	
Community assets		48,410		45,220	
<b>Non-operational assets</b>					
Investment properties		52,769		50,042	
Surplus assets		5,072		802	
<b>Total Fixed Assets</b>			<b>2,110,834</b>		<b>2,055,689</b>
Long Term Debtors			1,067		855
<b>Total Long Term Assets</b>			<b>2,111,901</b>		<b>2,056,544</b>
<b>Current Assets</b>					
Stocks and Work in Progress	3	531		345	
Debtors	3	88,663		79,402	
Investments		85,508		78,427	
Cash and Bank	3	38,033	212,735	31,302	189,476
<b>Total Assets</b>			<b>2,324,636</b>		<b>2,246,020</b>
<b>Current liabilities</b>					
Short-term borrowing		15,324		16,310	
Creditors	3	130,567	145,891	133,603	149,913
<b>Total Assets less Current Liabilities</b>			<b>2,178,745</b>		<b>2,096,107</b>
<b>Long Term Liabilities</b>					
Long-term borrowing		302,475		249,075	
Capital Grants Unapplied		38,511		37,363	
Capital Grants and Contributions Deferred		130,864		96,139	
Deferred liabilities		38,287		38,637	
Deferred Income - Receipt in Advance		9,817		11,006	
Provisions		11,216		8,560	
Liability related to defined benefit pension schemes <sup>1</sup>	3	689,924	1,221,094	270,690	711,470
<b>TOTAL ASSETS LESS LIABILITIES</b>			<b>957,651</b>	<b>1,384,637</b>	
<b>Financed by</b>					
Revaluation Reserve			510,138		486,712
Capital Adjustment Account			975,634		994,431
Capital Receipts Reserve			16,309		18,091
Deferred Capital Receipts			298		412
Pensions Reserve <sup>1</sup>	3		(689,924)		(270,690)
Major Repairs Reserve			1,074		2,354
Council Tax Adjustment Account			3,902		(597)
Financial Instruments Adjustment Account			764		280
<b>Balances</b>					
General Fund			27,133		27,102
Housing Revenue Account			12,978		23,301
Earmarked Reserves			98,889		101,865
Income and Expenditure Reserve	3		456		1,376
<b>TOTAL NET WORTH</b>			<b>957,651</b>	<b>1,384,637</b>	

<sup>2</sup> See note 57

## GROUP CASH FLOW STATEMENT

	Note	2009/2010	2009/2010	2008/2009	2008/2009
		£'000	£'000	As Restated <sup>1</sup>	As Restated <sup>1</sup>
				£'000	£'000
<b>NET REVENUE ACTIVITIES CASH FLOW</b>	1		<b>38,548</b>		<b>21,265</b>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>					
<i>Cash outflows</i>					
Interest paid		(22,455)		(21,055)	
Interest element of finance lease rental payments		(5,846)		(5,348)	
<i>Cash inflows</i>					
Interest received		1,394		6,483	
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS</b>			<b>(26,907)</b>		<b>(19,920)</b>
<b>CAPITAL ACTIVITIES</b>					
<i>Cash outflows</i>					
Purchase of fixed assets		(119,919)		(66,735)	
Other capital cash payments		(554)		-	
<i>Cash inflows</i>					
Sale of fixed assets		1,383		25,873	
Other capital cash payments/(income)		243		67	
Capital grants received		69,124		36,716	
<b>NET CASH OUTFLOW FROM CAPITAL ACTIVITIES</b>			<b>(49,723)</b>		<b>(4,079)</b>
<b>NET CASH INFLOW/OUTFLOW BEFORE FINANCING</b>			<b>(38,082)</b>		<b>(2,734)</b>
<b>MANAGEMENT OF LIQUID RESOURCES</b>					
Net increase/decrease in other liquid resources		(8,402)		22,390	
<b>FINANCING</b>			<b>(8,402)</b>		<b>22,390</b>
<i>Cash outflows</i>					
Repayments of amounts borrowed		(12,901)		(21,719)	
Capital Element of Finance Lease Rental Payments & PFI payments		(350)			
<i>Cash inflows</i>					
New loans raised		66,467		7,000	
<b>NET CASH INFLOW FROM FINANCING</b>			<b>53,216</b>		<b>(14,719)</b>
<b>INCREASE/(DECREASE) IN CASH</b>			<b>6,731</b>		<b>4,937</b>

<sup>1</sup> See note 57

## NOTES TO THE GROUP ACCOUNTS

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

	2009/2010		2008/2009	
	£'000	£'000	£'000	£'000
Surplus/(deficit) for the year		(52,118)		(30,970)
<b>Non Cash Transactions</b>				
Depreciation and impairment	77,799		64,662	
Deferred grants amortised in year	(37,275)		(25,851)	
PFI debtor adjustments	-		1,434	
Pension fund adjustments	4,219		3,116	
Other non cash financial instrument adjustments	(484)		(372)	
Contribution to provisions	2,656	46,915	(3,091)	39,898
<b>Adjustments for items reported separately in cashflow statement</b>				
Interest and investment income	(1,304)		(6,161)	
Interest payable	21,551		22,659	
Interest element of finance lease rental payments	5,846		5,348	
Revenue Expenditure Funded from Capital Under Statute	16,419		16,281	
Gains/losses on disposal of fixed assets	21,428	63,940	(13,394)	24,733
<b>Items on an accruals basis</b>				
(Increase)/decrease in stock	(186)		2,539	
(Increase)/decrease in debtors	(6,193)		(896)	
(Increase)/decrease in creditors	(13,811)	(20,190)	(14,039)	(12,396)
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>		<b>38,548</b>		<b>21,265</b>

### 2 INCOME AND EXPENDITURE ACCOUNT

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

	2009/2010 £'000	2008/2009 £'000
Operating (profit) / loss	1,075	(157)
Interest payable	-	3
Interest receivable	(11)	(22)
Pensions interest cost	256	33
Corporation tax	2	5
<b>Total</b>	<b>1,322</b>	<b>(138)</b>

### 3 BALANCE SHEET

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

	The Council		THH		TOTAL	
	2009/2010 £'000	2008/2009 As Restated <sup>1</sup> £'000	2009/2010 £'000	2008/2009 As Restated <sup>1</sup> £'000	2009/2010 £'000	2008/2009 As Restated <sup>1</sup> £'000
Fixed assets - equipment	4,456	3,643	255	137	4,711	3,780
Stock and work in progress	531	303	0	42	531	345
Debtors	87,967	79,331	696	71	88,663	79,402
Cash	37,010	27,452	1,023	3,850	38,033	31,302
Creditors	129,702	132,166	865	1,438	130,567	133,604
Pensions liability	670,693	270,565	19,231	125	689,924	270,690
Pension reserve	(670,693)	(270,565)	(19,231)	(125)	(689,924)	(270,690)
Income and Expenditure Reserve			456	1,376	456	1,376



## PENSION FUND ACCOUNTS

	Note	2009/2010 £'000	2008/2009 £'000
<b>FUND ACCOUNT</b>			
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
<b>Contributions</b>			
From employers	3	38,455	37,755
From members	3	9,612	9,164
<b>Transfers in</b>			
Individual transfers in from other schemes		6,214	4,862
<b>Benefits</b>			
Pensions	4	(28,510)	(26,685)
Lump sum benefits	4	(8,692)	(6,495)
<b>Payments to and on account of leavers</b>			
Refunds of contributions		(6)	(6)
State scheme premiums		6	(30)
Individual transfers out to other schemes		(6,692)	(6,679)
<b>Administrative expenses</b>	14	(1,075)	(326)
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>9,312</b>	<b>11,560</b>
<b>RETURN ON INVESTMENTS</b>		<b>2009/2010 £'000</b>	<b>2008/2009 £'000</b>
Investment income	11	14,527	23,535
Change in market value of investments			
Realised	10	3,999	(81,917)
Unrealised	10	164,201	(72,192)
Investment management expenses	15	(1,871)	(1,875)
<b>NET RETURN ON INVESTMENTS</b>		<b>180,856</b>	<b>(132,449)</b>
Net increase in the Fund during the year		190,168	(120,889)
Add: Opening net assets of the scheme		562,333	683,222
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>752,501</b>	<b>562,333</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>		<b>2010 £'000</b>	<b>2009 £'000</b>
<b>Investments Assets</b>			
Fixed interest securities			
Public sector		40,659	54,006
Other		55,219	48,441
Equities			
Index linked securities		489,740	328,666
Public sector		49,898	48,922
Property		73,458	53,668
Managed and Unitised Funds			
Other		16,698	23,887
	10	<b>725,672</b>	<b>557,590</b>
Cash deposits	6	19,606	6,892
Other investment balances	5	4,213	10,833
<b>Investments Liabilities</b>			
Other investment balances	5	(2,116)	(8,920)
<b>Current Assets</b>			
	5	5,851	114
<b>Current Liabilities</b>			
	5	(725)	(4,176)
<b>TOTAL NET ASSETS</b>		<b>752,501</b>	<b>562,333</b>

**Note:** The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31st March 2010.

## NOTES TO THE PENSION FUND ACCOUNTS

### 1. INTRODUCTION

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

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

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

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management - that is the accountability of management for the resources entrusted to it - and the disposition of its assets at the period end.

### 2. ACCOUNTING POLICIES

#### (a) Accounts

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with Chapter 2 ("Recommended Accounting Practice") of the Statement of Recommended Practice (Financial Reports of Pensions Schemes) 2007.

#### (b) Basis of preparation

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

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

#### (d) Investments

Investments are shown in the Net Assets Statement at market value on the following bases.

- (i) Listed securities are shown by reference to bid price at the close of business on 31st March 2010
- (ii) Managed and Unitheld funds are valued at bid price or latest single market price at close of business on 31st March 2010.
- (iii) Property Unit Trusts are shown by reference to bid price at close of business on 31st March 2010.
- (iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.
- (v) Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on the 31st March 2010.

#### (e) Management Expenses

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

### 3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 7.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's Actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rate used during the financial year ending 31st March 2010 was 15.8%. Contributions shown in the revenue statement may be categorised as follows:-

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

The Council is required to operate an Additional Voluntary Contributions (AVC) scheme for employees. In 2009/10 employees made contributions of £61,833.25 into the AVC Scheme not administered by the Council but provided by Norwich Union and £10,737.10 to Equitable Life. The contributions are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 N° 1831) but are deducted from salaries and remitted directly to the provider.

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

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Transfers out/in are those sums paid to, or received from, other pension schemes and related to the period of previous pensionable employment. Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

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

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

#### 6. CASH

The cash balance can be further analysed as follows:

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

By virtue of Tower Hamlets Council being the Administering Authority, VAT input tax is recoverable on all Fund activities.

### Overseas Tax

Taxation agreements exist between Britain and certain other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

## 8. MEMBERSHIP OF THE FUND

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

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

The following bodies have been admitted into the Fund:

#### Admitted Bodies

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

#### Scheduled Body

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

## 9. STATEMENT OF INVESTMENT PRINCIPLES

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

## 10. INVESTMENTS

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

### Manager

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

### Mandate

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

## 10. INVESTMENTS (Continued)

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

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

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

	Market Value as at 1 Apr 2009	Purchases	Sales	Change in Market Value	Market Value as at 31 Mar 2010	Transaction Costs
	£000	£000	£000	£000	£000	£000
GMO UK Ltd.	135,035	84,175	(78,269)	54,195	195,136	38
Baillie Gifford Life Ltd.	85,338	0	0	47,267	132,605	0
Martin Currie Investment Management	64,842	44,186	(43,663)	28,703	94,068	6
Aberdeen Asset Management - Equities	43,646	11,984	(14,328)	26,629	67,931	3
Schroders Asset Management Property	61,317	21,467	(10,968)	1,642	73,458	0
Aberdeen Asset Management - Bonds	151,171	75,850	(87,508)	6,263	145,776	3
Auriel Capital Management	9,820	103	(1)	21	9,943	0
Record Currency Management	6,387	3,000	(1,917)	(731)	6,739	0
Aberdeen No.2	34	0	(230)	212	16	0
	<b>557,590</b>	<b>240,765</b>	<b>(236,884)</b>	<b>164,201</b>	<b>725,672</b>	<b>50</b>

A further analysis of investments assets is as follows.

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

## 11. INVESTMENT INCOME

Investment income is broken down as follows.

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

## 12. SECURITIES

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

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

## 13. ACTUARIAL POSITION

The Local Government Pension Scheme Regulations require a triennial revaluation of the Fund to assess the adequacy of the Fund's investments and contributions in relation to its overall and future obligations. The contribution rate required for benefits accruing in the future is assessed by considering the benefits that accrue over the course of the three years to the next valuation. The employer's contribution rate is determined by the Actuary as part of the revaluation exercise.

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

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

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

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

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

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

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

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2009-10 was 15.8%.

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

Although the funding shortfall is significant, it should be noted that current legislation provides that the level of members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the Council's responsibility to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised. It should also be recognised that the Council is a long-term investor both because a high proportion of pension benefits do not become payable until far in the future and the Council has a relatively secure long-term income stream.

The FSS requires that the Fund operates the same target funding level of all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2007 determined that this would require a contribution (additional to the future contribution rate) of 9% of members' pensionable pay equivalent to £12.5 million per annum. This contribution was increased by the Retail Price Index plus 1.5% as from 1st April 2009.

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

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

#### 14. ADMINISTRATIVE EXPENSES

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

#### 15. INVESTMENT MANAGEMENT EXPENSES

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

#### 16. RELATED PARTY TRANSACTIONS

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

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

#### 17. CONTINGENT LIABILITES

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

#### 18. POST BALANCE SHEET EVENTS

There are no significant post balance sheet events to report.

## AUDITOR'S REPORT

As at the authorised for issue date the Council's Statement of Accounts is subject to 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 Statement of Accounts 2009-10 was considered and approved by Full Council on 14<sup>th</sup> July 2010.

Chair of Committee

### The responsibilities of the Corporate Director of Resources

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

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

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

The Corporate Director of Resources has also:

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

I certify that the Statement of Accounts 2009-10 presents a true and fair view of the financial position of the Council at 31<sup>st</sup> March 2010 and its income and expenditure for the year.

Chris Naylor ACA CPFA MACantab  
Corporate Director of Resources  
29<sup>th</sup> June 2010

## Annual Governance Statement

Tower Hamlets LBC (Tower Hamlets) is required by law to prepare a statement that details the Council's framework for making decisions and controlling its resources. The statement includes the Council's governance arrangements as well as control issues. This statement should enable stakeholders to have an assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2003 as amended.

### Scope of Responsibility

Tower Hamlets is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Leader of the Council and the Chief Executive.

Tower Hamlets has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk) or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. The Council's Standards Committee members received a report in October 2007 assessing the current local governance arrangements and recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements.

### The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority directs and controls its activities and through which, it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

Tower Hamlets governance framework is established through its systems, processes, cultures and values. These are regularly reviewed. The governance framework has been in place at Tower Hamlets for the year ended 31 March 2010 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Committee review, the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance.

## **The Governance Framework**

### **Vision and Priorities**

The Council's vision is to improve the quality of life for everyone living and working in Tower Hamlets. This involves helping to create a thriving, achieving community in which people feel at ease with one another, have good learning and employment opportunities, experience a higher standard of living and good health, and enjoy a safe and an attractive environment together with a wide range of cultural and leisure opportunities.

The Council (and Tower Hamlets Partnership) has refreshed the borough's Community Plan through to 2020. This has four new Community Plan themes to make Tower Hamlets:

- A great place to live;
- A prosperous community;
- A safe and supportive community; and
- A healthy community.

Running through this is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2009/10, 15 priorities were identified around all five Community Plan themes.

Underpinning the Community Plan Themes and corporate priorities are the core values, which all officers are expected to adhere to, to build a more effective organisation. The Council's values are:

- Achieving results
- Engaging with others
- Valuing diversity
- Learning effectively

Over the last year, there has been significant consultation with local people through Local Area Partnership (LAP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people. An analysis of key messages from consultation across the Partnership in the last four years was also undertaken. The Vision, themes and priorities of the Community Plan were discussed through the Tower Hamlets Partnership structures which comprises the Partnership Board and Executive, the Community Plan Delivery Groups (CPDGs) and the Local Area Steering Groups. The Council's Corporate Management Team (CMT) and the Cabinet and other members have also contributed to the Vision and Priorities for the new Community Plan.

As the diagram below shows, the Council aligns its Strategic Framework with the Community Plan. The Council's Strategic Plan for 2009/10 is organised around the themes, priorities and objectives of the Community Plan and shows how the Council both leads and contributes to the delivery of the Community Plan.

The Tower Hamlets Partnership Community Plan and the Council's Strategic Plan fall within the Council's Budget and Policy Framework. This requires that Overview and Scrutiny Committee are given 10 working days to comment on the draft plans and that Cabinet takes account of Overview and Scrutiny Committee comments in their consideration of the draft plans before recommending them to Full Council. Both plans are subject to approval by Full Council.

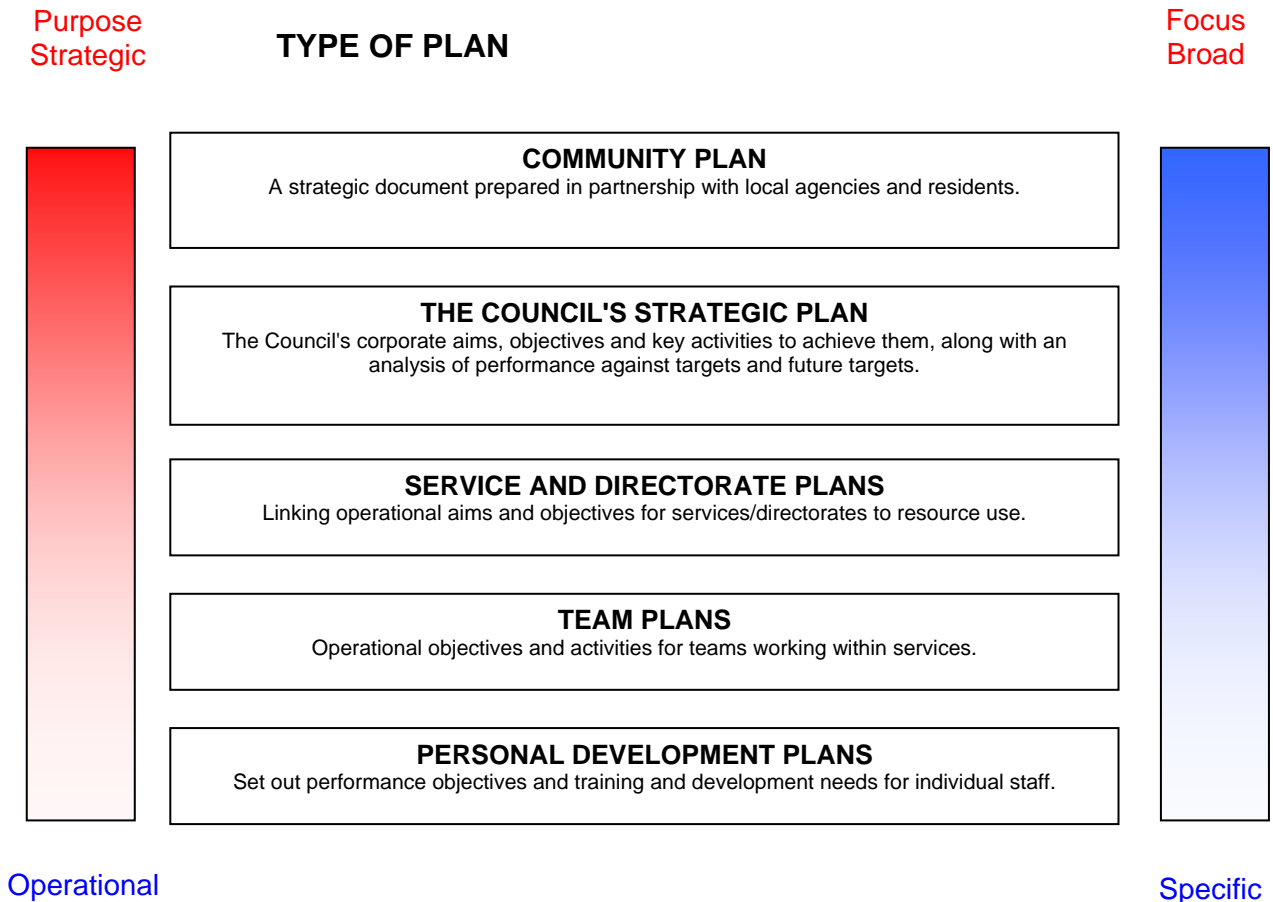
The Council's vision, priorities and objectives are used to structure all directorate service plans and Personal Development Plans (PDRs). This ensures that there is a "golden thread" that runs from each individual's work through to the Community Plan. This makes sure that the vision, priorities and objectives are communicated at all levels of the organisation. Further communication takes place through the Council's staff newsletter "Pulling Together".

The Strategic Plan is refreshed each year through Cabinet, Overview and Scrutiny and Full Council. The Community Plan is refreshed every three years.

## Quality of Service

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

The overall planning framework is illustrated in the following diagram.



## Constitutional Matters

The Council has an agreed Constitution that details how the Council operates, how decisions are made and the procedures that are to be followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is reviewed annually.

The constitution also includes sections on standing orders, financial regulations and conduct of meetings.

During the year the Constitution was reviewed to ensure that it kept abreast of changes within the Council. The Council approves and keeps under regular review all of the strategic policies which it reserves for its own consideration, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the capital programme and revenue budget;
- the housing strategy; and
- the local development framework.

The Executive is responsible for key decisions and comprises a Leader and a Cabinet, who are all appointed by the Council. All key decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policy and budget framework and any decisions the Executive wishes to take outside of that framework must be referred to the Council as a whole to decide. The Council operates a system of delegated authority whereby the Executive delegates certain decisions to the Chief Executive and Senior Officers. This is set out in the scheme of delegation.

During 2009/10 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

### **Codes of Conduct**

The Council has a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are required generally to decline gifts and hospitality to ensure that officers are not inappropriately influenced. These codes and processes are made available to staff at their induction, they are on the intranet and training is available to ensure every staff member understands their responsibilities.

Members are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Members must also declare any gifts and hospitality. Members' declarations and gifts and hospitality records are made public through the Council's website. As part of the adoption of the new Members' code a number of protocols were reviewed including the one concerning member and officer relationships in 2008/09. The Standards Committee was advised of the change and the revisions that were made to the code.

### **Compliance with Policies, Procedures, Laws and Regulations**

The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as is reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Financial Procedures, Codes of Conduct and Protocols. Key documents are available to Members and staff through the Council's intranet and to a wider audience through publication on the Council's website. All policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

### **Effective Audit Committee**

Internal Audit provides assurance and advice on internal control to the Corporate Management Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control within systems and recommends improvements. It also supports the management of the Council in developing systems, providing advice on matters pertaining to risk and control.

Internal Audit is overseen by an Audit Committee comprising seven members - four from the majority group and one each from the three largest minority group in proportion to their representation on the Council. The Audit Committee's remit is around the Council's systems of internal control, risk management and governance, as outlined in the CIPFA Code of Practice for Audit Committees. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's statement of accounts and to consider reports from the Audit Commission. The Audit Committee met four times during the financial year 2009/10 as planned.

## **Whistle Blow and the Complaints Procedure**

The Council has a recognised complaints process. This comprises a number of stages to enable the public to escalate their complaints if they are dissatisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and Members.

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

Within the Council the whistle blowing policy is actively promoted and annually, there are a number of whistle blowing events reported. The effectiveness of the policy and the type of issues raised are reviewed and monitored by the Council's Audit Committee on an annual basis.

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, led by the Audit Commission, designed to detect fraud perpetrated on public bodies. The Corporate Anti Fraud team has actively engaged with the Audit Commission to test and improve the output from the NFI exercise.

## **Risk Management**

The Authority has embedded a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The Strategy recognises that the Council may not always adopt the least risky option, where the potential benefits to the community warrant the acceptance of a higher level of risk. All reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved.

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

## **Financial Management**

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

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of managers within the Council. The control arrangements in 2009/10 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a risk financing strategy;
- medium-term financial plans and projections;
- regular reporting of actual expenditure and income against budgets and spending forecasts;
- targets to measure financial and other performance;
- clearly defined prudential borrowing framework and indicators; and
- standing meetings of finance managers from across the Council.

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

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of best value reviews. During 2009/10, the Council continued work on its efficiency programme and has been making plans to manage with significantly reduced financial resource in future. As part of its service and financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the consideration of resource allocation. The

Audit Commission's most recent assessment for value reported an improvement in the way the Council seeks to delivery value for money.

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

### **Learning and Organisational Development**

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

Members have a support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. The Audit Committee and Standards Committee have training as part of their agendas and it is intended that in future they will agree specific training plans for themselves annually. For some aspects of Council work members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

### **Communication and Engagement**

The Council publishes numerous documents on its website as well as providing a weekly newspaper, East End Life to keep members of the public up to date with what is going on.

The Council also engages with citizens through surveys such as the annual residents' survey and a tenants' survey. These help to inform the Council of the population's opinion on the services provided, their experience of services and to influence the Council's priorities for the future.

On a more local basis the Council has a number of community forums which are used to engage with the community. Tower Hamlets has a greater proportion, compared to the rest of London, of young population and has thus engaged with the young people of Tower Hamlets by enabling them to vote for a young Leader of the Council. A number of local residents put themselves forward and a vote was held to elect a Leader to represent the young people of Tower Hamlets. The young Leader has a clear manifesto and is working to make a difference to young people's lives within the borough.

The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

### **Partnerships**

The most significant partnership for the Council is the Tower Hamlets Partnership. The partnership has three strands; the eight local area partnerships which allows residents to influence their locality; the Community Plan Delivery Groups for each of five key themes in the community plan and the Partnership Executive and Board, which has responsibility for developing the overall strategy and for ensuring plans are delivered. The Partnership has its own constitution and its Members are also subject to a code of conduct and make declaration of interest at meetings. The Tower Hamlets Partnership is responsible for delivering the vision and aspirations for the Community in the medium and long term, and the Local Area Agreement (LAA) agreed for the period 2008 - 2011 includes key targets and indicators following negotiation between The Tower Hamlets Partnership and Central Government.

The Council also has important partnership arrangements with the local primary care trusts. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.



## **Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review was conducted in accordance with the assurance framework and therefore focussed on the risks to the fulfilment of the Council's principal objectives, as set out in the Strategic Plan, and the controls in place to manage those risks. The review of the effectiveness of the internal control framework involved the evaluation of the key sources of assurance:

- the Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- the annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate and effective.
- the risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- the Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control. The independent assessment by six inspectorates as part of the Comprehensive Area Assessment identified one notable practice around Engaging and Empowering Local People. This measures the extent to which people believe they are able to influence decisions affecting their area. The assessment did not identify any significant concerns. The results of inspections of individual services continue to show improvements whilst Children's Services was rated as "Performs Excellently" by Ofsted in its report dated February 2010. Adult Social Care Services was rated as "Performing Excellently" for Increased Choice and Control for Older People, and as Performing Adequately in Safeguarding Adults, also published in February 2010.
- monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- the provisional outturn on the 2009/10 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

## **Overview and Scrutiny**

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

## **Internal Audit**

Internal audit is an independent appraisal function that acts as a control that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In carrying out this function Internal Audit contributes to the discharge of the Executive Director of Resources' S151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Service Head, Risk Management and Audit is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2009/10, the overall the control environment is adjudged to be satisfactory.

## **External Audit**

The Council's external auditors, the Audit Commission, review its arrangements for:

- preparing accounts in compliance with statutory and other relevant requirements;
- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and
- managing performance to secure economy, efficiency and effectiveness in the use of resources.

The auditors have in their annual audit letter and their assessment commented upon the Council's accounts, corporate governance and performance management arrangements.

### Significant Governance Issues

The review of the effectiveness of the governance arrangements in 2009/10 has identified some areas where action is appropriate to enhance the control environment and ensure continuous improvement. The areas are set out below. In all cases work is already underway to address the action points as shown by the reference to the strategic or directorate plan of the Council.

Governance Issue	Action taken and next steps	CMT Lead
Optimise asset management across public services to enable Council assets to be utilised in the most effective way.	<p>In February 2009 Cabinet approved an approach to the development of a cross-public sector asset strategy and phase 1 will commence on Summer 2009. This will involve a gap analysis of all public sector property requirements and the generation of options to address these requirements. This work will be undertaken in parallel with the development of the Infrastructure Delivery Plan for the Core Strategy and it is expected the Asset Strategy will be a significant part of the Delivery Plan.</p> <p>The Council has broadened membership of its Capital and Asset Management Board to include the Metropolitan Police and NHS Trusts and representatives attend meetings quarterly to focus on long term asset strategy and other issues of mutual interest {Priority 1.2 (6) – Strategic Plan}.</p>	Corporate Directors, Resources and Development and Renewal
To further enhance the authority's Business Continuity Plans, particularly in relation to disaster recovery.	The authority has a framework for business continuity planning and management. However, further enhancements will be made to ensure the authority can respond to a catastrophic disaster and its ability to access all essential IT applications { }.	Corporate Director, Resources
Maintain an ongoing drive to deliver decent homes standard by ensuring the Council's	A mock inspection of the Council's Arms Length Management Organisation (Tower Hamlets Homes) is planned for mid June	Corporate Director, Development

Governance Issue	Action taken and next steps	CMT Lead
ALMO achieves two stars.	<p>2009. This will allow the ALMO to focus key areas.</p> <p>From discussions that have taken place with the Homes and Community Agency and the Department of Communities and Local Government, funding for this scheme is programmed within their financial projections although the funding is not fully committed at this stage. The authority is also progressing other opportunities around regeneration {Priority 2.1 (15) – Strategic Plan}.</p>	and Renewal
To review and ensure the arrangements for safeguarding children.	<p>Following national scrutiny of safeguarding issues, and the publication of Laming report, the Council has reviewed referral and safeguarding arrangements with social care and where necessary strengthened current arrangements and adopt the DCFS / Laming recommendations.</p> <p>Some key recommendations have already been implemented, for example the appointment of an independent chair for the Safeguarding Board, carrying out audit and assurance on cases within Children’s Services and enhancing the use of Framework I, the Council’s case management system. The next steps involve implementing all appropriate remaining recommendations, in particular, assessing potential increase in social worker requirements and taking heed of further guidance. {Priority 1, Stay Safe, CYPP}.</p>	Corporate Director, Children Services
Improve information governance across the authority.	<p>Following loss of personal data by an employee last year, a number of steps were taken to militate against future losses and to protect the information held by the Council. Some of the initiatives already taken include the use of BIOS passwords. A Project is now in place to implement full encryption for all mobile devices. This will be implemented for the most vulnerable devices first and all remaining devices by September 2010. {Priority 1.7, point 7 – Chief Executive’s Directorate Plan}.</p>	Assistant Chief Executive (Legal)

Governance Issue	Action taken and next steps	CMT Lead
<p>To model an efficiency programme to take account of the likely reduction in revenue funding across the public sector.</p>	<p>The authority has identified a savings target of £18m a year for the foreseeable future arising from the Government action likely to be necessary to tackle the UK's public spending deficit. This is much greater than the target in previous years and the incremental approach adopted in the past does not lend itself to this scale of problem.</p> <p>The authority has established a Service Options Review which will examine the strategic opportunities for delivering the savings. A clear savings target has been set of £55m over the next three years.</p> <p>Directorates have been challenged to identify savings to the scale required and this information has been fed into the review. The Review will go on to supplement the proposals brought forward by Directorates and identify strategic savings opportunities, likely to include some of a transformational nature, which will be governed through the Council's Transformation Board.</p> <p>{Priority 1.2 (5) Strategic Plan and priority 8 – Resource’s Directorate Plan}.</p>	<p>Corporate Management Team</p>
<p>Directorate operational guidance on contract management; retention and filing of contract documentation &amp; Unauthorised extension of contracts.</p>	<p>Guidance is already available through the contracting toolkit. Work is underway to broaden and strengthen our approach and this will be submitted to Competition Board for approval in September. A proposal for a standard self-assessment approach to contract management is currently being developed, for approval by Competition Board and subsequent roll-out across the Council.</p> <p>Systems have been improved for recording and filing contract documentation. Work is underway with Legal for setting up a repository of contract documents. This will be finalised by end June 2010.</p> <p>Unauthorised contracts have largely been addressed through revision of the Procurement Procedures in 2009. The updating of the contracts register, which will be completed by end May 2010, will</p>	<p>Corporate Management Team.</p>

Governance Issue	Action taken and next steps	CMT Lead
	provide the assurance to prevent unauthorised extensions.  {Priority 9 – Resource’s Directorate Plan}.	
Termination of Chief Officer’s employment.	Responding to the Audit Commission’s recommendation the process will be clarified by introducing a protocol into the Constitution by July 2010. This makes the responsibilities of officers and members clear when the termination of a Chief Officer's employment is being considered.	Assistant Chief Executive – Legal Services
To review and ensure the delivery of additional housing to reduce overcrowding.	The council is committed to providing high quality housing in line with the needs of the community. To achieve this, a programme is being developed to acquire and new build properties to reduce overcrowding {Priority 2.1 (1) – Strategic Plan}.	Corporate Director, Development and Renewal.

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

.....  
Chief Executive

Date:

.....  
Leader

Date:

## GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

The following terms and abbreviations, while not being exhaustive, may prove of assistance in understanding the Statement of Accounts

### FINANCIAL TERMS

**Accounting period** - The period of time covered by the Council's accounts. The Council's financial year is from the period 1<sup>st</sup> April to the following 31<sup>st</sup> March.

**Accrual** - The recognition of income and expenditure in the year that they occur and not when any cash is received or paid

**Actuary** - An independent adviser to the Council on the financial position of the Pension Fund.

**Actuarial Valuation** - Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

**Accruals** - The amounts by which receipts or payments are increased in order to record the full income and expenditure incurred in an accounting period.

**Amortisation** - The writing off of an intangible asset or loan balance to the Income and Expenditure Account over an appropriate period of time.

**Amortised Cost** - The carrying value of an asset or liability in the balance sheet, which has been written up or down via the Income and Expenditure Account.

**Approved Investments** - These are investments, which Local Authorities are permitted to make using their unapplied capital and revenue funds. These investments must be in sterling and normally consist of gilts or short-term deposits with banks, building societies and other financial institutions. Such investments are treated as neither revenue nor capital expenditure.

**Balance Sheet** - A statement of all the assets, liabilities and other balances of the Council at the end of an accounting period.

**Budget** - A forecast of future expenditure plans for the Council. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the Council Tax is set. Budgets are revised towards the year-end to take account of inflation, changes in patterns of services and other factors.

**Capital Financing Charges** - The annual cost of capital, including principal repayments, interest charges and leasing costs.

**Capital Expenditure** - Expenditure on the acquisition of fixed assets or expenditure which adds to the value of an existing fixed asset.

**Capital Adjustment Account** - Represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans or certain other capital financing transactions.

**Capital Financing Requirement** - Represents the Council's underlying need to borrow for a capital purpose.

**Capital Receipt** - Income received from the sale of a capital asset such as land or buildings.

**Capital Receipts Reserve** - Represents proceeds of fixed asset sales available to meet future capital investment.

**Carrying Value** - In relation to the value of financial instruments, it is the amount to be recognised on the Balance Sheet.

**Collateral** - Assets pledged by a borrower to secure a loan.

**Collection Fund** - A statutory account which receives Council Tax, Non-Domestic Rates and Government Grants to cover the costs of services provided by the Council and its precepting authorities.

**Community Assets** - Assets that a local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of Community Assets are parks and historic buildings.

**Contingent Liability** - Where possible “one-off” future liabilities or losses are identified but the level of uncertainty is such that the establishment of a provision is not appropriate.

**Creditors** - Amount of money owed by the Council for goods and services received.

**Credit Risk** - The probability that an organisation owing monies to the Council may be unable to honour its commitments.

**Debtors** - Amount of money owed to the Authority by individuals, and organisations.

**Deferred Capital Receipts** - The balance of outstanding mortgages granted to purchasers of council houses.

**Defined Benefit Scheme** - A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

**Depreciation** - The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

**Earmarked Reserves** - Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.

**Events after the Balance Sheet Date** - Those events that relate to the accounting year, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the Director of Resources.

**Fair Value** - In relation to the value of financial instruments, it is the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arms length transaction.

**Finance Lease** - A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

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

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

**Fixed Assets** - Tangible assets that yield benefit to the Council and the services it provides for a period of more than one year.

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

**Government and Other Capital Contributions Deferred** - Capital Grants received which will be credited to revenue in future years to offset depreciation for related fixed assets.

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

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

**Impairment** - A reduction in the valuation of a fixed asset caused by consumption of economic benefits or by a general fall in prices.

**Income and Expenditure Account** - A statement showing the expenditure and income of the Council's services during the year demonstrating how costs have been financed from general Government grants and income from local taxpayers.

**Infrastructure Assets** - Assets which have an indeterminate life and although valuable do not have a realisable value e.g. roads.

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

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

**Liquidity Risk** - The risk that the Council will be unable to raise finance to meet its commitments.

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

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

**National Non-Domestic Rates Pool (NNDR Pool)** - Non-Domestic Rates are paid into a central pool controlled by Government. This money is then redistributed to councils on the basis of resident population.

**Net Book Value** - The amount at which fixed assets are included in the balance sheet after depreciation has been provided for.

**Net Current Replacement Cost** - The current cost of replacing or recreating an asset in its existing use adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

**Net Realisable Value** - The open market value of the asset less the expenses to be incurred in realising the asset.

**Non-Operational Assets** - Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of its services. Examples are investments and surplus properties.

**Operating Lease** - A lease other than a finance lease - a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

**Operational Assets** - Fixed assets held, occupied, used or consumed by the Council in the direct delivery of its service.

**Outturn** - The actual level of expenditure and income for the year.

**Precept** - The charge made by one Authority (e.g. Greater London Authority) on another Authority (e.g. Tower Hamlets) to finance its net expenditure.

**Private Finance Initiative** - Contracts whereby private sector suppliers provide services and/or capital investment in return for a unitary payment; subject to agreed performance targets.

**Projected Unit Method** - Actuarial valuation method whose key feature is to assess future service cost; the Actuary calculates the employer's contribution rate, which will meet the cost of benefits accruing in the year after the valuation date.



**Provisions** - Amounts set aside for liabilities and losses, which are certain or very likely to occur but where the exact amount or timing of the payment are uncertain.

**Public Works Loans Board (PWLB)** - Central Government agency which funds much of local government borrowing.

**Registered Social Landlord** - A not-for-profit organisation which owns and manages homes.

**Reserves** - Amounts set aside which do not fall within the definition of a provision, to fund items of anticipated expenditure. These include general reserves or balances which every Council must maintain as a matter of prudence.

**Revaluation Reserve** - Represents the increase in value of the Council's land and building assets from 1st April 2007.

**Revenue Expenditure** - The day-to-day expenditure of the Council - pay, goods and services and capital financing charges.

**Revenue Support Grant** - General grant paid by the Government to local authorities.

**Soft Loan** - Loans given at less than market/commercial rates to community or not-for-profit organisations.

**Statement of Movement on the General Fund Balance** - A Statement that reconciles between the statutory provisions that specify the net expenditure that needs to be taken into account when setting local taxes and surplus or deficit on the Income and Expenditure Account.

**Statement of Total Recognised Gains and Losses** - A statement bringing together all the gains and losses of the Council during the year.

**Support Services** - Activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front line services such as finance, information technology and human resources.

## **Abbreviations used in Accounts**

<b>ABG</b>	Area Based Grant
<b>AGS</b>	Annual Governance Statement
<b>BVACOP</b>	Best Value Accounting Code of Practice
<b>CAA</b>	Capital Adjustment Account
<b>CFR</b>	Capital Financing Requirement
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>CRR</b>	Capital Receipts Reserve
<b>DCLG</b>	Department of Communities and Local Government
<b>DfE</b>	Department for Education
<b>DSG</b>	Dedicated Schools Grant
<b>DWP</b>	Department for Work and Pensions
<b>EIR</b>	Effective Interest Rate
<b>FRS</b>	Financial Reporting Standard
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GLA</b>	Greater London Authority
<b>HRA</b>	Housing Revenue Account
<b>I &amp; E</b>	Income and Expenditure Account
<b>LABGI</b>	Local Authority Business Growth Incentive
<b>LAML</b>	London Authorities Mutual Limited
<b>LASAAC</b>	Local Authority (Scotland) Accounts Advisory Committee
<b>LATS</b>	Landfill Allowance Trading Scheme
<b>LBTH</b>	London Borough of Tower Hamlets
<b>LGPS</b>	Local Government Pension Scheme
<b>LOBO</b>	Lender's Option – Borrower's option
<b>LPFA</b>	London Pensions Fund Authority
<b>MRA</b>	Major Repairs Allowance
<b>MRP</b>	Minimum Revenue Provision
<b>NPV</b>	Net Present Value
<b>(N)NDR</b>	(National) Non-Domestic Rates
<b>PCT</b>	Primary Care Trust
<b>PFI</b>	Private Finance Initiative
<b>PWLB</b>	Public Works Loans Board
<b>RICS</b>	Royal Institute of Chartered Surveyors
<b>RSG</b>	Revenue Support Grant
<b>SORP</b>	Statement of Recommended Practice
<b>SSAP</b>	Statement of Standard Accounting Practice
<b>STRGL</b>	Statement of Recognised Gains and Losses
<b>WDA</b>	Waste Disposal Authority