

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

## 1. SUMMARY

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

## 2. RECOMMENDATIONS

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

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

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

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### **3. BACKGROUND**

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

### **4. STATEMENT OF ACCOUNTS 2009/2010**

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

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

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

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

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

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

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

## **6. RISK MANAGEMENT**

- 6.1 There are no specific risk management implications.

## **7. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER**

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

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

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

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

## **9. ANTI-POVERTY CONSIDERATIONS**

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

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

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