

# LONDON BOROUGH OF TOWER HAMLETS

## ANNUAL FINANCIAL REPORT 2013-14

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## **EXPLANATORY FOREWORD**

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

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2013/14, which reports our financial results for the year.

The accounts have been compiled in accordance with International Financial Reporting Standards, the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, and the Service Reporting Code of Practice. These constitute "proper accounting practice" with which councils must comply by statute. The Council also produces a summary of the accounts, which is less detailed than the full statement. This has been produced following consultation with stakeholders and is available from the Council's website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk)

Although the UK economy has shown early signs of improvement, on-going reductions in main stream government grant funding and a continuing upward trend in the demand for key front line services in adult social care, children's services and housing have collectively created a challenging financial environment for the Council. Indeed, the resultant pressures on the Council's budget from inflation, demographic growth and the impact of new legislation required it to achieve overall budget savings for the year of £26 million; a reduction of some 9% of the net revenue budget.

However, through strong financial management the Council's spend is in line with the revenue budget for the year and the level of general reserves increased by £26.9 million to £65.0 million. This increase is broadly in line with the revised plan in 2014/15 budget setting to increase reserves by £21.5 million. The remaining balance of £5.4 million is the result of unallocated contingencies for price increases that did not materialise and additional income from core grants. The Council's Value for Money assessment continues to be positive, so the overall financial position remains sound.

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

Key achievements in 2013/14 include:

1. Managing the impact of welfare reform on local residents
2. Signing up, with our partners, to implement the Tower Hamlets Fairness Commission's recommendations
3. Keeping our streets clean - levels of litter, detritus and fly-posting are among the lowest in London

4. Making our streets safer - more THEOs and funding an extra 35 police officers are helping to reduce crime
5. Reducing the number of young people not in education, employment or training
6. Delivering 581 affordable homes in 13/14, 39% of which are family sized.
7. Bringing 1,785 homes up to the decent homes standard.
8. Supporting young people into training, jobs and apprenticeships, and reducing youth unemployment
9. Continuing to raise attainment - Tower Hamlets beats the national average at Key Stage 2 and GCSEs for all children, and for looked after children
10. Prioritising quality through contractually requiring home care providers to pay their staff the London Living Wage as a minimum salary

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

The Council has continued to invest in its infrastructure with £130 million spent on its capital programme. The main areas of investment were in housing and schools, with £50 million of improvement works through the housing programme and £49 million through the Building Schools for the future programme. Other major projects included the Bromley by Bow Station upgrade and school expansion schemes to allow for additional pupil places.

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

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

In light of this a footnote has been included in the provisions note.

Looking forward the Council will continue to face significant financial challenges. The 2014-2017 Medium Term Financial Plan agreed by Full Council in March 2014 includes a £71.1 million savings programme in the years to 2016/17, and whilst this forms the basis of a balanced budget over the next three years, there remain a number of major financial risks – in particular the expectation that £64.4 million of savings will be required in 2015/16 and 2016/17 combined. Chief among these are the potential impact of government welfare reform and changes to the way in which local authority services are funded. Whilst the strength of the Council's balance sheet will

enable it to effectively manage those risks in the short term, over the longer term they may require a further, more fundamental review of the way in which local services are delivered.

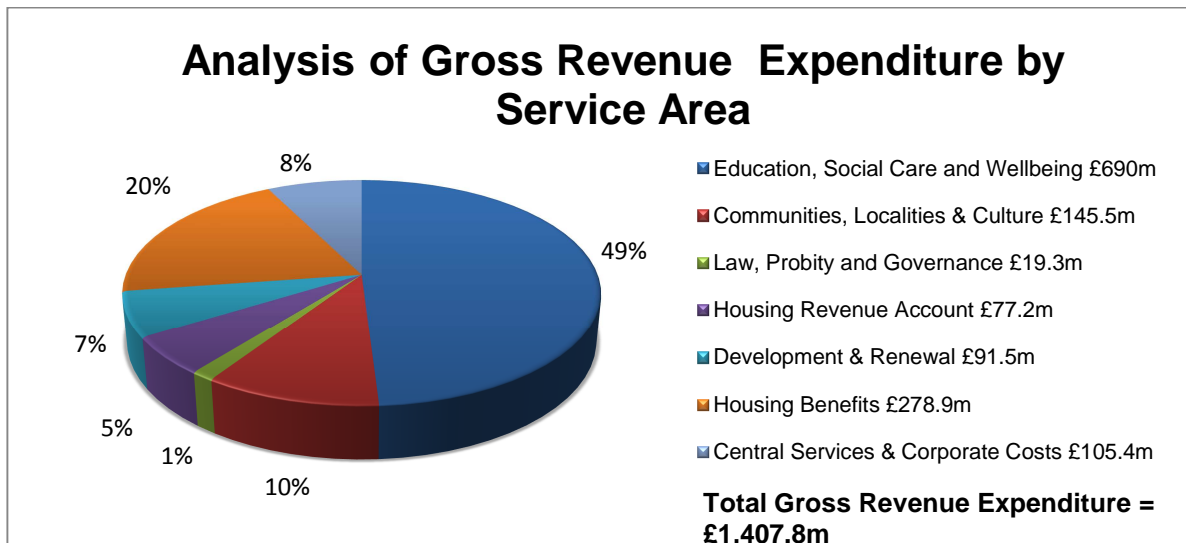
## Review of the Year

### Revenue Income and Expenditure

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

Overall, the Council's Directorate spend was £0.5m overspent against the net General Fund budget of £297.8 million after the planned transfer of £27.5 million to General Fund Reserves. The HRA account showed an additional surplus of some £1.9 million against budget after non-dwellings revaluation loss of £2.1 million which has been transferred to HRA reserves.

The Council's gross expenditure on services, excluding accounting adjustments, was £1.4 billion (£1.3 billion in 2012/13). An analysis by directorate is shown in the following diagram.

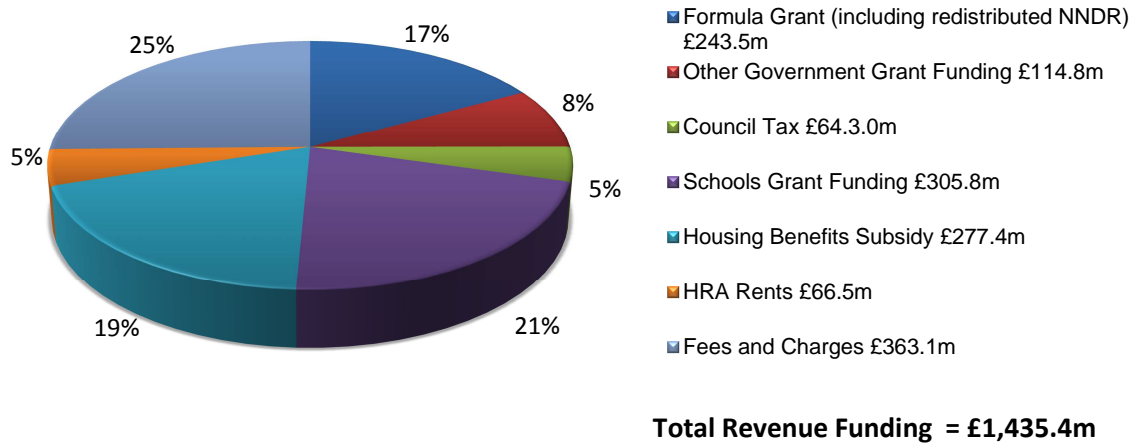


### Revenue Funding

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

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

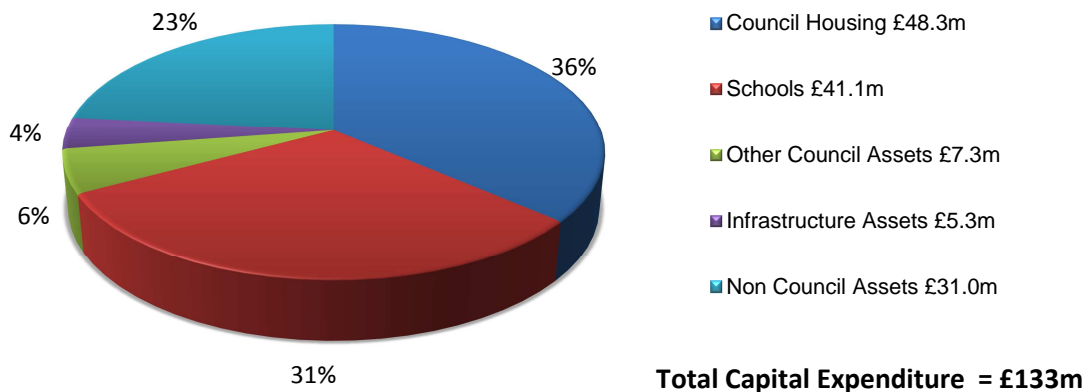
## Analysis of Revenue Funding Sources



## Capital Investment

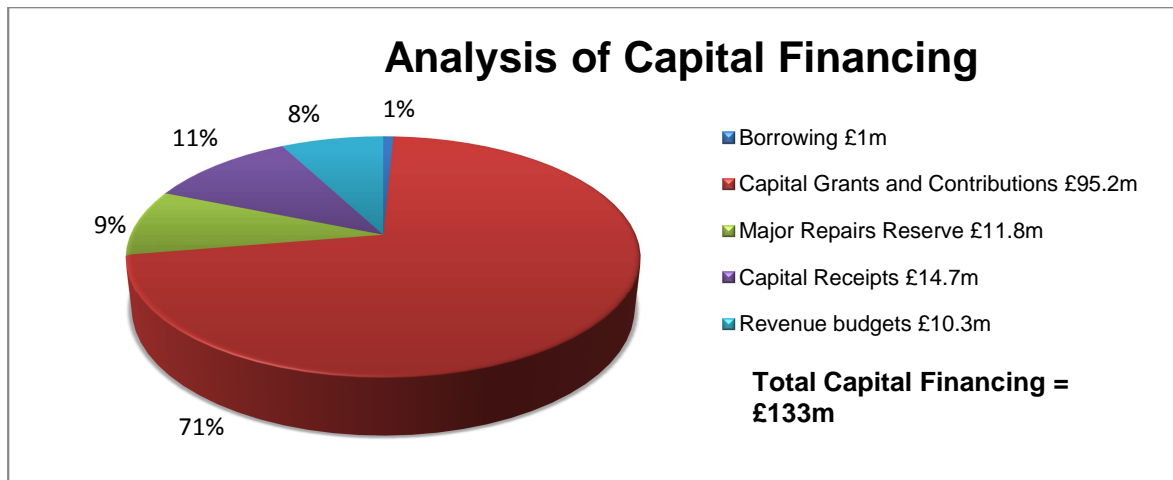
The Council has continued to make considerable capital investment in its capital assets. The following table sets out the broad categories of investment during the year with the main areas of spending being on schools (primarily through the Building Schools for the Future Programme) and housing where the Council spent £48.3 million on its housing assets.

## Analysis of Capital Expenditure



Investment shown as being in 'non-Council assets' includes £20.9 million of expenditure on schools and children centres not owned by the Council (e.g. faith schools).

The table below shows the sources of funding for the capital programme. The majority of this funding was from capital grants and contributions. In addition, £11.8 million was also used from the Major Repairs Reserve which is set aside from the Housing Revenue Account for capital investment.



### Borrowing

At the year end the Council had outstanding borrowings of £90 million (£92 million 2012/13). This was reduced by PWLB loans that matured during the year.

### Pensions

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

At the end of 2013/14 there was a net liability of £496 million (£524 million 2012/13). Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet the deficit will be addressed by increased contributions to the scheme in future years. These increased contributions have been reflected in the Council's Medium Term Financial Plan.

The deficit improved slightly as at 31 March 2014 compared to the value reported at 31 March 2013. This is principally due to a better than expected returns on asset, and this return had been partially offset by the impact of unfavourable financial assumptions used at 31 March 2014. A significant increase in the net present value discount rate has led to a higher value being placed on liabilities - this has been the case for most LGPS funds. This is a snapshot valuation for accounting purposes and the revaluation for contributory purposes took place at 31 March 2013 reporting a deficit of £365 million (LBTH only).

### FURTHER INFORMATION

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

## THE ACCOUNTING STATEMENTS

These comprise:

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

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

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

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

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

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

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

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

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

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

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



## MOVEMENT IN RESERVES STATEMENT

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

	NOTES	USABLE RESERVES							UNUSABLE RESERVES							TOTAL AUTHORITY RESERVES £'000	
		GENERAL FUND BALANCE £'000	EARMARKED GENERAL FUND RESERVES* £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	DEFERRED CAPITAL RECEIPTS £'000		TOTAL UNUSABLE RESERVES £'000
<b>Balance as at 31 March 2012</b>		26,380	123,715	14,578	7,985	27,608	50,156	<b>250,422</b>	497,734	1,068,460	(422,546)	24	959	(3,355)	156	<b>1,141,433</b>	<b>1,391,855</b>
<b>Movement in reserves during 2012/13</b>																	
Surplus or (Deficit) on the Provision of Services		58,710	0	45,465	0	0	0	<b>104,175</b>	0	0	0	0	0	0	0	<b>0</b>	<b>104,175</b>
Other comprehensive expenditure and income		0	0	0	0	0	0	<b>0</b>	(168,459)	0	(94,692)	0	0	0	0	<b>(263,151)</b>	<b>(263,151)</b>
<b>Total Comprehensive Expenditure and Income</b>		<b>58,710</b>	<b>0</b>	<b>45,465</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>104,175</b>	<b>(168,459)</b>	<b>0</b>	<b>(94,692)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(263,151)</b>	<b>(158,976)</b>
Adjustments between accounting basis and funding basis under regulations		(35,592)	0	(43,810)	4,379	(6,966)	5,545	<b>(76,444)</b>	(4,589)	85,180	(5,724)	1,564	73	(14)	(46)	<b>76,444</b>	<b>0</b>
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>23,118</b>	<b>0</b>	<b>1,655</b>	<b>4,379</b>	<b>(6,966)</b>	<b>5,545</b>	<b>27,731</b>	<b>(173,048)</b>	<b>85,180</b>	<b>(100,416)</b>	<b>1,564</b>	<b>73</b>	<b>(14)</b>	<b>(46)</b>	<b>(186,707)</b>	<b>(158,976)</b>
Transfers to or from earmarked reserves	8	(5,350)	5,350	0	0	0	0	<b>0</b>	0	0	0	0	0	0	0	<b>0</b>	<b>0</b>
Transfers to or from school reserves	8	(6,088)	6,088	0	0	0	0	<b>0</b>	0	0	0	0	0	0	0	<b>0</b>	<b>0</b>
<b>Increase or (Decrease) in 2012/13</b>		<b>11,680</b>	<b>11,438</b>	<b>1,655</b>	<b>4,379</b>	<b>(6,966)</b>	<b>5,545</b>	<b>27,731</b>	<b>(173,048)</b>	<b>85,180</b>	<b>(100,416)</b>	<b>1,564</b>	<b>73</b>	<b>(14)</b>	<b>(46)</b>	<b>(186,707)</b>	<b>(158,976)</b>
<b>Balance as at 31 March 2013 carried forward</b>		<b>38,060</b>	<b>135,153</b>	<b>16,233</b>	<b>12,364</b>	<b>20,642</b>	<b>55,701</b>	<b>278,153</b>	<b>324,685</b>	<b>1,153,640</b>	<b>(522,962)</b>	<b>1,588</b>	<b>1,032</b>	<b>(3,369)</b>	<b>110</b>	<b>954,724</b>	<b>1,232,879</b>
<b>Movement in reserves during 2013/14</b>																	
Surplus or (Deficit) on the Provision of Services		20,383	0	61,812	0	0	0	<b>82,195</b>	0	0	0	0	0	0	0	<b>0</b>	<b>82,195</b>
Other comprehensive expenditure and income		0	0	0	0	0	0	<b>0</b>	32,686	0	44,724	0	0	0	0	<b>77,410</b>	<b>77,410</b>
<b>Total Comprehensive Expenditure and Income</b>		<b>20,383</b>	<b>0</b>	<b>61,812</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>82,195</b>	<b>32,686</b>	<b>0</b>	<b>44,724</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>77,410</b>	<b>159,605</b>
Adjustments between accounting basis and funding basis under regulations		13,197	0	(59,893)	4,032	306	(1,164)	<b>(43,522)</b>	(10,263)	72,615	(17,708)	(821)	(180)	(58)	(63)	<b>43,522</b>	<b>0</b>
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>33,580</b>	<b>0</b>	<b>1,919</b>	<b>4,032</b>	<b>306</b>	<b>(1,164)</b>	<b>38,673</b>	<b>22,423</b>	<b>72,615</b>	<b>27,016</b>	<b>(821)</b>	<b>(180)</b>	<b>(58)</b>	<b>(63)</b>	<b>120,932</b>	<b>159,605</b>
Transfers to or from earmarked reserves	8	(3,798)	3,798	0	0	0	0	<b>0</b>	0	0	0	0	0	0	0	<b>0</b>	<b>0</b>
Transfers to or from school reserves	8	(2,853)	2,853	0	0	0	0	<b>0</b>	0	0	0	0	0	0	0	<b>0</b>	<b>0</b>
<b>Increase or (Decrease) in Year</b>		<b>26,929</b>	<b>6,651</b>	<b>1,919</b>	<b>4,032</b>	<b>306</b>	<b>(1,164)</b>	<b>38,673</b>	<b>22,423</b>	<b>72,615</b>	<b>27,016</b>	<b>(821)</b>	<b>(180)</b>	<b>(58)</b>	<b>(63)</b>	<b>120,932</b>	<b>159,605</b>
<b>Balance as at 31 March 2014</b>		<b>64,989</b>	<b>141,804</b>	<b>18,152</b>	<b>16,396</b>	<b>20,948</b>	<b>54,537</b>	<b>316,826</b>	<b>347,108</b>	<b>1,226,255</b>	<b>(495,946)</b>	<b>767</b>	<b>852</b>	<b>(3,427)</b>	<b>47</b>	<b>1,075,654</b>	<b>1,392,484</b>

\*HRA Reserves - The Housing Revenue Account reserve balance of £18.152 million includes an earmarked HRA reserve of £1 million for future housing supply. The HRA Reserve also includes a £2.1million reduction in relation to unrealised revaluation losses as per requirements of HRA self-financing legislation

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

Gross Expenditure Restated £'000	2012/13 Gross Income Restated £'000	Net Expenditure Restated £'000	Note	2013/14 Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
<b>Continuing Operations</b>						
115,175	24,687	90,488	Adult Social Services	113,847	20,092	93,755
42,755	34,590	8,165	Central Services	8,478	6,866	1,612
537,216	442,173	95,043	Children's and Education Services	562,042	461,430	100,612
19,594	3,476	16,118	Corporate and Democratic Core	28,507	10,650	17,857
22,005	4,018	17,987	Cultural and Related Services	23,797	4,192	19,605
43,967	9,208	34,759	Environment and Regulatory Services	45,162	9,413	35,749
32,677	21,825	10,852	Highways and Transport Services	29,943	20,411	9,532
314,733	295,855	18,878	Housing Services	345,700	323,860	21,840
55,283	84,442	(29,159)	Local Authority Housing (Housing Revenue Account)	53,883	90,274	(36,391)
5,862	1,719	4,143	Non-distributed Costs	0	1,023	(1,023)
21,968	9,483	12,485	Planning Services	26,748	15,283	11,465
0	0	0	Public Health	30,279	32,369	(2,090)
<b>1,211,235</b>	<b>931,476</b>	<b>279,759</b>	<b>NET COST OF SERVICES</b>	<b>1,268,386</b>	<b>995,863</b>	<b>272,523</b>
		(161)	Other Operating Expenditure			14,201
		23,649	Financing and Investment Income and Expenditure <sup>1</sup>			34,018
		(407,422)	Taxation and Non-Specific Grant Income			(402,937)
		<b>(104,175)</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>(82,195)</b>
<b>Other Comprehensive Income and Expenditure</b>						
		168,459	(Surplus)/Deficit on revaluation of non-current assets			(32,686)
		94,692	Actuarial (gains) or losses on pension assets and liabilities			(44,724)
		<b>263,151</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(77,410)</b>
<b>158,976 TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>						<b>(159,605)</b>

## BALANCE SHEET

This statement shows the Council's balances and reserves, its long term indebtedness and the non-current assets and net current assets employed in its operations as at 31st March 2014.

31 March 2013 £'000		Notes	31 March 2014 £'000
	<b>Long-term Assets</b>		
1,753,825	Property, plant and equipment	<a href="#">12</a>	1,839,299
4,810	Heritage Assets	<a href="#">43</a>	9,310
672	Long Term Debtors	<a href="#">13</a>	590
<b>1,759,307</b>	<b>Total Long-term assets</b>		<b>1,849,199</b>
	<b>Current Assets</b>		
146,336	Short-term investments	<a href="#">15</a>	185,636
3,248	Assets held for sale	<a href="#">21</a>	225
390	Inventories	<a href="#">16</a>	1,739
70,818	Short-term debtors	<a href="#">19</a>	128,136
135,996	Cash and cash equivalents	<a href="#">20</a>	138,111
<b>356,788</b>	<b>Total Current Assets</b>		<b>453,847</b>
	<b>Current liabilities</b>		
2,979	Short-term borrowing	<a href="#">15</a>	1,984
149,693	Short-term creditors	<a href="#">22</a>	199,552
921	Provisions	<a href="#">23</a>	9,338
<b>153,593</b>	<b>Total Current liabilities</b>		<b>210,874</b>
	<b>Long Term Liabilities</b>		
13,071	Provisions	<a href="#">23</a>	9,587
89,564	Long-term borrowing	<a href="#">15</a>	88,892
522,962	Liability related to defined benefit pension schemes	<a href="#">41</a>	495,946
61,341	Capital grants receipts in advance	<a href="#">37</a>	64,475
39,410	Deferred liabilities	<a href="#">40</a>	38,472
3,276	Deferred Income - Receipt in Advance		2,318
<b>729,624</b>	<b>Total Long-Term Liabilities</b>		<b>699,690</b>
<b>1,232,878</b>	<b>NET ASSETS</b>		<b>1,392,482</b>
	<b>Reserves</b>		
	<b>Usable Reserves</b>		
38,060	General Fund		64,989
16,233	Housing Revenue Account		18,152
103,282	Earmarked reserves	<a href="#">8</a>	107,080
31,871	Schools reserves	<a href="#">8</a>	34,724
20,642	Capital receipts reserve		20,948
55,701	Capital grants unapplied		54,537
12,364	Major repairs reserve		16,396
<b>278,153</b>	<b>Total Usable Reserves</b>		<b>316,826</b>
	<b>Unusable Reserves</b>	<a href="#">25</a>	
324,686	Revaluation Reserve		347,108
1,153,640	Capital Adjustment Account		1,226,255
1,588	Collection Fund Adjustment Account		767
1,032	Financial Instruments Adjustment Account		852
(522,962)	Pensions reserve		(495,946)
(3,369)	Accumulated Absences Account		(3,427)
110	Deferred capital receipts		47
<b>954,725</b>	<b>Total Unusable Reserves</b>		<b>1,075,656</b>
<b>1,232,878</b>	<b>TOTAL RESERVES</b>		<b>1,392,482</b>

## CASH FLOW STATEMENT

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

2012/13 £'000		Notes	2013/14 £'000
104,175	Net surplus or (deficit) on the provision of services		82,195
42,320	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>26A</u>	47,185
(132,944)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>26A</u>	(62,227)
<b>13,551</b>	<b>Net cash flows from Operating Activities</b>		<b>67,153</b>
(1,753)	Investing Activities	<u>27</u>	(64,145)
(2,528)	Financing Activities	<u>28</u>	(893)
<b>9,270</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>2,115</b>
126,726	Cash and cash equivalents at the beginning of the reporting period		135,996
<b>135,996</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<u>20</u>	<b>138,111</b>

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

### **1. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31<sup>st</sup> March 2014. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the *Service Reporting Code of Practice (SeRCOP) 2013/14*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council including the group accounts for the year ending 31<sup>st</sup> March 2014 and to ensure it is compliant with relevant statutory accounting requirements issued by the International Accounting Standards Board (IASB). Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

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

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

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

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. This includes the accounting for fees, charges and rents due from customers; these are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.
- The Council operates a de minimus of £5,000 below which items of income and expenditure are not normally accrued for.

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

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

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

### **4. Exceptional Items**

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

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

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

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

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

**Discontinuation of Group Accounts** - Previously the Council has included the Accounts of its wholly owned ALMO, Tower Hamlets Homes in the groups accounts section. As the assets and liabilities are not material compared to the Council's assets and liabilities, from 2013/14 group accounts have not been prepared.

**Future Changes in Accounting Policy** - The Code of Practice on Local Council Accounting in the United Kingdom 2014/15 (the Code) has introduced several changes in accounting policies which will be required from 1<sup>st</sup> April 2014. If these had been adopted for the financial year 2013/14 there would be no material changes as detailed below.

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

- **IFRS 10 Consolidated Financial Statements** – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. There is no impact of this change as the Council has one subsidiary but has not produced consolidated accounts for this financial year on the basis of materiality and there are no associates.
- **IFRS 11 Joint Arrangements** – This standard addresses the accounting for a 'joint arrangement', which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. In addition proportionate consolidation can no longer be used for jointly controlled entities. The Council has no material joint venture arrangements.
- **IFRS 12 Disclosures of Involvement with Other Entities** – This is a consolidated disclosure standard requiring a range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The Council has no material arrangements with other entities under IFRS12.
- **IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures** – These statements have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12. Given that there would be no alterations in the financial statements, due to the changes to IFRS 10, IFRS 11 and IFRS 12, there is no impact as a result of changes in IAS 27 and IAS 28.

**IAS 32 Financial Instruments Presentation** – The Code references to amended application guidance when offsetting a financial asset and a financial liability. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.

**IAS 1 Presentation of the Financial Statements** – The changes clarifies the disclosure requirements in respect of comparative information of the preceding period. As the Accounts already discloses comparative information for the preceding year, these changes will not have a material impact on Accounts.

The impact to accounting policies of future changes to legislation or accounting standards has to be disclosed, these are disclosed below.

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

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. The Minimum Revenue Provision (MRP) relating to non-housing assets has been calculated for 2013/14 in accordance with Option 1 (the Regulatory Method) set out in the statutory guidance on MRP.

## **7. Employee Benefits**

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

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

### **b. Termination Benefits**

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to



the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

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

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

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

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

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The DfE set the teacher's pension contribution rate.

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

The Local Government scheme is a defined benefits scheme.

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

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

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iBoxxSterling Corporates Index, AA over 15 years) as at 31<sup>st</sup> March 2014.

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

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

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost – the increase in liabilities arising from current year decisions the effect of which relates to years of service earned in earlier years, debited to the

Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension funds and any amounts payable to the funds but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees as calculated under IAS19.

### **Discretionary Benefits**

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

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

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

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

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

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

## **9. Financial Instruments**

### **a. Financial Liabilities**

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

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

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

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

### **b. Financial Assets**

Financial assets are classified into two types:

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

### **Loans and Receivables**

Loans and receivables are recognized on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment line

in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

## **10. Foreign Currency Translation**

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

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

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

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

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

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

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

## **12. Heritage assets**

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

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £9.3 million at 31 March 2014. This valuation is based on valuations for art and museum collections where the asset has a material value. The council holds information on the value of an item of material value within the art collection (one painting), two public statues and civic regalia (value held for insurance purposes).

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

Where the Council has information on the cost or value of a heritage asset the Council includes that value in its 2013/14 balance sheet. Where this information is not available and the historical cost information cannot be obtained the asset is excluded from the balance sheet.

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

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

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

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

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

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

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

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

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

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

The Council has an interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council but is not considered material and does not require group accounts to be prepared (a summary of this interest can be found in note 47). The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. In the Council's own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

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

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

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

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

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

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the

venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

## **17. Leases**

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

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

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

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

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

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

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

#### **b. Operating Leases**

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

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

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

#### **Operating Leases**

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

carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

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

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

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

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

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

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

### **Recognition**

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

### **Measurement**

Assets are initially measured at cost, comprising:

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the



Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

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

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

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

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

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

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

### **Impairment**

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

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

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

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

### **Depreciation**

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

Depreciation is calculated on the following bases:

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

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

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

Any assets with a value below £0.5 million are not considered material for containing separate components. Separate components will be considered in an asset with a value greater than £0.5 million if the component has a value of greater than 25% of the asset and the remaining life of the asset is materially different from the underlying asset.

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and

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

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

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

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

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

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

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

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

There is also a third PFI contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. As the Council does not pay for this scheme, there is no MRP chargeable. The assets of the CHP scheme are included on the council's balance sheet with a deferred income balance (from 2010/11), both of which are written down over the term of the contract.

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

### **a. Provisions**

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

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

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

### **b. Contingent Liabilities**

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

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

### **c. Contingent Assets**

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

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

## **22. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement of Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the relevant service revenue account in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and

Expenditure Statement. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax for the expenditure.

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

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

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

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

### **24. VAT**

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

### **25. Collection Fund**

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax, Business Rate Supplements (BRS) and National Non-Domestic Rates (NNDR). This account receives income on behalf of the Council, Central Government and its other preceptor the Greater London Authority (GLA). The sharing of NNDR arrangements came into effect from 1<sup>st</sup> April 2014, previously NNDR was collected on behalf of the CLG.

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

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

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

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

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

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

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

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

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

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

RICS guidelines. Given the size, value and complexity of the asset base it is likely that a revaluation could have a significant impact on the financial statements, however any adjustments should not impact materially on usable reserves.

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

### 3 Restated Accounting Statements

No prior year comparative figures within the Council's 2012/13 accounts have been restated.

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

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

The items in the Council's Balance Sheet at 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £1 million for every year that useful lives had to be reduced.

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

**Debtors** - The Council has a balance of £87.8 million sundry debtors as at 31st March 2014 (£47.7 m at March 2013).

**Creditor Accruals** - creditor accruals are raised based on the value of goods received in the old financial year where payment has not been made to the supplier. The value of year-end creditor is based on the expected value of the order to be paid, however there is the possibility that the final amount payable might vary. At 31st March 2014, the value of these creditors was £76.9 million (£57.5 million at 31st March 2013).

**NNDR Appeals** - There are over 3,800 NNDR (Business Rates) appeals that are yet to be heard by the Government's Valuation Tribunal. These appeals relate to both the 2005 and 2010 valuation list, and the Government has committed to resolving 95% of these by July 2015.

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

The assumptions interact in complex ways. During 2013/14, the Council's actuaries advised that the net pensions liability had decreased by £27million to £495.9 million mainly as a result of increases in the value of investments.

### 5 Material Items of Income and Expense

#### Previous Year Items

**Actuarial loss on pension fund** - there was a £96 million actuarial loss on the pension fund due to higher inflation estimates and lower net present value discounting factors being used.

**Revaluation of Properties** - a £166m unrealised revaluation loss on the value of property (in particular schools) was shown on the face of the Comprehensive Income & Expenditure Account. For 2013/14, there was a minor gain of £19m on properties (mostly dwellings).

#### Current Year Items

Within the Other Comprehensive Income and Expenditure line of the accounts, there are no material non-cash expenditure items to report.

### 6 Events After the Balance Sheet Date

The Council received a large invoice from the Barts NHS Trust in July. This was considered material (£1.306m) and was included within the financial statements as a Post Balance Sheet Event.



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

2013/14	USABLE RESERVES							UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments involving the Capital Adjustment Account</b>									
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>									
Charges for depreciation and impairment of non current assets	23,405	0	0	15,831	0	0	39,236	(39,236)	0
Revaluation losses on PPE (charged to SDPS)	374	0	(21,748)	0	0	0	(21,374)	21,374	0
Movements on the market value of investment assets	0	0	0	0	0	0	0	0	0
Amortisation of intangible assets	0	0	0	0	0	0	0	0	0
Capital grants and contributions applied	(45,478)	0	0	0	0	(49,653)	(95,131)	95,131	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	29,010	0	1,994	0	0	0	31,004	(31,004)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	21,753	0	5,754	0	0	0	27,507	(27,507)	0
Capital receipts from Secretary of State used to repay debt in accordance with the HRA Settlement Determination	0	0	0	0	0	0	0	0	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(6,836)	0	0	0	0	0	(6,836)	6,836	0
Capital expenditure charged against the General Fund and HRA balances	(1,175)	0	(9,083)	0	0	0	(10,258)	10,258	0
<b>Adjustments involving the Capital Receipts Reserve</b>									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(5,870)	0	(10,189)	0	16,059	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(14,701)	0	(14,701)	14,701	0
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	0	0	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,807	0	0	0	(1,807)	0	0	0	0
Unattached capital receipts	(666)	0	(26)	0	692	0	0	0	0
Deferred Capital Receipts	0	0	0	0	63	0	63	(63)	0
<b>Adjustment involving the Major Repairs Reserve</b>									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(11,799)	0	0	(11,799)	11,799	0
<b>Adjustments involving the Financial Instruments Adjustment Account</b>									
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	101	0	79	0	0	0	180	(180)	0
<b>Adjustment involving the Pensions Reserve</b>									
Reversal of items relating to retirement benefits debited or credited to the CIES	53,378	0	3,480	0	0	0	56,858	(56,858)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(36,837)	0	(2,313)	0	0	0	(39,150)	39,150	0
<b>Adjustments involving the Collection Fund Adjustment Account</b>									
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	821	0	0	0	0	0	821	(821)	0
<b>Adjustments involving the Unequal Pay Back Pay Adjustment Account</b>									
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0
<u>Other adjustments include</u>									
<b>Adjustments involving the Capital Grants Unapplied Account</b>									
Capital grants and contributions unapplied credited to CIES when receivable	(20,648)	0	(27,841)	0	0	48,489	0	0	0
<b>Adjustment between the Capital Adjustment Account and the Revaluation Reserve</b>									
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0
Transfers from General Fund (as directed by Secretary of State)	0	0	0	0	0	0	0	0	0
<b>Adjustments involving the Accumulated Absences Account</b>									
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	58	0	0	0	0	0	58	(58)	0
<b>Total Adjustments</b>	<b>13,197</b>	<b>0</b>	<b>(59,893)</b>	<b>4,032</b>	<b>306</b>	<b>(1,164)</b>	<b>(43,522)</b>	<b>43,522</b>	<b>0</b>

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

2012/13	USABLE RESERVES							UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments involving the Capital Adjustment Account</b>									
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>									
Charges for depreciation and impairment of non current assets	20,695	0	0	15,754	0	0	36,449	(36,449)	0
Revaluation losses on PPE (charged to SDPS)	19,852	0	(21,350)	0	0	0	(1,498)	1,498	0
Movements on the market value of investment assets	0	0	0	0	0	0	0	0	0
Amortisation of intangible assets	0	0	0	0	0	0	0	0	0
Capital grants and contributions applied	(76,849)	0	(4,442)	0	0	(40,982)	(122,273)	122,273	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	34,838	0	3,130	0	0	0	37,968	(37,968)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,147	0	1,122	0	0	0	2,269	(2,269)	0
Capital receipts from Secretary of State used to repay debt in accordance with the HRA Settlement Determination	0	0	0	0	0	0	0	0	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(7,280)	0	0	0	0	0	(7,280)	7,280	0
Capital expenditure charged against the General Fund and HRA balances	(192)	0	(3,465)	0	0	0	(3,657)	3,657	0
<b>Adjustments involving the Capital Receipts Reserve</b>									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(1,245)	0	(2,069)	0	3,314	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(11,194)	0	(11,194)	11,194	0
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	0	0	0	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	944	0	0	0	(944)	0	0	0	0
Unattached capital receipts	(368)	0	(1,444)	0	1,812	0	0	0	0
Deferred Capital Receipts	0	0	0	0	46	0	46	(46)	0
<b>Adjustment involving the Major Repairs Reserve</b>									
Reversal of Major Repairs Allowance credited to the HRA	0	0	0	(11,375)	0	0	(11,375)	11,375	0
Use of the Major Repairs Reserve to finance new capital expenditure									0
<b>Adjustments involving the Financial Instruments Adjustment</b>									
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	103	0	(176)	0	0	0	(73)	73	0
<b>Adjustment involving the Pensions Reserve</b>									
Reversal of items relating to retirement benefits debited or credited to the CIES	38,959	0	1,156	0	0	0	40,115	(40,115)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(32,177)	0	(2,214)	0	0	0	(34,391)	34,391	0
<b>Adjustments involving the Collection Fund Adjustment Account</b>									
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	(1,564)	0	0	0	0	0	(1,564)	1,564	0
<b>Adjustments involving the Unequal Pay Back Pay</b>									
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0
<u>Other adjustments include</u>									
<b>Adjustments involving the Capital Grants Unapplied Account</b>	(32,469)	0	(14,058)	0	0	46,527	0	0	0
Capital grants and contributions unapplied credited to CIES when receivable									
<b>Adjustment between the Capital Adjustment Account and the</b>	0	0	0	0	0	0	0	0	0
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0
<b>Transfers from General Fund (as directed by Secretary of</b>	14	0	0	0	0	0	14	(14)	0
<b>Adjustments involving the Accumulated Absences Account</b>									
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements									
<b>Total Adjustments</b>	<b>(35,592)</b>	<b>0</b>	<b>(43,810)</b>	<b>4,379</b>	<b>(6,966)</b>	<b>5,545</b>	<b>(76,444)</b>	<b>76,444</b>	<b>0</b>

## 8 TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2013/14

	BALANCE AT 1 APRIL 2012 £'000	TRANSFERS OUT 2012/13 £'000	TRANSFERS IN 2012/13 £'000	BALANCE AT 31 MARCH 2013 £'000	TRANSFERS OUT 2013/14 £'000	TRANSFERS IN 2013/14 £'000	BALANCE AT 31 MARCH 2014 £'000
<b>GENERAL FUND</b>							
General Fund Reserve	26,380	0	11,680	38,060	0	26,929	64,989
<b>EARMARKED RESERVES</b>							
<b>Corporate</b>							
1 Improvement & Efficiency	11,496	(2,333)	249	9,412	(1,446)	4,527	12,493
2 Severance	4,000	0	3,000	7,000	0	4,000	11,000
3 Finance Systems	2,724	(624)	0	2,100	0	410	2,510
4 ICT Refresh	1,355	0	0	1,355	0	500	1,855
5 Olympic Legacy Schemes	1,879	(1,168)	0	711	(60)	0	651
6 Education Grant Reduction	4,000	(2,109)	678	2,569	(670)	194	2,093
7 Employment and other Corporate Initiatives	6,236	(1,198)	6,867	11,905	(5,656)	8,215	14,464
8 Other	1,941	(1,706)	1,900	2,135	(162)	1,491	3,464
<b>Service Specific</b>							
9 Homelessness	2,924	(380)	480	3,024	(449)	0	2,575
10 Parking Control	2,596	(840)	0	1,756	(1,383)	540	913
11 Development & Renewal Other	2,804	(284)	681	3,201	(415)	79	2,865
12 Communities, Localities & Culture	667	(436)	858	1,089	(209)	336	1,216
13 Children, Schools & Families	503	(238)	907	1,172	(380)	803	1,595
14 Adults, Health & Wellbeing	5,534	(2,066)	1,825	5,293	(4,493)	0	800
15 Chief Executives & Resources	102	0	362	464	0	100	564
<b>Revenue Reserves - Other</b>							
16 Insurance	24,087	(1,184)	205	23,108	(2,255)	58	20,911
17 Schools Balances	25,783	(787)	6,875	31,871	0	2,853	34,724
18 CSF - Early Intervention	4,184	(674)	1,459	4,969	(3,359)	706	2,316
19 Housing Revenue Account (HRA)	13,578	0	1,655	15,233	0	1,920	17,153
20 Housing Revenue Account - Future Housing Supply	1,000	0	0	1,000	0	0	1,000
<b>Capital Reserves</b>							
21 Capital Programme (General Fund)	20,900	(3,168)	4,287	22,019	(751)	3,527	24,795
<b>Earmarked Reserve Total</b>	<b>138,293</b>	<b>(19,195)</b>	<b>32,288</b>	<b>151,386</b>	<b>(21,688)</b>	<b>30,259</b>	<b>159,957</b>
<b>Total Usable Reserve Total</b>	<b>164,673</b>	<b>(19,195)</b>	<b>43,968</b>	<b>189,446</b>	<b>(21,688)</b>	<b>57,188</b>	<b>224,946</b>

### Corporate Reserves

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

### Service Specific Reserves

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

### Revenue Reserves - Other

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

### Capital Reserves

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

## 9 Other Operating Expenditure

2012/13 £'000	Note	2013/14 £'000
<b>Levies</b>		
261	- Lee Valley Regional Park Authority	235
177	- Environment Agency	171
1,313	- London Pensions Fund Authority	1,233
<b>1,751</b>	<b>Total Levies</b>	<b>1,639</b>
944	Payments to Housing Capital Receipts Pool	1,807
(1,044)	Net (gain)/loss on disposal of non-current assets	11,447
(1,812)	Unattached capital receipts	(692)
<b>(161)</b>	<b>Total</b>	<b>14,201</b>

## 10 Financing and Investment Income and Expenditure

2012/13 £'000		2013/14 £'000
9,952	Interest payable and similar charges	13,186
17,050	Pensions interest cost and expected return on pensions assets	23,137
(3,179)	Interest receivable and similar income	(2,336)
(174)	Surplus or deficit of trading operations	31
<b>23,649</b>	<b>Total</b>	<b>34,018</b>

## 11 Taxation and Non Specific Grant Income

2012/13 £'000		2013/14 £'000
(81,994)	Council Tax income	(64,266)
(209,738)	Non domestic rates	(96,259)
(16,569)	Non-ringfenced Government grants	(172,749)
(99,121)	Capital grants and contributions	(69,663)
<b>(407,422)</b>	<b>Total</b>	<b>(402,937)</b>

## 12 PROPERTY, PLANT AND EQUIPMENT

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

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPARATIVE MOVEMENTS IN 2012/13	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRASTRUCTURE ASSETS	COMMUNITY ASSETS	SURPLU S ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>									
At 1 April 2012	812,418	1,119,403	22,280	132,608	50,122	10,439	1,385	<b>2,148,655</b>	314,787
Additions	35,914	65,621	349	6,052	563	0	2,821	<b>111,320</b>	39,812
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(13,021)	(227,441)	0	0	0	0	0	<b>(240,462)</b>	(104,316)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	21,350	(19,672)	0	0	0	0	0	<b>1,678</b>	0
Derecognition - Disposals	(654)	(203)	0	0	0	0	0	<b>(857)</b>	0
Derecognition - Other	0	(435)	0	0	0	0	0	<b>(435)</b>	0
Assets reclassified (to)/from Held for Sale	0	(3,248)	0	0	0	0	0	<b>(3,248)</b>	0
Other reclassification of assets	0	(4,794)	0	0	(1,304)	6,098	0	<b>0</b>	0
<b>At 31 March 2014</b>	<b>856,007</b>	<b>929,231</b>	<b>22,629</b>	<b>138,660</b>	<b>49,381</b>	<b>16,537</b>	<b>4,206</b>	<b>2,016,651</b>	<b>250,283</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2012	151,520	99,132	14,841	32,111	0	546	0	<b>298,150</b>	24,609
Depreciation charge	14,223	16,323	2,539	3,355	0	206	0	<b>36,646</b>	4,234
Depreciation written out to the Revaluation Reserve	(13,021)	(58,982)	0	0	0	0	0	<b>(72,003)</b>	(28,013)
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	<b>0</b>	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	<b>0</b>	0
Derecognition - Disposals	0	0	0	0	0	0	0	<b>0</b>	0
Derecognition - Other	0	33	0	0	0	0	0	<b>33</b>	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	<b>0</b>	0
Other reclassification of assets	0	(650)	0	0	0	650	0	<b>0</b>	0
<b>At 31 March 2013</b>	<b>152,722</b>	<b>55,856</b>	<b>17,380</b>	<b>35,466</b>	<b>0</b>	<b>1,402</b>	<b>0</b>	<b>262,826</b>	<b>830</b>
<b>Net Book Value</b>									
<b>At 31st March 2013</b>	<b>703,285</b>	<b>873,375</b>	<b>5,249</b>	<b>103,194</b>	<b>49,381</b>	<b>15,135</b>	<b>4,206</b>	<b>1,753,825</b>	<b>249,453</b>
<b>At 1st April 2012</b>	<b>660,898</b>	<b>1,020,271</b>	<b>7,439</b>	<b>100,497</b>	<b>50,122</b>	<b>9,893</b>	<b>1,385</b>	<b>1,850,505</b>	<b>290,178</b>

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

### Depreciation

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

- Council Dwellings – As a method of depreciation, the council has used the Major Repairs Allowance (MRA) to adjust the value of the housing stock to reflect the effects of use, deterioration and obsolescence. In 2013/14, the council compared the MRA figure to a depreciation figure calculated based on figures from a qualified valuer to ensure the depreciation charge to the HRA was adequate to finance the HRA's long-term financial plan.
- Other Land and Buildings – As advised by qualified valuer
- Vehicles, Plant & Equipment - 5 years on a straight line basis
- Infrastructure assets - 40 years

### Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £92.19 million at 31st March 2014 (£28.013 million at 31st March 2013).

	Committed sum £m	Costs to 31/3/2014 £m	2014/15 onwards £m	Contract End Date
Stebon Primary School	4.985	1.322	3.663	31/01/2015
Woolmore Primary School	9.995	3.575	6.420	31/07/2015
Decent Homes Contract	105.334	29.899	75.436	31/07/2016
Building Schools for the Future ICT	23.671	16.993	6.678	31/01/2015
<b>TOTAL</b>	<b>143.985</b>	<b>51.788</b>	<b>92.197</b>	

### Revaluations

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

In 2012/13, the housing stock was valued by DVS and the other assets were valued by Deloitte. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2010'.

ANALYSIS OF ROLLING REVALUATION PROGRAMME	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	-	-	4,308	104,999	49,677	-	-	158,984
Valued at fair value in:								
2013/14	753,180	69,057	-	-	-	24,229	-	846,466
2012/13	-	673,936	-	-	-	-	-	673,936
2011/12	-	26,075	-	-	-	-	-	26,075
2010/11	-	43,621	-	-	-	-	-	43,621
2009/10	-	90,217	-	-	-	-	-	90,217
<b>Value at 31 March 2014</b>	<b>753,180</b>	<b>902,906</b>	<b>4,308</b>	<b>104,999</b>	<b>49,677</b>	<b>24,229</b>	<b>0</b>	<b>1,839,299</b>

## 13 LONG TERM DEBTORS

	1st April 2012 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2013 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2014 £'000
Mortgages on Right to Buy properties	181	0	(53)	128	5	(72)	61
Sundry Loans	587	89	(132)	544	154	(169)	529
	<b>768</b>	<b>89</b>	<b>(185)</b>	<b>672</b>	<b>159</b>	<b>(241)</b>	<b>590</b>

## 14 INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licenses, not internally generated software. For 2013/14 there are no intangible asset transactions as the provision of IT services has transferred to the Council's partner organisation.

These are computer software licences which are treated as non-financial, non-current 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 1st April 2013 £'000	Expenditure 2013/14 £'000	Revenue Charge 2013/14 £'000	Balance at 31st March 2014 £'000
Software licences	0	0	0	0

## 15 FINANCIAL INSTRUMENT NOTES

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

### Amortised Cost

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

### Fair Value

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

### Compliance

The Council has:

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

### Types of Financial Instruments

Financial Instrument Categories	Long-Term		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2013	2014	2013	2014	2013	2014
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>						
Borrowings at amortised cost	89,564	88,892	2,090	1,046	91,654	89,938
Deferred Liabilities (PFI)	39,410	38,472	889	938	40,299	39,410
Creditors - Financial Liabilities carried at contract amount	0	0	66,892	87,343	66,892	87,343
<b>Total Liabilities</b>	<b>128,974</b>	<b>127,364</b>	<b>69,871</b>	<b>89,327</b>	<b>198,845</b>	<b>216,691</b>
<b>Financial Assets</b>						
Loans and receivables	0	0	146,336	185,636	146,336	185,636
Debtors - financial assets carried at contract amounts	0	0	14,019	25,348	14,019	25,348
Cash held at bank and cash equivalents	0	0	135,996	138,111	135,996	138,111
<b>Total Financial Assets</b>	<b>0</b>	<b>0</b>	<b>296,351</b>	<b>349,095</b>	<b>296,351</b>	<b>349,095</b>

### NOTES

1. Market loans (LOBOs) of £77.5 million have been included in long term borrowing.
2. Included in loans and receivables is £25m of deposits due to be settled within 1 and 3 years as at 31 March 2014.
3. The Authority's investment portfolio consists of fixed term deposits, callable deposits, two collar deposits, two call accounts and money market funds.
4. The terms of the collar deposits, referenced to 3 month LIBOR are: £5m from 10.01.2014 - 09.01.2017, with a floor of 1.74% and a cap of 2.50%; £5m from 20.03.2014 - 20.03.16, with a floor of 1.25% and a cap of 1.80%.
5. Balances in the money market funds and call accounts at 31 March 2014 are shown under 'cash and cash equivalent' in the balance sheet. Cash equivalents are highly liquid deposits which are readily convertible into cash at short notice. They include £107.567 million (£99.014 million as at 31st March 2013) of short-term deposits with banks and building societies excluded from loans and receivables.
6. The above long term figures are based on paragraph B9, Module 7 of the 2013/14 code of practice guidance notes which states an instrument will be held for its full term unless the Council has a specified intention to repay/call in early or reliable experience of similar instruments being derecognised before the full term.
7. In addition to the above financial liabilities, the Council has contingent liabilities for warranties provided to landlords. Details are outlined in note 45 to the accounts. The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations.



## FINANCIAL INSTRUMENTS (continued)

### Gains and Losses on Financial Instruments

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

	2012/13		2013/14	
	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables
	£'000	£'000	£'000	£'000
Interest expense	9,952	0	13,186	0
Interest income	0	3,179	0	2,336
<b>TOTAL INTEREST AND INVESTMENT INCOME</b>	<b>9,952</b>	<b>3,179</b>	<b>13,186</b>	<b>2,336</b>

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

#### Methods and Assumptions in valuation technique

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

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

The calculations are made with the following assumptions:

- The PWLB liabilities have been calculated by reference to the "Premature Redemption" set of rates in force on the 31st March 2014.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- Fair values for all instruments in the portfolio have been calculated, but only those which are materially different from the carrying value are disclosed.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are as follows:

Fair Value of Liabilities Carried at Amortised Cost	31 March 2013	31 March 2013	31 March 2014	31 March 2014
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Public Works Loans Board	13,845	17,195	12,131	14,996
Lender's option, borrower's option loans	77,809	80,924	77,807	76,876
Deferred liabilities - Private Finance Initiatives (PFI)	40,299	40,299	39,410	39,410
Creditors - Financial Liabilities carried at contract amount	66,892	66,892	87,343	87,343
<b>Financial Liabilities</b>	<b>198,845</b>	<b>205,310</b>	<b>216,691</b>	<b>218,625</b>

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

Fair Value of Assets Carried at Amortised Cost	31 March 2013	31 March 2013	31 March 2014	31 March 2014
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Fixed term deposits with banks and building societies	146,213	147,008	185,629	185,807
Equity Shares (not quoted in an active market)	123	123	7	7
Debtors - financial assets carried at contract amounts	14,019	14,019	25,348	25,348
Cash held at Bank	36,982	36,982	30,544	30,544
Cash equivalents (deposits with banks and other financial institutions)	99,014	99,014	107,567	107,567
<b>Financial Assets</b>	<b>296,351</b>	<b>297,146</b>	<b>349,095</b>	<b>349,273</b>

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

## 15 FINANCIAL INSTRUMENTS (continued)

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

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

#### 1. Credit Risk

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

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

	Amounts at 31 March 2013 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2013 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	81,994	0%	0%	0%
Money Market Funds	54,002	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	0%	0%	0%
3 - 6 months	10,022	0%	0%	0%
6 - 12 months	95,714	0%	0%	0%
Over 12 months	40,477	0%	0%	0%
<b>TOTAL</b>	<b>282,209</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

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

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

The Council does not generally allow credit for customers, such that £5.6 million of the £87.8 million balance (2012/13 - £1.375 million of the £47.7 million) is past its due date for payment, but not impaired. The past due amount can be analysed by age as follows:

## 15 FINANCIAL INSTRUMENTS (continued)

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

Credit Risk	31 March 2013 £'000	31 March 2014 £'000
Three to six months	476	1,307
Six months to one year	265	1,104
More than one year	634	3,178
<b>TOTAL</b>	<b>1,375</b>	<b>5,589</b>

### 2. Liquidity Risk

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

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

Loans outstanding	31 March 2013 £'000	31 March 2014 £'000
Public Works Loans Board	13,845	12,131
Market debt	77,809	77,807
PFI	40,299	39,410
<b>TOTAL</b>	<b>131,953</b>	<b>129,348</b>
Less than 1 year	2,979	1,984
Between 1 and 2 years	1,609	2,032
Between 2 and 5 years	7,444	8,626
Between 5 and 10 years	17,757	17,886
More than 10 years	102,164	98,820
<b>TOTAL</b>	<b>131,953</b>	<b>129,348</b>

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

### 3. Market Risk

#### Interest rate risk

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

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

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

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

## 15 FINANCIAL INSTRUMENTS (continued)

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

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

According to this assessment, at 31st March 2014, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2012/13 £'000	2013/14 £'000
Increase in interest payable on variable rate borrowings	707	706
Increase in interest receivable on variable rate investments	(2,709)	(4,140)
<b>Impact on Income and Expenditure Account</b>	<b>(2,002)</b>	<b>(3,434)</b>

Fair Value Movements	2012/13 £'000	2013/14 £'000
Decrease in fair value of fixed rate investments	1,027	861
Decrease in fair value of fixed rate borrowing liabilities	625	2,890
<b>Impact on Income and Expenditure Account</b>	<b>1,652</b>	<b>3,751</b>

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

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

	2012/13 £'000	2013/14 £'000
London Mutual Insurance Limited	116	0
The Tower Hamlets Local Education Partnership	7	7
<b>Total</b>	<b>123</b>	<b>7</b>

## 16 INVENTORIES

	Consumable Stores		Client Services Work in Progress		Total	
	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000
<b>Balance outstanding at start of year</b>	19	20	498	370	517	390
Purchases	25	0	1,327	1,664	1,353	1,664
Recognised as an expense in the year	(25)	(6)	(1,455)	(309)	(1,480)	(315)
<b>Balance outstanding at year-end</b>	<b>20</b>	<b>14</b>	<b>370</b>	<b>1,725</b>	<b>390</b>	<b>1,739</b>

Note: consumable stores consists of pre-paid postage rechargeable to services.

## 17 CONSTRUCTION CONTRACTS

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

## 18 IMPAIRMENT LOSSES

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in note 12 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances. An impairment review was carried out by qualified valuers at 31st March 2014 and concluded that there was no significant impairment to report.

## 19 DEBTORS

	31 March 2013 £'000	31 March 2014 £'000
Central government bodies	19,603	38,044
Other local authorities	0	0
Other entities and individuals	47,782	87,851
Payments in advance	3,433	2,241
<b>Total</b>	<b>70,818</b>	<b>128,136</b>

## 20 CASH AND CASH EQUIVALENTS

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

	31 March 2013 £'000	31 March 2014 £'000
Cash held by the Council	36,982	30,544
Short-term deposits with banks and building societies	99,014	107,567
<b>Total Cash and Cash Equivalents</b>	<b>135,996</b>	<b>138,111</b>

## 21 ASSETS HELD FOR SALE

As at the 31st March 2014, the Council has one property which is classified as Assets Held for Sale. There

	Current		Non Current	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
<b>Value at 1st April</b>	945	3,248	0	0
Assets newly classified as held for sale:				
Property, Plant and Equipment	3,248	0	0	0
Assets sold	(945)	(3,023)	0	0
<b>Value at 31st March</b>	<b>3,248</b>	<b>225</b>	<b>0</b>	<b>0</b>

## 22 CREDITORS

	31 March 2013 £'000	31 March 2014 £'000
Central government bodies	58,849	56,092
Other local authorities	2,342	10,105
Public corporations and trading funds	0	0
Other entities and individuals	19,976	41,047
Accruals*	57,528	76,949
Receipts in advance	10,998	15,359
<b>Total</b>	<b>149,693</b>	<b>199,552</b>

\* 31st March 2013 accruals now shown separately from other entities & individuals creditor balance

## 23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 1 April 2012 £'000	Amounts used in 2012/13 £'000	Contributions in 2012/13 £'000	Balance at 31 March 2013 £'000	Amounts used in 2013/14 £'000	Contributions in 2013/14 £'000	Balance at 31 March 2014 £'000
(a) Single Status	174	0	155	329	(155)	0	174
(b) ICT provision and other corporate provisor	0	0	0	0	0	772	772
(c) Adoption Fees	0	0	40	40	0	0	40
(d) Redundancy provisions	144	(27)	0	117	(117)	0	0
(e) Carbon Reduction provision	315	(315)	333	333	(333)	0	0
(f) Contract disputes	102	0	0	102	(102)	102	102
(g) Business rates appeals provision	0	0	0	0	0	8,250	8,250
(h) Inquest provision	859	(859)	0	0	0	0	0
<b>TOTAL</b>	<b>1,594</b>	<b>(1,201)</b>	<b>528</b>	<b>921</b>	<b>(707)</b>	<b>9,124</b>	<b>9,338</b>

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

LONG-TERM PROVISIONS	Balance at 1 April 2012 £'000	Amounts used in 2012/13 £'000	Contributions in 2012/13 £'000	Balance at 31 March 2013 £'000	Amounts used in 2013/14 £'000	Contributions in 2013/14 £'000	Balance at 31 March 2014 £'000
(h) Inquest provision	241	(241)	0	0	0	0	0
(i) Insurance Fund	11,884	(690)	1,314	12,508	(4,112)	628	9,024
(j) Repayment of deposits	169	0	0	169	0	0	169
(k) Repayment of European funding	394	0	0	394	0	0	394
(l) Pension liability - part time staff	400	(400)	0	0	0	0	0
<b>TOTAL</b>	<b>13,088</b>	<b>(1,331)</b>	<b>1,314</b>	<b>13,071</b>	<b>(4,112)</b>	<b>628</b>	<b>9,587</b>

**18,925**

- (a) For additional costs resulting from the single status agreement which changed employees' conditions of service.
- (b) ICT provision - Provision created to allow for increased usage of SAP licences between 2008 to 2012 and other corporate provisions.
- (c) Provision for the final payment to other authorities should particular children placed with potential adopters resident in other boroughs ultimately be legally adopted
- (d) Provision for redundancy settlements outstanding at 31st March 2013.
- (e) Provision created to cover the council's liability towards the Governments carbon reduction energy efficiency scheme.
- (f) Provision for contract disputes.
- (g) Council share of provision for NNDR business rates appeals.
- (h) Provision for inquest contribution. Provision removed as central Government have agreed costs of inquest no longer a Council liability.
- (i) To cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property. Amounts are transferred to the provision from the insurance reserve on an annual basis if a reliable estimate can be made of the likely settlement amount. The nature of insurance claims means it is not possible to accurately forecast when settlement of claims will take place. The Council is active in risk management, identifying areas of particular risk and taking management steps with a view to reducing possible future claims and losses. There are no material risks which are not covered by either direct insurance or self insurance via the provision.
- (j) The provision is used to hold deposits received from contractors with approval for erecting temporary structures. On completion of the work, the deposits will be refunded to the contractors, less deductions for any liabilities incurred. The refund of deposits will depend on the successful completion of contracts.
- (k) There are a number of European funded schemes where there is a probability that grant will need to be repaid. The potential for repayment will expire in 2017, ten years after the grant has been received.
- (l) This pension provision was not required, therefore it has been transferred back to general fund reserves.

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

## 24 USABLE RESERVES

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

## 25 UNUSABLE RESERVES

31 March 2013 £'000		31 March 2014 £'000
324,686	Revaluation Reserve	347,108
0	Available for Sale Financial Instruments Reserve	0
1,153,640	Capital Adjustment Account	1,226,255
1,032	Financial Instruments Adjustment Account	852
(522,962)	Pensions Reserve	(495,946)
1,588	Collection Fund Adjustment Account	767
(3,369)	Accumulating Compensated Absences Adjustment Account	(3,427)
110	Deferred Capital Receipts	47
<b>954,725</b>	<b>Total Unusable Reserves</b>	<b>1,075,656</b>

### Revaluation Reserve

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

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

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

2012/13 £'000		2013/14 £'000
497,734	<b>Balance at 1 April</b>	324,686
30,670	Upward revaluation of assets	33,643
	Downward revaluation of assets and impairment losses not charged to the	
(199,129)	Surplus/Deficit on the Provision of Services	(957)
	Surplus or deficit on revaluation of non-current assets not posted to the	
(168,459)	Surplus or Deficit on the Provision of Services	32,686
(3,202)	Difference between fair value depreciation and historical cost depreciation	(3,595)
(1,387)	Accumulated gains on assets sold or scrapped	(6,668)
(4,589)	Amount written off to the Capital Adjustment Account	(10,263)
<b>324,686</b>	<b>Balance at 31 March</b>	<b>347,109</b>

## 25 UNUSABLE RESERVES

### Capital Adjustment Account

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

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

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

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

2012/13 £'000		2013/14 £'000
<b>1,068,459</b>	<b>Balance at 1 April</b>	<b>1,153,639</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(36,449)	Charges for depreciation and impairment of non current assets	(39,236)
1,498	Revaluation losses (and reversals) on Property, Plant and Equipment	21,374
(37,968)	Revenue expenditure funded from capital under statute	(31,004)
(2,269)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(27,507)
(75,188)		(76,373)
4,589	Adjusting amounts written out of the Revaluation Reserve	10,263
(70,599)	Net written out amount of the cost of non current assets consumed in the year	(66,110)
	Capital financing applied in the year:	
11,194	Use of the Capital Receipts Reserve to finance new capital expenditure	14,701
11,375	Use of the Major Repairs Reserve to finance new capital expenditure	11,799
122,273	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	95,131
7,280	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	6,836
3,657	Capital expenditure charged against the General Fund and HRA balances	10,258
155,779		138,725
<b>1,153,639</b>	<b>Balance at 31 March</b>	<b>1,226,254</b>



## 25 UNUSABLE RESERVES (continued)

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2014 will be charged to the General Fund over the next 11 years.

2012/13 £'000		2013/14 £'000
959	<b>Balance at 1 April</b>	1,032
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in	
73	accordance with statutory requirements	(180)
<b>1,032</b>	<b>Balance at 31 March</b>	<b>852</b>

### Pensions Reserve

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

2012/13 £'000		2013/14 £'000
(422,546)	<b>Balance at 1 April</b>	(522,962)
(94,692)	Actuarial gains or losses on pensions assets and liabilities	44,724
(40,115)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(56,858)
34,391	Employer's pensions contributions and direct payments to pensioners payable in the year	39,150
<b>(522,962)</b>	<b>Balance at 31 March</b>	<b>(495,946)</b>

## 25 UNUSABLE RESERVES

### Collection Fund Adjustment Account

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

2012/13 £'000		2013/14 £'000
24	<b>Balance at 1 April</b>	1,588
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for	
1,564	the year in accordance with statutory requirements	(821)
<b>1,588</b>	<b>Balance at 31 March</b>	<b>767</b>

### Deferred Capital Receipts

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

2012/13 £'000		2013/14 £'000
156	<b>Balance at 1 April</b>	110
(46)	Transfer to the Capital Receipts Reserve upon receipt of cash	(62)
<b>110</b>	<b>Balance at 31 March</b>	<b>48</b>

## 26a NOTE A TO THE CASH FLOW STATEMENT

2012/13 £'000		2013/14 £'000
104,175	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>82,195</b>
	<b><u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u></b>	
36,449	Depreciation	39,235
(1,678)	Impairment and downward valuations	(21,374)
175	Adjustments for effective interest rates	(244)
(211)	Increase/Decrease in Interest Creditors	(969)
(3,985)	Increase/Decrease in Creditors	38,160
268	Increase/Decrease in Interest and Dividend Debtors	1,225
718	Increase/Decrease in Debtors	(57,651)
127	Increase/Decrease in Inventories	(1,349)
5,724	Pension Liability	17,712
2,450	Contributions to/(from) Provisions	4,933
14	Provision for Equal Pay	
2,269	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	27,507
<b>42,320</b>		<b>47,185</b>
	<b><u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u></b>	
(127,818)	Capital Grants credited to surplus or deficit on the provision of services	(45,477)
(5,126)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(16,750)
<b>(132,944)</b>		<b>(62,227)</b>
<b>13,551</b>	<b>Net cash flows from operating activities</b>	<b>67,153</b>

## 26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2012/13 £'000		2013/14 £'000
3,447	Interest received	3,688
(10,163)	Interest paid	(14,299)
<b>(6,716)</b>		<b>(10,611)</b>

## 27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2012/13 £'000		2013/14 £'000
(110,037)	Purchase of property, plant and equipment, investment property and intangible assets	(90,462)
(14,429)	Purchase of short-term and long-term investments	(39,300)
(89)	Other payments for investing activities	(159)
2,115	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	16,122
	Proceeds from short-term and long-term investments	
120,687	Other receipts from investing activities	49,654
<b>(1,753)</b>	<b>Net cash flows from investing activities</b>	<b>(64,145)</b>

## 28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2012/13 £'000		2013/14 £'000
(793)	Billing Authorities - Council Tax and NNDR adjustments	841
(791)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(845)
(944)	Repayments of short- and long-term borrowing	(889)
<b>(2,528)</b>	<b>Net cash flows from financing activities</b>	<b>(893)</b>

## 29 TRADING OPERATIONS

The following services are reported as trading activities in 2013/14:

	2012/13			2013/14			
	Expenditure	Income	Surplus/ (Deficit)	Expenditure	Income	Surplus/ (Deficit)	Balance 31/03/2014
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Street Trading	2,152	2,326	174	2,419	2,388	(31)	210
<b>TOTAL TRADING ACCOUNTS</b>	<b>2,152</b>	<b>2,326</b>	<b>174</b>	<b>2,419</b>	<b>2,388</b>	<b>(31)</b>	<b>210</b>

## 30 AGENCY SERVICES

The Council has an agency agreement with the Thames Water Authority whereby the Council is responsible for collecting unmetered water charges from council tenants. For this service the council receives a commission based on the total TWA bill chargeable for the year. In 2013/14 this commission amounted to £788,521 (£741,213 in 2012/13).

## 31 POOLED BUDGETS

Under the terms of a Section 75 Agreement (National Health Service Act 2006), the Council entered into three 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) Occupational Therapy Service (OTS) - pooled budget arrangements ceased in 2012/13.

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

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

2013/14	ICES £'000	LDSA £'000	OTS £'000
<b>Income</b>			
The Council	986	1,196	0
Barts and the London Trust health services	851	1,721	0
	1,837	2,917	0
<b>Expenditure</b>	1,723	3,016	0
<b>Surplus/(Deficit) for the year</b>	114	(99)	0

2012/13	ICES £'000	LDSA £'000	OTS £'000
<b>Income</b>			
The Council	930	1228	1806
Barts and the London Trust health services	841	1704	1805
	1,771	2,932	3,611
<b>Expenditure</b>	1862	3105	3563
<b>Surplus/Deficit for the year</b>	(91)	(173)	48

## 32 MEMBERS' ALLOWANCES

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

	2012/13 £'000	2013/14 £'000
Allowances	940	959
<b>Total</b>	<b>940</b>	<b>959</b>

### 33 OFFICERS' REMUNERATION

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

2012/13	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr A Dalvi - Chief Executive (Interim) <sup>1</sup>	115,007	0	0	3,884	0	118,891
Mr S Halsey - Head of Paid Service <sup>2</sup>	30,638	0	0	4,760	0	35,398
<b>Total Chief Executive / Head of Paid Service</b>	<b>145,645</b>	<b>0</b>	<b>0</b>	<b>8,644</b>	<b>0</b>	<b>154,289</b>
<b>Corporate Directors</b>						
Children, Schools and Families	141,414	0	0	21,857	0	163,271
Communities, Localities and Culture <sup>3</sup>	120,700	0	0	18,925	1,645	141,270
Resources <sup>4</sup>	108,262	0	0	16,678	0	124,940
Resources (Acting) <sup>5</sup>	24,036	0	0	3,702	0	27,738
Adults Health and Wellbeing <sup>6</sup>	74,894	0	0	0	0	74,894
Development and Renewal <sup>7</sup>	119,155	0	0	18,406	0	137,561
Development and Renewal (Acting) <sup>8</sup>	16,792	0	0	2,586	0	19,378
Assistant Chief Executive (Legal)	124,186	0	0	19,135	0	143,321
	<b>875,084</b>	<b>0</b>	<b>0</b>	<b>109,933</b>	<b>1,645</b>	<b>986,662</b>

<sup>1</sup> Ceased as Interim Chief Executive on 21/05/2012

<sup>2</sup> Commenced as Head of Paid Service 23/01/2013

<sup>3</sup> 'Other' Includes additional payments for duties of Head of Paid Service.

<sup>4</sup> Left Council 06/01/2013

<sup>5</sup> Acting Corporate Director, Resources effective from 07/01/2013

<sup>6</sup> Interim Post Holder left Council 28/09/2012.

<sup>7</sup> From 22/05/2012 when Acting Chief Executive role ended.

<sup>8</sup> Ceased as Acting Corporate Director, Development and Renewal on 21/05/2013

2013/14	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr S Halsey - Head of Paid Service & Corporate Director CLC	160,915	0	0	25,004	0	185,919
<b>Total Head of Paid Service</b>	<b>160,915</b>	<b>0</b>	<b>0</b>	<b>25,004</b>	<b>0</b>	<b>185,919</b>
<b>Corporate Directors</b>						
Assistant Chief Executive (Legal Services) <sup>1</sup>	85,260	0	0	9,948	0	95,208
Resources (Acting)	122,100	0	0	18,866	0	140,966
Development and Renewal	143,054	0	0	22,116	0	165,170
Education, Health and Wellbeing <sup>2</sup>	74,000	0	0	11,449	0	85,449
Children, Schools & Families (Acting) <sup>3</sup>	13,043	0	69,341	434	0	82,818
Education, Social Care & Wellbeing (Acting) <sup>4</sup>	58,859	0	0	8,051	0	66,911
<b>Other</b>						
Interim Monitoring Officer <sup>6</sup>	22,295	0	0	3,523	0	25,818
Monitoring Officer <sup>7</sup>	23,839	0	0	0	0	23,839
Public Health <sup>5</sup>	89,786	0	0	12,570	0	102,356
	<b>793,151</b>	<b>0</b>	<b>69,341</b>	<b>111,962</b>	<b>0</b>	<b>974,454</b>

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

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

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

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

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

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

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

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

Remuneration band (£)	2012/13					2013/14				
	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff
50,000 - 54,999	212	(2)	78	(3)	290	201	(2)	82	(2)	283
55,000 - 59,999	121	(2)	65	(3)	186	134	(3)	43	(3)	177
60,000 - 64,999	42	0	32	(3)	74	48	0	46	(1)	94
65,000 - 69,999	30	0	19	(1)	49	31	0	16	0	47
70,000 - 74,999	29	(2)	20	(1)	49	22	0	26	0	48
75,000 - 79,999	19	(1)	9	(3)	28	17	0	5	(1)	22
80,000 - 84,999	7	(1)	7	(2)	14	8	0	4	0	12
85,000 - 89,999	4	0	6	0	10	3	0	8	(1)	11
90,000 - 94,999	7	(2)	4	(2)	11	8	(1)	2	(1)	10
95,000 - 99,999	4	(1)	4	(1)	8	4	(1)	6	(1)	10
100,000 - 104,999	0	0	7	(1)	7	2	0	7	0	9
105,000 - 109,999	3	(1)	2	0	5	1	0	1	0	2
110,000 - 114,999	3	0	1	0	4	1	0	2	(1)	3
115,000 - 119,999	1	0	0	0	1	1	0	0	0	1
120,000 - 124,999	0	0	2	(2)	2	1	0	0	0	1
125,000 - 129,999	1	0	0	0	1	0	0	0	0	0
130,000 - 134,999	2	0	0	0	2	0	0	0	0	0
135,000 - 139,999	0	0	0	0	0	2	0	0	0	2
140,000 - 144,999	1	0	0	0	1	1	0	1	0	2
170,000 - 174,999	0	0	0	0	0	0	0	1	(1)	1
	<b>486</b>	<b>(12)</b>	<b>256</b>	<b>(22)</b>	<b>742</b>	<b>485</b>	<b>(7)</b>	<b>250</b>	<b>(12)</b>	<b>735</b>

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

## Exit Payments

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

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£000)	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
0 - 20,000	12	8	35	28	47	36	317	414
20,001 - 40,000	3	0	8	6	11	6	275	753
40,001 - 60,000	2	0	9	26	11	26	560	530
60,001 - 80,000	1	0	11	12	12	12	815	613
80,001 - 100,000	0	0	1	9	1	9	81	284
100,001 - 150,000	0	0	2	3	2	3	220	726
150,001 - 200,000	0	0	1	0	1	0	160	0
200,001 - 250,000	0	0	0	0	0	0	0	0
<b>Total</b>	<b>18</b>	<b>8</b>	<b>67</b>	<b>84</b>	<b>85</b>	<b>92</b>	<b>2,429</b>	<b>3,320</b>

## 34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

	2012/13 £'000	2013/14 £'000
<b>Expenditure</b>		
Property, Plant and Equipment	111,320	101,903
Intangible Assets	-	-
Heritage Assets	11	-
Revenue Expenditure Funded from Capital Under Statute	37,968	31,004
<b>TOTAL</b>	<b>149,299</b>	<b>132,907</b>
<b>Sources of Finance</b>		
Borrowing	800	1,018
Capital Grants and Contributions	122,273	95,131
Capital Receipts	11,194	14,701
Major Repairs Reserve	11,375	11,799
Direct Revenue Funding	3,657	10,258
<b>TOTAL</b>	<b>149,299</b>	<b>132,907</b>
	2012/13 £'000	2013/14 £'000
<b>Opening Capital Financing Requirement</b>	<b>231,735</b>	<b>225,848</b>
<b>Capital investment</b>		
Property, Plant and Equipment	111,320	101,903
Intangible Assets	-	-
Heritage Assets	11	0
Revenue Expenditure Funded from Capital under Statute	37,968	31,004
<b>Sources of finance</b>		
Capital grants and contributions	(122,273)	(95,131)
Capital receipts	(11,194)	(14,701)
Major repairs reserve	(11,375)	(11,799)
Sums set aside from revenue:		
• Direct revenue contributions	(3,657)	(10,258)
• Minimum Revenue Provision <sup>1</sup>	(6,687)	(6,146)
<b>Closing Capital Financing Requirement</b>	<b>225,848</b>	<b>220,720</b>
<b>Explanation of movements in year</b>		
Decrease in underlying need to borrow (supported by government financial assistance)	(5,887)	(4,763)
Decrease in underlying need to borrow (unsupported by government financial assistance)	0	(365)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(5,887)</b>	<b>(5,128)</b>

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

## 35 EXTERNAL AUDIT COSTS

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

	2012/13 £'000	2013/14 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year*	277	291
Addition fees payable to external Audit for inquiries relating to 2012/13 invoiced in 2013/14	0	12
Fees payable to appointed external auditor in respect of statutory inspections	0	0
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	51	35
Fees payable in respect of other services provided by external auditors during the year	20	26
<b>Total</b>	<b>348</b>	<b>365</b>

The fees payable to the external auditors for other services comprise of an IT audit fee - £14.5k, Member & Public inquires - £14.3k (2013/14), Subscription to the VAT Forum - £5k, and an apportionment of fees relating to provision of VAT advice £6.5k.

In addition to the above, there were Member & Public Inquiries fees of £11.8k for 2012/13.

The Audit Commission has paid a rebate of £38k to reflect attaining internal efficiency savings in 2013/14. This has not been included in the table above but has the effect of reducing the overall cost to the Council.

The above table does not include provision for an external inspection being conducted by PricewaterhouseCoopers.

## 36 DEDICATED SCHOOLS GRANT

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

Notes	DSG Receivable for 2012/13	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2012/13 before Academy Recoupment	22,468	277,491	299,959
B	Academy figure Re-recouped 2012/13	0	(7,657)	(7,657)
C	Total DSG after Academy Recoupment 2012/13	22,468	269,834	292,302
D	Brought forward from 2011/12	5,915	0	5,915
E	Agreed initial budgeted distribution in 2012/13	28,383	269,834	298,217
F	In-year adjustments	(523)	523	0
G	Final budget distribution for 2012/13	27,860	270,357	298,217
H	Less actual central expenditure	(22,306)	0	(22,306)
I	Less actual ISB deployed to schools	0	(270,357)	(270,357)
J	Plus Council contribution for 2012/13	0	0	0
K	<b>Carry forward to 2013/14</b>	<b>5,554</b>	<b>0</b>	<b>5,554</b>

- A DSG figure as issued by DfE on 30th June 2012
- B Academy figure recouped 2012/13
- C Total DSG after Academy recoupment 2012/13
- D Figure brought forward from 2011/12
- E Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
- F Changes to initial distribution in 2012/13
- G Final distribution of DSG 2012/13
- H Actual amount of central expenditure items in 2012/13
- I Amount of ISB distributed to schools.
- J Contribution from the Council in 2012/13 which substituted for DSG in funding the Schools Budget.
- K Difference between budgeted distributions and actuals plus carry forward agreed in advance.

Notes	DSG Receivable for 2013/14	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2013/14 before Academy Recoupment	46,952	265,608	312,560
B	Academy figure Recouped 2013/14		(12,330)	(12,330)
C	Total DSG after Academy Recoupment 2013/14	46,952	253,278	300,230
D	Brought forward from 2012/13	5,554	0	5,554
E	Carry forward to 2014/15 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2013/14	52,506	253,278	305,784
G	In-year adjustments	428	0	428
H	Final budget distribution for 2013/14	52,934	253,278	306,212
I	Less actual central expenditure	(45,355)	0	(45,355)
J	Less actual ISB deployed to schools	0	(253,465)	(253,465)
K	Council contribution for 2013/14	0	0	0
L	<b>Carry forward to 2014/15</b>	<b>7,579</b>	<b>(187)</b>	<b>7,392</b>

- A DSG figure as issued by DfE in July 2013
- B Academy figure Recouped 2013-14
- C Total DSG after Academy Recoupment 2013/14
- D Figure brought forward from 2012/13
- E The amount which the Council decided after consultation with the schools forum to carry forward to 2014-15 rather than distribute in 2013/14
- F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
- G Changes to Initial distribution in 2013/14
- H Budgeted distribution of DSG at year end.
- I Actual amount of central expenditure items in 2013/14.
- J Amount of ISB distributed to schools.
- K Contribution from the Council in 2013/14 which substituted for DSG in funding the Schools Budget
- L Difference between budgeted distributions and actuals plus carry forward agreed in advance.

## 37 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

	2012/13	2013/14
	£'000	£'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Non-Ringfenced Government Grants</b>		
Business Rate Related Grants	0	(4,981)
Council Tax Freeze Grant	(3,972)	(846)
Council Tax Related Grants	0	(788)
Education Services Grant	0	(1,889)
High Street Innovation Fund	(100)	0
Local Service Support Grant	(282)	(135)
New Homes Bonus	(10,110)	(16,896)
Revenue Support Grant (Formula Grant)	(2,105)	(146,442)
RSG Capitalisation	0	(772)
<b>Total Non-Ringfenced Government Grants</b>	<b>(16,569)</b>	<b>(172,749)</b>
<b>Capital Grants and Contributions</b>		
Non-conditional grants:		
Schools-funded Capital Programme	(4,439)	(2,402)
Transport for London Funding	(2,880)	(2,781)
Contributions from schools towards BSF	(2,083)	(791)
Major Works Contributions (cash received)	(2,506)	(2,716)
Capital Maintenance Grant	(3,633)	(3,554)
Basic Needs/New Pupil Places	(12,652)	(8,181)
Decent Homes Backlog Funding	(11,000)	(25,000)
2-Year Olds Entitlement	(1,207)	0
Contribution relating to George Green Alms houses	(1,219)	0
Other Non-Conditional Grants Received	(2,407)	(1,543)
Conditional grants:		
Building Schools for the Future	(46,194)	(19,179)
Watney Market Idea Store Lottery Grant	(1,613)	0
HCA National Affordable Housing Programme	(1,635)	0
Building Britain's Future Grant	(98)	0
Other Conditional Grants Applied	(144)	(147)
Developers' Contributions	(5,411)	(3,369)
<b>Total Capital Grants and Contributions</b>	<b>(99,121)</b>	<b>(69,663)</b>
<b>Credited to Services</b>		
Capital Grants funding REFCUS	(27,844)	(19,933)
Developers' Contributions (capital) funding REFCUS	(852)	(4,370)
Developers' Contributions (revenue)	(1,483)	(1,249)
PFI Credits	(8,741)	(8,124)
School Sixth Form Grant	(15,789)	(16,619)
Early Intervention Grant	(21,300)	0
Pupil Premium Grant	(14,002)	(20,658)
Public Health Grant	0	(31,382)
Other Revenue Grants	(11,130)	(20,372)
<b>Total Credited to Services</b>	<b>(101,141)</b>	<b>(122,707)</b>
<b>Total Grant Income in Comprehensive Income &amp; Expenditure Account</b>	<b>(216,831)</b>	<b>(365,119)</b>

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

	31st March 2013 £'000	31st March 2014 £'000
<b>Capital Grants Receipts in Advance</b>		
Developers' Contributions	38,917	45,454
Building Schools for the Future	3,440	71
Major Works Invoices	9,638	8,546
National Affordable Housing Programme	6,265	6,265
Energy Efficiency Programme (DECC)	2,254	2,254
Targeted basic need programme	0	1,179
Other capital grants and contributions	827	706
<b>Total</b>	<b>61,341</b>	<b>64,475</b>



## 38 RELATED PARTIES

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

### Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 44 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2014 are within the creditors note.

### Partnerships

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

### Pension Fund

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

### Subsidiary

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

### Membership of and relationship with other organisations

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

Organisations	Councillor	Relationship With Organisation	Payments by the Council over £10k 2012/13 £'000	Payments by the Council over £10k 2013/14 £'000	Amounts due to Orgs. > £10k at 31/03/14 £'000
Action for Bow	M Francis	Council Representative			
Aldgate and Alhambra Barking Foundation	S Islam	Council Representative			
	D Jones	Council Representative			
	S Ali	Council Representative			
Balagonji Educational Trust	S Islam	Treasurer			
Bengali Educational Society	D Jones	Council Representative			
Bethnal Green Museum of Childhood	A Asad	Member			
Bishop Challoner Catholic Collegiate School	H Uddin	Employee	282	496	90
Bromley By Bow Centre	C Gibbs	Person in household board member in a private capacity	240		
Citizens Advice Bureau	A Whitelock	Trustee			
	R MA Saunders	Husband - Chris Weavers, is a Member of both			
Collingwood Tenants And Residents Association	D Jones	Council Representative			
Cultural Industries Development Agency	K U Ahmed	Joint Treasurer			
Developmental Council of Bangladesh's in the UK	M Uz-Zaman	Board Member			
Deaf Root	M Uz-Zaman	Member			
Durga Pash Union Parishod	D Jones	Director of bookshop that supplies books to LBTH schools			
Eastside Books Ltd	H Uddin	Board Member	947	239	107
East End Homes	M Uz-Zaman	Board Member			
GMB	AMO Ahmed	Council Representative	87	95	26
	K U Ahmed	Member			
Gohorpur Madrasa Bazar Unnoyon Shomiti	S Ali	Council Representative			
Golapgonj Education Trust	AMO Ahmed	Trustee			
	A Khan	Council Representative			
	M Uz-Zaman	Member			
Hamlet Supplementary Learning	D Jones	Council Representative			
Heritage of London Trust	M Miah	Chair of Island FC which is a project of Island Neighbourhood			
Island Football Club	M Miah	Resident Board Member - receives a monthly allowance			
Island Homes Housing Association	M Miah	Community Development Worker - Employee			
Island Neighbourhood Project	D J Edgar	Council Representative	224		
Isle of Dogs Community Foundation	T J Archer	Trustee			
Jagonari	L Pavitt	Council Representative	3,142		
	S Islam	Governor			
John Scurr Primary School	Z Rahman	Board Member			
Kobi Nazrul Centre	D J Edgar	Council Representative	18		
Leaside Regeneration Ltd	D Jones	Council Representative			
Lee Valley Regeneration & Planning Committee	S Ali	Deputy Member			
London Canals Committee	P Golds	Council Representative			
London Youth Games	L Pavitt	Council Representative		18	
Moat Homes Ltd	C Harper-Penman	Director of Communications and Public Affairs			
Norton Folgate Alms Houses	R MA Saunders	Husband is Board Member			
Ocean Regeneration Trust	R U Ahmed	Cabinet member			
Oxford House In Bethnal Green	S Islam	Board Member	25		
Old Ford Housing Association	M Francis	Board Director	161	63	48
Poplar Harca	H Uddin	Employer has a Working Relationship with this Organisation	1,231	1,155	332
Rich Mix Cultural Foundation	R MA Saunders	Council Representative			
	D Jones	Director			
	H Miah	Secretary			
Solander Gardens Community & Education	D Jones	Board Member			
Shadwell Basin Outdoor Activity Centre	A Khan	School Governor			
Smithy Street Primary School	M Mukit	Board Member			
Spitalfields Housing Association Ltd	H U Abbas	Council Representative	289		
Spitalfields Market Trust	S Haque	Deputy Member			
St Katherine and Shadwell Trust	D Jones	Council Rep Ceased in Oct 2013			
St Pauls Way School Trust	R MA Saunders	Council Representative			
St Lukes C of E Primary School	T J Archer	School Governor			
St Matthias Primary School	M Mukit	School Governor			
Sylhet Divisional Welfare Council	K U Ahmed	General Secretary			
The London Thames Gateway	K Uddin	Council Representative (organisation disbanded in 2012/13)			
Tower Hamlets Community Housing	K Ahmed	Board Member	152	150	67
	R Khan	Board Member			
	G Robanni	Council Representative			
Tower Hamlets Council Of Mosques	A Ullah	Executive Committee Member			
Tower Hamlets FE Trust	L Pavitt	Council Representative			
Tower Hamlets Homes	A Choudhury	Council Representative	12,535	13,318	1,199
	K Ahmed	Vice Chair			
	G Robanni	Council Representative			
Tower Hamlets Sports Council	K Ahmed	Council Representative (not 2012/13)			
	Z E Davis	Council Representative			
	L Pavitt	Council Representative			
Tower Project	A T Jackson	Attends Board and Family member contracts with organisation			
Trinity Buoy Wharf	D Jones	Director			
Wapping Bangladeshi Association	A Ullah	Council Representative			
Whitechapel Art Gallery	D Jones	Council Representative			
Wiltons Music Hall	D Jones	Trustee			

## 39 LEASES

### Authority as Lessee

#### Finance Leases

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

#### Operating Leases

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

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

### Leased In Assets

	Land & Buildings 31 March 2013 £'000	Vehicles Plant & Equipment 31 March 2013 £'000	Land & Buildings 31 March 2014 £'000	Vehicles Plant & Equipment 31 March 2014 £'000
<b>Adults Health and Wellbeing</b>				
Not later than one year	164	0	164	0
Later than one year and not later than five years	654	0	654	0
Later than five years	2,156	0	1,992	0
<b>Children Schools and Families</b>				
Not later than one year	240	762	240	337
Later than one year and not later than five years	569	464	421	265
Later than five years	708	0	634	6
<b>Communities Localities and Culture</b>				
Not later than one year	0	643	0	654
Later than one year and not later than five years	0	1,931	0	1,775
Later than five years	0	952	0	651
<b>Development and Renewal</b>				
Not later than one year	3,698	6	2,896	6
Later than one year and not later than five years	11,579	0	11,579	0
Later than five years	7,818	0	7,818	0
<b>Total</b>				
<b>Not later than one year</b>	4,102	1,411	3,300	997
<b>Later than one year and not later than five years</b>	12,802	2,395	12,654	2,040
<b>Later than five years</b>	10,682	952	10,444	657
	<b>27,586</b>	<b>4,758</b>	<b>26,398</b>	<b>3,694</b>

## 39 LEASES (continued)

The expenditure charged to the Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	Land & Buildings 31st March 2013 £'000	Vehicles Plant & Equipment 31st March 2013 £'000	Land & Buildings 31st March 2014 £'000	Vehicles Plant & Equipment 31st March 2014 £'000
<b>Adults Health and Wellbeing</b>				
Minimum Lease Payments	164	0	164	0
<b>Communities Localities and Culture</b>				
Minimum Lease Payments	0	777	0	809
<b>Children Schools and Families</b>				
Minimum Lease Payments	250	1,555	250	957
<b>Development and Renewal</b>				
Minimum Lease Payments	6,384	12	2,896	6
<b>Total</b>				
<b>Minimum Lease Payments</b>	<b>6,798</b>	<b>2,344</b>	<b>3,310</b>	<b>1,772</b>

### Authority as Lessor

#### Finance Leases

As a Lessor the Council has no finance leases to report .

#### Operating Leases

The Council leases out property and equipment under operating leases for economic development purposes to provide suitable affordable accommodation for local businesses.

As the primary purpose of holding these assets is to provide support to the community, rather than generating financial gain for the Council, these assets are not considered as investment properties.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31st March 2013 £'000	31st March 2014 £'000
Not later than one year	(3,327)	(3,262)
Later than one year and not later than five years	(11,594)	(10,939)
Later than five years	(19,471)	(17,262)
	<b>(34,392)</b>	<b>(31,463)</b>

## 40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

The Council is party to two Private Finance Initiative (PFI) schemes in respect of the design, construction, maintenance and servicing of 28 schools - the Mulberry and Group Schools schemes - until the years 2029 and 2027 respectively. Prior to 2010/11 the assets involved were treated as "off balance sheet" in accordance with International Financial Reporting Standards the assets are included on the Council's Balance Sheet, matched by a finance lease liability.

A third PFI contract was entered into in relation to the Barkantine Estate Combined Heat and Power scheme. There are no unitary payments made under this scheme as it is classed as a user pay arrangement. An asset was brought onto the balance sheet in 2010/11, matched by a deferred income balance and contract ends in 2026.

Movement on PFI Assets	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Asset value at 31 March 2013</b>	31,989	214,562	2,902	249,453
Depreciation	(756)	(5,298)	(203)	(6,257)
Revaluations	0	0	0	0
Enhancements	14	27,268	0	27,282
Derecognition	0	(6,345)	0	(6,345)
<b>Asset value at 31 March 2014</b>	<b>31,247</b>	<b>230,187</b>	<b>2,699</b>	<b>264,133</b>

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2013</b>	6,935	30,597	2,767	40,299
Repayments	(220)	(471)	(198)	(889)
<b>Liabilities at 31 March 2014</b>	<b>6,715</b>	<b>30,126</b>	<b>2,569</b>	<b>39,410</b>
<b>Consisting of:</b>				
Long term liability	6,478	29,622	2,372	38,472
Short-term liability	237	503	198	938
<b>Liability value at 31 March 2014</b>	<b>6,715</b>	<b>30,125</b>	<b>2,570</b>	<b>39,410</b>

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	237	503	198	938
Within 2 - 5 years	1,213	3,054	791	5,058
Within 6 - 10 years	1,955	10,864	988	13,807
Within 11 - 15 years	3,310	15,704	593	19,607
	<b>6,715</b>	<b>30,125</b>	<b>2,570</b>	<b>39,410</b>
<b>Interest</b>				
Within 1 year	754	4,740	0	5,494
Within 2 - 5 years	2,719	18,049	0	20,768
Within 6 - 10 years	2,558	18,194	0	20,752
Within 11 - 15 years	1,148	5,972	0	7,120
	<b>7,179</b>	<b>46,955</b>	<b>0</b>	<b>54,134</b>
<b>Service Charges</b>				
Within 1 year	673	4,415	0	5,088
Within 2 - 5 years	2,694	9,920	0	12,614
Within 6 - 10 years	3,367	13,787	0	17,154
Within 11 - 15 years	3,367	10,445	0	13,812
	<b>10,101</b>	<b>38,567</b>	<b>0</b>	<b>48,668</b>

## 41 PENSIONS SCHEMES - DEFINED BENEFIT

### Participation in pensions schemes

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

The Council participates in three pensions schemes:

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

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

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

### Transactions Relating to Retirement Benefits

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

	The Council		LPFA		Total	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Account</b>						
<b>Cost of Services</b>						
Current service costs	22,218	32,829	341	397	22,559	33,226
Impact of settlements and curtailments	506	495	0	0	506	495
<b>Total Service Cost</b>	<b>22,724</b>	<b>33,324</b>	<b>341</b>	<b>397</b>	<b>23,065</b>	<b>33,721</b>
Interest income on plan assets	(36,126)	(38,328)	0	(1,670)	(36,126)	(39,998)
Interest cost on defined benefit obligation	55,574	60,790	2,657	2,345	58,231	63,135
<b>Total Net Interest</b>	<b>19,448</b>	<b>22,462</b>	<b>2,657</b>	<b>675</b>	<b>22,105</b>	<b>23,137</b>
<b>Net Charge to the Comprehensive Income and Expenditure Account</b>	<b>42,172</b>	<b>55,786</b>	<b>2,998</b>	<b>1,072</b>	<b>45,170</b>	<b>56,858</b>
<b>Remeasurement of the Scheme Liabilities</b>						
Changes in demographic assumptions	0	(5,312)	0	671	0	(4,641)
Changes in financial assumptions	145,965	7,868	7,697	(3,579)	153,662	4,289
Other experience	(2,100)	(32,938)	419	(826)	(1,681)	(33,764)
Return on plan assets excluding amounts included in net interest	(60,879)	(467)	0	0	(60,879)	(467)
<b>Total remeasurements recognised in Comprehensive Income and Expenditure Statement</b>	<b>82,986</b>	<b>(30,849)</b>	<b>8,116</b>	<b>(3,734)</b>	<b>91,102</b>	<b>(34,583)</b>
<b>Movement in Reserves Statement - General Fund Balance</b>						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(42,172)	(55,786)	(2,998)	(1,072)	(45,170)	(56,858)
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>	<b>33,582</b>	<b>38,357</b>	<b>809</b>	<b>793</b>	<b>34,391</b>	<b>39,150</b>

In 2013/14 the Council paid £11.139 million into the Teachers Pension Scheme, representing 14.1% of pensionable pay. The figures for 2012/13 were £14.202 million and 14.1% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of added years it has awarded. In 2013/14 no payment was made (£0.122 million in 2012/13).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Account, actuarial gains of £ 47.143 million (£95.878 million in 2012/13) were included in the Actuarial gains or losses on pension assets and liabilities within Other Comprehensive Income and Expenditure on the face of the Comprehensive Income and Expenditure Account. The cumulative amount of actuarial losses recognised is £380.304 million.

39 members of staff were transferred from the Primary Care Trust. During 2013/14, the pension contributions to the National Health pension scheme were £0.219 million.

## 41 PENSION SCHEME (continued)

### Assets and Liabilities in Relation to Retirement Benefits

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

	The Council		LPFA		Total	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000	£'000
1st April	(1,214,784)	(1,453,831)	(59,245)	(67,336)	(1,274,029)	(1,521,167)
In-year adjustment to exclude/(incorporate) THH deficit	(49,196)	(19,959)	0	0	(49,196)	(19,959)
Current service cost	(22,218)	(32,829)	(341)	(397)	(22,559)	(33,226)
Interest cost	(55,574)	(60,790)	(2,657)	(2,345)	(58,231)	(63,135)
Contributions	(7,537)	(8,858)	(85)	(79)	(7,622)	(8,937)
Actuarial gains / (losses)	(143,865)	30,382	(8,116)	3,734	(151,981)	34,116
Benefits paid	39,849	43,280	3,108	4,472	42,957	47,752
Losses on curtailments	(506)	(495)	0	0	(506)	(495)
<b>31st March</b>	<b>(1,453,831)</b>	<b>(1,503,100)</b>	<b>(67,336)</b>	<b>(61,951)</b>	<b>(1,521,167)</b>	<b>(1,565,051)</b>

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

	The Council		LPFA		Total	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000	£'000
1st April	803,077	947,684	48,405	50,521	851,482	998,205
In-year adjustment to exclude/(incorporate) THH deficit	46,332	22,537	0	0	46,332	22,537
Expected rate of return	39,137	38,328	2,044	1,670	41,181	39,998
Actuarial (losses) / gains	57,868	467	2,286	7,563	60,154	8,030
Members	7,537	8,858	85	79	7,622	8,937
Employer	33,582	38,357	809	793	34,391	39,150
Benefits paid	(39,849)	(43,280)	(3,108)	(4,472)	(42,957)	(47,752)
<b>31st March</b>	<b>947,684</b>	<b>1,012,951</b>	<b>50,521</b>	<b>56,154</b>	<b>998,205</b>	<b>1,069,105</b>

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

#### Scheme history

	2009/10	2010/11	2011/12	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities:					
The Council	(1,457,968)	(1,042,983)	(1,214,784)	(1,453,831)	(1,503,100)
LPFA	(67,502)	(54,168)	(59,245)	(67,336)	(61,951)
Fair value of assets					
The Council	796,161	740,326	803,077	947,684	1,012,951
LPFA	39,386	48,135	48,405	50,521	56,154
Deficit in the scheme					
The Council	(661,807)	(302,657)	(411,707)	(506,147)	(490,149)
LPFA	(28,116)	(6,033)	(10,840)	(16,815)	(5,797)
<b>Total deficit in the schemes</b>	<b>(689,923)</b>	<b>(308,690)</b>	<b>(422,547)</b>	<b>(522,962)</b>	<b>(495,946)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total deficit in the schemes of £495.95 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 2015 are £39.810 million to the Council's scheme and £0.526 million to the LPFA scheme (per actuary's reports).

## 41 PENSION SCHEME (continued)

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both (Hymans Robertson LLP provide LBTH - Barnett Waddingham provide LPFA report) schemes have been assessed by Hymans Robertson, an independent firm of actuaries, based on the following main assumptions.

	The Council		LPFA	
	2012/13	2013/14	2012/13	2013/14
Long-term expected rate of return on assets in the scheme <sup>1</sup>	4.5%	4.3%	4.3%	4.0%
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	21.8 years	22.2 years	20 years	21 years
Women	23.9 years	24.2 years	23.3 years	24.4 years
Longevity at 65 for future pensioners:				
Men	23.3 years	24.3 years	22.1 years	23.4 years
Women	26.5 years	26.4 years	25.2 years	26.6 years
Rate of inflation			3.2%	3.4%
Rate of increase in salaries	5.1%	4.1%	4.1%	4.4%
Rate of increase in pensions	2.8%	2.8%	2.4%	2.6%
Rate for discounting scheme liabilities	4.5%	4.3%	3.6%	4.2%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%		

<sup>1</sup> The expected rates of return are set equal to the discount rate (as per the forthcoming revised version of IAS19).

\* 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	
	2012/13	2013/14	2012/13	2013/14
Equities	68%	65%	14%	53%
Bonds	21%	15%	0%	0%
Property	10%	10%	0%	3%
Infrastructure	0%	0%	0%	4%
Commodities	0%	0%	0%	1%
Cash	1%	1%	1%	3%
Cash flow matching	0%	0%	31%	6%
Target return portfolio/other	0%	9%	54%	30%

### History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2013/14 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2014:

	2009/10	2010/11	2011/12	2012/13	2013/14
	%	%	%	%	%
<b>The Council</b>					
Experience gains and (losses) on assets	19.57	-8.88	-5.40	6.10	0.05
Experience gains and (losses) on liabilities	0.00	-16.98	5.98	9.89	-2.20
<b>London Pensions Fund Authority</b>					
Experience gains and (losses) on assets	6.79	17.75	-0.01	4.52	13.47
Experience gains and (losses) on liabilities	-0.78	-1.58	8.19	12.05	-5.45

## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

no charges are made to directorates for revaluation losses and revenue expenditure funded from capital under statute (REFCUS) whilst they are charged to services in the Comprehensive Income and Expenditure Statement;

the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;

the gross expenditure and income associated with trading activities are reported for directorates whilst only the net position is included in the Comprehensive Income and Expenditure Statement

The income and expenditure of the Council's directorates to be recorded in the report to Cabinet in July 2014 is as follows:

DIRECTORATE CI&E 2013/14	Adults Health and Wellbeing £'000	Law Probity & Governance (formerly Chief Executive's) £'000	Children, Schools and Families £'000	Communities, Localities and Culture £'000	Development and Renewal £'000	Resources £'000	Corp & Others £'000	Housing Revenue Account £'000	TOTAL £'000
Fees, charges and other service income		(9,401)	(109,742)	(61,930)	(71,710)	(41,515)	(68,265)	(90,345)	<b>(452,908)</b>
Government grants		(529)	(350,610)	(3,890)	(83)	(282,256)	0	0	<b>(637,368)</b>
<b>TOTAL INCOME</b>	<b>0</b>	<b>(9,930)</b>	<b>(460,352)</b>	<b>(65,820)</b>	<b>(71,793)</b>	<b>(323,771)</b>	<b>(68,265)</b>	<b>(90,345)</b>	<b>(1,090,276)</b>
Employee expenses		9,281	336,182	40,922	26,295	23,029	17,341	31,926	<b>484,976</b>
Other service expenses		4,113	240,021	47,648	47,148	248,195	2,661	51,223	<b>641,009</b>
Support service recharges		5,932	113,775	56,901	18,053	62,080	0	3,033	<b>259,774</b>
<b>TOTAL EXPENDITURE</b>	<b>0</b>	<b>19,326</b>	<b>689,978</b>	<b>145,471</b>	<b>91,496</b>	<b>333,304</b>	<b>20,002</b>	<b>86,182</b>	<b>1,385,759</b>
<b>NET EXPENDITURE</b>	<b>0</b>	<b>9,396</b>	<b>229,626</b>	<b>79,651</b>	<b>19,703</b>	<b>9,533</b>	<b>(48,263)</b>	<b>(4,163)</b>	<b>295,483</b>

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	£'000
<b>Net expenditure in the Directorate Analysis</b>	295,483
<b>Net expenditure of services and support services not included in the Analysis</b>	0
<b>Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis</b>	(23,859)
<b>Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement</b>	899
<b>COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT</b>	<b>272,523</b>



## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the deficit on the Provision of Services included in the Income and Expenditure Statement

SUBJECTIVE ANALYSIS 2013/14	Amounts not reported to Management for Decision Making						TOTAL £'000
	Directorate analysis £'000	Services & support services not in analysis £'000	Amounts not included in I&E £'000	Cost of services £'000	Corporate amounts £'000		
Fees, charges and other service income	(452,908)	117,137	(757)	0	(336,528)	0	(336,528)
Interest and investment income	0	0	0	2,336	2,336	(2,336)	0
Unattached capital receipts	0	0	0	0	0	(692)	(692)
Government grants and contributions - service specific	(637,368)	0	0	0	(637,368)	0	(637,368)
Income from Council tax	0	0	0	0	0	(64,266)	(64,266)
Government grants and contributions - non-service specific	0	0	0	0	0	(172,749)	(172,749)
Distribution from non-domestic rates pool	0	0	0	0	0	(96,259)	(96,259)
Capital Grants and Contributions	0	0	(24,303)	0	(24,303)	(69,663)	(93,966)
HRA Settlement Determination (including premia)	0	0	0	0	0	0	0
(Surplus)/Deficit on Trading Activities	0	0	0	0	0	0	0
<b>TOTAL INCOME</b>	<b>(1,090,276)</b>	<b>117,137</b>	<b>(25,060)</b>	<b>2,336</b>	<b>(995,863)</b>	<b>(405,965)</b>	<b>(1,401,828)</b>
Employee expenses	484,976	0	(5,371)	0	479,605	0	479,605
Other service expenses	641,009	0	6,572	7,826	655,407	0	655,407
Support service recharges	259,774	(117,137)	0	0	142,637	0	142,637
Depreciation, amortisation and impairment	0	0	0	0	0	0	0
Interest payments	0	0	0	(7,594)	(7,594)	13,186	5,592
Precepts and levies	0	0	0	(1,639)	(1,639)	1,639	0
Payments to Housing Capital Receipts Pool	0	0	0	0	0	1,807	1,807
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	11,447	11,447
Pensions interest costs and expected return on pensions assets	0	0	0	0	0	23,137	23,137
HRA Settlement Determination (including premia)	0	0	0	0	0	0	0
(Surplus)/Deficit on Trading Activities	0	0	0	(31)	(31)	31	0
<b>TOTAL EXPENDITURE</b>	<b>1,385,759</b>	<b>(117,137)</b>	<b>1,201</b>	<b>(1,437)</b>	<b>1,268,386</b>	<b>51,247</b>	<b>1,319,633</b>
<b>SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>295,483</b>	<b>0</b>	<b>(23,859)</b>	<b>899</b>	<b>272,523</b>	<b>(354,718)</b>	<b>(82,195)</b>

## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made to directorates for revaluation losses and revenue expenditure funded from capital under statute (REFCUS) whilst they are charged to services in the Comprehensive Income and Expenditure Statement;
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;
- the gross expenditure and income associated with trading activities are reported for directorates whilst only the net position is included in the Comprehensive Income and Expenditure Statement

The income and expenditure of the Council's directorates recorded in the report to Cabinet on 3rd July 2013 was as follows:

DIRECTORATE CI&E 2012/13 COMPARATIVE FIGURES	Adults Health and Wellbeing £'000	Chief Executive's £'000	Children, Schools and Families £'000	Communities, Localities and Culture £'000	Development and Renewal £'000	Resources £'000	Corporate & Others £'000	Housing Revenue Account £'000	TOTAL £'000
Fees, charges and other service income	(14,162)	(9,286)	(91,421)	(49,388)	(63,081)	(44,286)	(18,970)	(84,233)	<b>(374,827)</b>
Government grants	(1,812)	(309)	(353,260)	(8,019)	(2,053)	(291,890)	0	(274)	<b>(657,617)</b>
<b>TOTAL INCOME</b>	<b>(15,974)</b>	<b>(9,595)</b>	<b>(444,681)</b>	<b>(57,407)</b>	<b>(65,134)</b>	<b>(336,176)</b>	<b>(18,970)</b>	<b>(84,507)</b>	<b>(1,032,444)</b>
Employee expenses	28,079	8,540	336,591	37,894	21,860	45,160	0	2,165	<b>480,289</b>
Other service expenses	83,951	5,806	160,307	76,736	57,906	248,746	22,257	46,036	<b>701,745</b>
Support service recharges	5,404	5,067	25,170	22,961	4,898	53,097	0	34,830	<b>151,427</b>
<b>TOTAL EXPENDITURE</b>	<b>117,434</b>	<b>19,413</b>	<b>522,068</b>	<b>137,591</b>	<b>84,664</b>	<b>347,003</b>	<b>22,257</b>	<b>83,031</b>	<b>1,333,461</b>
<b>NET EXPENDITURE</b>	<b>101,460</b>	<b>9,818</b>	<b>77,387</b>	<b>80,184</b>	<b>19,530</b>	<b>10,827</b>	<b>3,287</b>	<b>(1,476)</b>	<b>301,017</b>

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure

	£'000
<b>Net expenditure in the Directorate Analysis</b>	301,017
<b>Net expenditure of services and support services not included in the Analysis</b>	0
<b>Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis</b>	(8,638)
<b>Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement</b>	(12,620)
<b>COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT</b>	<b>279,759</b>

## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the deficit on the Provision of Services included in the Income and Expenditure Statement

SUBJECTIVE ANALYSIS 2012/13 COMPARATIVE FIGURES	Directorate analysis £'000	Services & support services not in analysis £'000	Amounts not reported to Management for Decision Making £'000	Amounts not included in I&E £'000	Cost of services £'000	Corporate amounts £'000	TOTAL £'000
Fees, charges and other service income	(374,827)	92,768	(198)	8,397	(273,860)	0	(273,860)
Interest and investment income	0	0	0	0	0	(3,179)	(3,179)
Unattached capital receipts	0	0	0	0	0	(1,812)	(1,812)
Government grants and contributions - service specific	(657,617)	0	0	0	(657,617)	0	(657,617)
Income from Council tax	0	0	0	0	0	(81,994)	(81,994)
Government grants and contributions - non-service specific	0	0	0	0	0	(16,569)	(16,569)
Distribution from non-domestic rates pool	0	0	0	0	0	(209,738)	(209,738)
Capital Grants and Contributions	0	0	0	0	0	(99,121)	(99,121)
HRA Settlement Determination (including Premia)	0	0	0	0	0	0	0
(Surplus)/Deficit on Trading Activities	0	0	0	0	0	(174)	(174)
<b>TOTAL INCOME</b>	<b>(1,032,444)</b>	<b>92,768</b>	<b>(198)</b>	<b>8,397</b>	<b>(931,477)</b>	<b>(412,587)</b>	<b>(1,344,064)</b>
Employee expenses	480,289	0	14	0	480,303	0	480,303
Other service expenses	701,745	0	(7,140)	(21,017)	673,588	0	673,588
Support service recharges	151,427	(92,768)	0	0	58,659	0	58,659
Depreciation, amortisation and impairment	0	0	(1,314)	0	(1,314)	0	(1,314)
Interest payments	0	0	0	0	0	9,952	9,952
Precepts and levies	0	0	0	0	0	1,751	1,751
Payments to Housing Capital Receipts Pool	0	0	0	0	0	944	944
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	(1,044)	(1,044)
Pensions interest costs and expected return on pensions assets	0	0	0	0	0	17,050	17,050
HRA Settlement Determination (including Premia)	0	0	0	0	0	0	0
(surplus)/Deficit on Trading Activities	0	0	0	0	0	0	0
<b>TOTAL EXPENDITURE</b>	<b>1,333,461</b>	<b>(92,768)</b>	<b>(8,440)</b>	<b>(21,017)</b>	<b>1,211,236</b>	<b>28,653</b>	<b>1,239,889</b>
<b>SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>301,017</b>	<b>0</b>	<b>(8,638)</b>	<b>(12,620)</b>	<b>279,759</b>	<b>(383,934)</b>	<b>(104,175)</b>

## 43 HERITAGE ASSETS

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

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

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

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

	Balance at 31st March 2012 £'000	2012/13 Acquisitions £'000	2012/13 Disposals £'000	Balance at 31st March 2013 £'000	2013/14 Acquisitions £'000	2013/14 Disposals £'000	2013/14 Revaluation	Balance at 31st March 2014 £'000
<b>Value of Heritage Assets held by Council</b>								
(a) - Works of art	4,410	0	0	4,410	0	0	4,500	8,910
(b) - Civic Regalia	389	0	0	389	0	0	0	389
(c) - Local History Library and Archive Collections	0	0	0	0	0	0	0	0
(d) - Public Art (Middlesex Street)	0	11	0	11	0	0	0	11
<b>TOTAL HERITAGE ASSETS</b>	<b>4,799</b>	<b>11</b>	<b>0</b>	<b>4,810</b>	<b>0</b>	<b>0</b>	<b>4,500</b>	<b>9,310</b>

(a) The council holds a number of works of art. The council has three works of art with a material value - the council has received indications of value on these assets from art experts at auction houses.

There are 109 works of art across the borough for which the council has a duty of care. These include sculptures, statues, murals, memorials and other works. The majority of these reflect the history of the borough. It was not cost effective to obtain formal valuations for these immaterial items, however public data is available of sale proceeds of similar works by the same artists - none of these values are considered material. The estimated value of these assets has not changed since 2010.

The council also has a collection of 75 other paintings which are held at the local history library. These paintings are of local scenes and past local dignitaries so intrinsic value is in local interest rather than realisable value.

(b) These comprise the Mayor's chain and other civic regalia. These were valued by the auctioneers Bonhams in January 2012.

(c) Tower Hamlets Local History Library & Archives holds an extensive and unique collection of books, pamphlets, maps, photographs, press cuttings and ephemera, deeds, archives, audio-visual material, oral histories and sound recordings, digital records, and a range of other sources, all of which reflect and provide evidence of the history of the borough.

It was not considered appropriate or practicable to place a value on these items due to their unique nature. It is highly unlikely that any of these assets would ever be sold as the council has a legal obligation to maintain its archives.

These collections are preserved and made publicly available at the library on Bancroft Road and increasingly through the web and a range of exhibitions and outreach projects. The library & archives continues to proactively collect resources which illustrate and provide evidence of the activities and experiences of residents, organisations and businesses active in the borough, including the local authority.

(d) A new capital scheme started in 2012/13 to create a piece of public art funded by section 106 contributions from developments in the area. The agreed budget for the scheme is £250k and is not yet completed. The asset is shown at historical cost, which is 2012/13 expenditure.

## 44 TRUST FUNDS

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

	Balance at 1/4/2012	2012/13 Expenditure	2012/13 Income	Balance at 31/3/2013	2013/14 Expenditure	2013/14 Income	Balance at 31/3/2014
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) Welfare Savings	909	582	627	954	3226	3226	954
(b) Social Services Trust Funds - sundry other	2,329	2,292	1,593	1,630	91	5	1,544
(c) Tower Hamlets Further Education Trust	614	1,359	959	214	806	755	163
(d) Globe Town Picture Fund	160	0	0	160	0	0	160
(e) Sundry Other	91	56	4	39	0	15	54
<b>TOTAL TRUST FUNDS</b>	<b>4,103</b>	<b>4,289</b>	<b>3,183</b>	<b>2,997</b>	<b>4,123</b>	<b>4,001</b>	<b>2,875</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) 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 2014 may be summarised as follows:

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

## 45 CONTINGENT LIABILITIES

### Housing Transfers to Registered Social Landlords

Between March 1998 and March 2014 the Council transferred tenanted and leasehold properties to other landlords - 7,457 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to East End Homes; 2,079 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields Housing Association. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council. The amount of the potential liability cannot be determined with any certainty at present.

### Transfer of Primary Care Trust and Strategic Health Authority Assets and Liabilities - 1st April 2013

The Council took over some public health responsibilities following the disbanding of the Tower Hamlets PCT and Strategic Health organisations from 1st April 2013. The Government have indicated that Councils will be responsible for any unsettled assets and liabilities that remain after the winding up of these organisations where the body overseeing the discontinuation of the organisations have not settled debts. Since 1st April 2013, no liabilities have crystallised that have required settlement by the Council. No buildings transferred to London Borough of Tower Hamlets as part of the health re-organisation.

## 46 CONTINGENT ASSETS

The Council has no material contingent assets.

## 47 TOWER HAMLETS HOMES

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

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

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

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

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

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

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

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

	The Council		THH		TOTAL	
	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000
Non-current assets - equipment	5,249	4,308	134	131	5,383	4,439
Inventories	390	1,739	0	0	390	1,739
Short-term debtors	70,818	128,136	(329)	(334)	70,489	127,802
Cash and cash equivalents	135,996	138,111	5,329	5,366	141,325	143,477
Short-term creditors	149,693	199,552	1,764	1,489	151,457	201,041
Pensions liability	522,962	495,946	1,087	0	524,049	495,946
Pensions reserve	(522,962)	(495,946)	(1,087)	0	(524,049)	(495,946)
Income and Expenditure Reserve	0	0	3,370	3,674	3,370	3,674

## 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	2012/13 £'000	2013/14 £'000
<b>EXPENDITURE</b>			
Repairs and maintenance		19,768	20,470
Supervision and management		34,893	31,946
Rents, rates, taxes and other charges		3,017	2,732
Depreciation of non-current assets	6		
On dwellings		14,223	14,234
On other assets		1,531	1,596
Revaluation losses (and reversals)		(21,530)	(19,676)
Debt management costs		73	73
Movement in the allowance for bad debts		178	514
Sums directed by the Secretary of State that are expenditure in accordance with the Code		3,130	1,994
<b>TOTAL EXPENDITURE</b>		<b>55,283</b>	<b>53,883</b>
<b>INCOME</b>			
Gross rental income			
Dwelling rents		63,252	66,530
Non dwelling rents		3,394	3,545
Charges for services and facilities		17,407	20,064
Contributions towards expenditure		115	135
HRA subsidy receivable	11	274	0
Movement in the allowance for bad debts		0	0
<b>TOTAL INCOME</b>		<b>84,442</b>	<b>90,274</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		<b>(29,159)</b>	<b>(36,391)</b>
HRA services share of Corporate and Democratic Core		157	157
HRA Share of other amounts included in the whole authority cost of services but not allocated to spe		44	0
<b>NET COST OF HRA SERVICES</b>		<b>(28,958)</b>	<b>(36,234)</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 non-current assets		(947)	(4,435)
Unattached capital receipts		(1,444)	(26)
Interest payable and similar charges	12	3,338	3,312
Interest and investment income		(66)	(69)
Pensions interest cost and expected return on pension assets	7	1,112	3,481
Capital grants and contributions receivable		(18,500)	(27,841)
<b>DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES</b>		<b>(45,465)</b>	<b>(61,812)</b>

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

The Housing Revenue Account (HRA) Income and Expenditure Account discloses the income received and expenditure incurred in providing council dwellings to tenants for the year. However, the Council is required to raise council rents based on the balance on the Statutory Housing Revenue Account.

This reconciliation statement summarises the differences between the outturn on the HRA Income and Expenditure Account and the balance on the Statutory HRA.

	Note	2012/13		2013/14	
		£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward			(13,578)		(15,234)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		(45,465)		(61,812)	
Net additional amount required by statute to be credited to the HRA balance for the year		43,809		59,893	
Decrease (Increase) in the HRA Balance			<b>(1,656)</b>		<b>(1,919)</b>
Transfers to or (from) reserves			0		0
<b>Balance on the Statutory HRA Carried Forward</b>			<b>(15,234)</b>		<b>(17,153)</b>



# NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2012/13		2013/14	
	£'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	(3,130)		(1,994)	
Capital grants and contributions	18,500		27,841	
PWLB Debt Redemption as per HRA Settlement Determination	0		0	
Amortisation of premia and discounts due to HRA settlement	0		(79)	
Gain or loss on sale of HRA non-current assets	947		4,435	
Unattached capital receipts	1,444		26	
Reversal of revaluation losses on non-current assets	21,350		21,748	
Transfer to / from the Major Repairs Reserve	0		0	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	176		0	
Net charges made for retirement benefits in accordance with IAS19	1,057		(1,167)	
Transfers from General Fund (as directed by Secretary of State)	<u>0</u>	40,344	<u>0</u>	50,810
<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year</b>				
Capital expenditure financed from revenue	3,465		9,083	
Other adjustments (transfer to capital receipts reserve)	<u>0</u>	3,465	<u>0</u>	9,083
<b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>		<b>43,809</b>		<b>59,893</b>

## 2 HOUSING STOCK

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

	2012/13	2013/14
Low-rise flats (1-2 storeys)	262	265
Medium-rise flats (3-5 storeys)	7,340	7,282
High-rise flats (6 or more storeys)	4,112	4,089
Houses and bungalows	793	789
<b>TOTAL AT 31<sup>st</sup> MARCH</b>	<b>12,507</b>	<b>12,425</b>

## 3 NON-CURRENT ASSETS

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

	2012/13 £'000	2013/14 £'000
Dwellings	703,285	753,180
Other Land and Buildings	54,224	57,641
Surplus Assets Not Held for Sale	1,264	1,753
Assets Held for Sale	525	225
<b>TOTAL</b>	<b>759,298</b>	<b>812,799</b>

The balance sheet values of the land, houses and other property within the Housing Revenue Account are as follows:

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 1 <sup>st</sup> April 2012	660,898	56,751	912	0	718,561
Additions, disposals, transfers and revaluations	42,387	(2,527)	352	525	40,737
Total value at 31 <sup>st</sup> March 2013	703,285	54,224	1,264	525	759,298
Additions, disposals, transfers and revaluations	49,895	3,417	489	(300)	53,501
<b>TOTAL VALUE AT 31<sup>st</sup> MARCH 2014</b>	<b>753,180</b>	<b>57,641</b>	<b>1,753</b>	<b>225</b>	<b>812,799</b>

The vacant possession value of dwellings within the Council's HRA was £2,878 million in 2013/14 (£2,727 million in 2012/13). 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

	2012/13 £'000	2013/14 £'000
<b>Balance at 1<sup>st</sup> April</b>	<b>7,985</b>	<b>12,364</b>
Transfer from Capital Adjustment Account - depreciation	15,754	15,831
Transfer to HRA - depreciation on non-dwellings (pre 2013/14 only)	0	0
Financing of capital expenditure	(11,375)	(11,799)
<b>Balance at 31<sup>st</sup> March</b>	<b>12,364</b>	<b>16,396</b>

## 5 CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

	2012/13			2013/14		
	Dwellings £'000	Other £'000	Total £'000	Dwellings £'000	Other £'000	Total £'000
<b>Expenditure</b>	35,914	3,130	<b>39,044</b>	49,061	1,194	<b>50,255</b>
<b>Sources of finance</b>						
Borrowing	0	0	<b>0</b>	0	0	<b>0</b>
Capital Receipts	8,049	0	<b>8,049</b>	4,356	0	<b>4,356</b>
Capital Grants and Contributions	16,155	0	<b>16,155</b>	25,016	0	<b>25,016</b>
Major Repairs Reserve	8,245	3,130	<b>11,375</b>	10,605	1,194	<b>11,799</b>
Direct Revenue Financing	3,465	0	<b>3,465</b>	9,083	0	<b>9,083</b>
<b>TOTAL CAPITAL FINANCING</b>	<b>35,914</b>	<b>3,130</b>	<b>39,044</b>	<b>49,061</b>	<b>1,194</b>	<b>50,255</b>

### (ii) Capital Receipts

Capital receipts (gross) in 2013/14 from the disposal of non-current assets within the HRA amounted to £10.277 million (£2.069 million in 2012/13) as follows:

	2012/13 £'000	2013/14 £'000
Dwellings	1,264	9,247
Other land and buildings	805	1,030
<b>TOTAL CAPITAL RECEIPTS</b>	<b>2,069</b>	<b>10,277</b>

## 6 DEPRECIATION

The total depreciation charge for the year was £15.831 million (£15.754 million in 2012/13), made up of £14.234 million (£14.223 million in 2012/13) in respect of council houses and £1.596 million (£1.531 million in 2012/13) in respect of other HRA assets. In the case of council housing, assets have been depreciated by an amount equivalent to the Major Repairs Allowance, as this is the amount (based on a 30-year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an appropriate measure of depreciation. An analysis of the depreciation charges is set out below.

	2012/13 £'000	2013/14 £'000
Dwellings	14,223	14,234
Other Land and Buildings	1,531	1,596
<b>TOTAL DEPRECIATION</b>	<b>15,754</b>	<b>15,831</b>

## 7 PENSION COSTS

These figures represent the cost of pensions attributable to the HRA. Further details of the treatment of pensions costs are shown in note 41 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note. The following transactions have been made in the account for the year.

Income and Expenditure Account	The Council		LPFA		Total	
	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000
<b>Net Cost of Services</b>						
Current service costs	0	2,029	10	12	10	2,041
<b>Net Operating Expenditure</b>						
Interest cost	3,700	3,756	78	71	3,778	3,827
Settlements / Curtailments	34	31	0	0	34	31
Expected return on assets in the scheme	(2,605)	(2,368)	(60)	(50)	(2,665)	(2,418)
Past Service Costs	0	0	0	0	0	0
<b>Net Charge to the Income and Expenditure Account</b>	<b>1,129</b>	<b>3,448</b>	<b>28</b>	<b>33</b>	<b>1,157</b>	<b>3,481</b>
<b>Statement of Movement in the HRA Balance</b>						
Reversal of net charges made for retirement benefits in accordance with IAS19	(1,129)	(3,448)	(28)	(33)	(1,157)	(3,481)
<b>Employer's contribution to scheme</b>	<b>2,172</b>	<b>2,307</b>	<b>7</b>	<b>7</b>	<b>2,179</b>	<b>2,314</b>

## 8 RENT ARREARS

	2012/13 £'000	2013/14 £'000
Gross rent arrears at 31 <sup>st</sup> March	3,110	3,407
Arrears as % of rent receivable	4.9	5.1
Provision made for bad debts	2,252	2,478

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

Authorities are allowed to transfer sums to the HRA from another revenue account on the basis of directions issued by the Government. No sums were transferred during 2013/14.

## 10 HOUSING REVENUE ACCOUNT SUBSIDY ENTITLEMENT

	2012/13 £'000	2013/14 £'000
Prior Year Adjustment	274	0
<b>TOTAL HOUSING REVENUE ACCOUNT SUBSIDY</b>	<b>274</b>	<b>0</b>

2011/12 was the last full year of housing subsidy

## 11 ITEM 8 INTEREST ADJUSTMENT

Capital works on non-current assets within the council's HRA are partly funded by borrowing. The total interest cost of borrowing is allocated between HRA and General Fund in accordance with the Item 8 Credit and Item 8 Debit (General) Determination for the year, as specified in Schedule 4 of the Local Government and Housing Act 1989. These are included within the interest figures shown on the HRA Income and Expenditure Account.

## COLLECTION FUND

	Note	2012/13 £'000	2012/13 £'000	2013/14 £'000	2013/14 £'000
<b>INCOME</b>					
Council Tax (net of benefits)	2	82,404		86,556	
Transfers from General Fund - Council Tax Benefits		<u>29,403</u>	111,807	<u>86,556</u>	86,556
Distribution of prior year deficit on Collection Fund			0		0
National Non-Domestic Rates - Transitional Protection	3		318,294		352,905 449
Business Rate Supplement			11,908		12,026
<b>TOTAL INCOME</b>			<b>442,009</b>		<b>451,936</b>
<b>EXPENDITURE</b>					
<b>Council Tax</b>					
Precepts and demands					
London Borough of Tower Hamlets		80,430		63,342	
Greater London Authority		<u>27,859</u>	108,289	<u>21,674</u>	85,016
Increase in provision for Council Tax bad debts	5		1,412		292
Distribution of prior year Council Tax surplus on Collection Fund					2,212
National Non-Domestic Rates Payment to National Pool			317,354		0
National Non-Domestic Rates Bad Debts Written Off		0		1,264	
Cost of collection allowance		<u>940</u>	940	<u>944</u>	2,208
National Non-Domestic Rates Precepts & Demands					
London Borough of Tower Hamlets				96,361	
DCLG				160,602	
Greater London Authority				<u>64,241</u>	321,204
Business Rate Supplement	4				
Payment to Greater London Authority		11,878		12,000	
Cost of collection allowance		<u>30</u>	11,908	<u>26</u>	12,026
National Non-Domestic Rates Provision For Bad Debt					
London Borough of Tower Hamlets		0		835	
DCLG		0		1,392	
Greater London Authority		<u>0</u>	0	<u>557</u>	2,784
National Non-Domestic Rates Provision For Appeals					
London Borough of Tower Hamlets		0		8,250	
DCLG		0		13,750	
Greater London Authority		<u>0</u>	0	<u>5,500</u>	27,500
Increase in provision for bad debts					
<b>TOTAL EXPENDITURE</b>			<b>439,903</b>		<b>453,242</b>
<b>INCREASE/(DECREASE) IN FUND BALANCE</b>			<b>2,106</b>		<b>(1,306)</b>
<b>COLLECTION FUND BALANCE</b>					
Balance at the beginning of the year			33		2,139
(Deficit)/Surplus for the year			2,106		(1,306)
<b>BALANCE AT END OF YEAR</b>	<b>1</b>		<b>2,139</b>		<b>833</b>

# NOTES TO THE COLLECTION FUND

## 1. GENERAL

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

The Council Tax surplus on the Fund (£1,174,735.28) is attributable to the Council (£875,295.26) and the Greater London Authority (£299,440.02). The latter amount is carried as a creditor in the Council's Balance Sheet.

Under the new NNDR collection arrangements, there was a deficit of £342,366.83 during 2013/14. Of this 30%, £102,710.05 (30%) is attributable to the Council, £68,473.37 (20%) to the GLA and £171,183.41 (50%) to the CLG.

## 2. COUNCIL TAX

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

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

When the 2013/14 Council Tax was set the position was as follows:

Band	2012/13 No. of Properties	2012/13 Council Tax Base	2013/14 No. of Properties	2013/14 Council Tax Base
A	2,077	728	2,356	752
B	25,643	16,133	25,738	16,271
C	34,928	26,584	35,703	27,674
D	21,883	18,523	22,837	20,085
E	16,547	17,112	17,094	18,485
F	7,645	9,491	7,969	10,365
G	3,074	4,296	3,129	4,704
H	456	770	458	1,226
<b>Total</b>	<b>112,253</b>	<b>93,637</b>	<b>115,284</b>	<b>99,562</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:

	2012/13		2013/14		Increase / (Decrease)	
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000	£	%
Tower Hamlets	885.52	80,430	885.52	63,342	0	0
Greater London Authority	306.72	27,859	303.00	21,674	-3.72	-1.2%
<b>TOTAL</b>	<b>1,192.24</b>	<b>108,289</b>	<b>1,188.52</b>	<b>85,016</b>	<b>-3.72</b>	<b>-0.31%</b>

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

NNDR, or business rates, collected by local authorities are the way that those who occupy non-domestic property contribute towards the cost of local services. Under the business rates retention arrangements introduced from 1st April 2013, authorities keep a proportion of the business rates paid locally. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2013/14 was 47.1p in the £ (45.8p in the £ in 2012/13). The total rateable value in the borough as at 31 March 2014 was £815.6 million (£814.4 million at 31 March 2013). A periodic revaluation of business properties took place in April 2010. At March 2014 there were over 3,800 NNDR appeals that are yet to be heard by the Government's Valuation tribunal. These appeals relate to both the 2005 and 2010 valuation list and the Government has committed to resolving 95% of these by July 2015. An estimated provision has been created to contribute towards recent valuation appeals that were upheld.

### 4. CROSSRAIL BUSINESS RATE SUPPLEMENT

The Greater London Authority (GLA) introduced a business rate supplement (BRS) in April 2010 to finance £4.1 billion of the costs of the £14.5 billion Crossrail project. Details on the progress of the project so far and the proposed policies for the BRS in the 2013/14 financial year are set out below.

The Crossrail BRS will be used to finance £3.5 billion worth of GLA borrowing and the repayment of this sum after Crossrail is completed. A further £0.6 billion of BRS revenues will be used to finance the construction works directly. The GLA will have contributed nearly £2.7 billion by March 2013 towards the project using revenues financed by the BRS. It expects the Crossrail BRS will run for a period of between 24 and 31 years until its borrowing is repaid. A further contribution of £875 million is forecast for 2013-14.

The Crossrail BRS multiplier for 2013-14 is 2p per pound of rateable value. Reliefs for the Crossrail BRS will apply on the same basis and at the same percentage rate as for your National Non Domestic Rates (NNDR) bill, although no transitional relief is provided for the BRS.

[www.london.gov.uk/crossrail-brs](http://www.london.gov.uk/crossrail-brs)

2012/13 £'000		2013/14 £'000
13,348	Non Domestic Rates Due	13,431
	Less Allowances and Other Adjustments	
650	Mandatory & Discretionary Relief	632
790	Provision for Bad Debts	772
30	Cost of Collection	26
<b>11,878</b>	<b>Collectable from Business Rate Supplement Payers</b>	<b>12,001</b>

### 5. PROVISION FOR IRRECOVERABLE COUNCIL TAX DEBTS

Contributions are made to or from the Collection Fund Income and Expenditure Account to a provision for bad debts. For 2013/14 the Council Tax bad debt provision was increased by £0.292 million (increased by £1.412 million in 2012/13) and £1.949 million of irrecoverable debts were written off (£1.562 million in 2012/13).

## PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2012/13 £'000	2013/14 £'000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
<b>Contributions</b>			
From employers	3	37,466	42,401
From members	3	8,637	9,982
<b>Transfers in</b>			
Transfers in from other pension funds	4	2,939	3,527
<b>Benefits</b>			
Pensions	4	(34,271)	(35,681)
Lump sum benefits	4	(7,115)	(8,178)
<b>Payments to and on account of leavers</b>			
Refunds of contributions		(1)	(3)
State scheme premiums		(1)	(3)
Transfers out to other pension funds		(3,458)	(2,778)
<b>Administrative expenses</b>	13	(926)	(1,087)
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>3,270</b>	<b>8,180</b>
<b>RETURN ON INVESTMENTS</b>			
		2012/13 £'000	2013/14 £'000
Investment income	11	10,586	11,540
Taxes on Income		(396)	(410)
Change in market value of investments			
Realised		4,989	22,195
Unrealised	10	83,354	46,918
Investment management expenses	16	(2,283)	(2,364)
<b>NET RETURN ON INVESTMENTS</b>		<b>96,250</b>	<b>77,879</b>
Net increase in the Fund during the year		99,519	86,059
Add: Opening net assets of the scheme		827,352	926,871
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>926,871</b>	<b>1,012,930</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2013 £'000	2014 £'000
<b>Investments Assets</b>			
Equities		203,869	230,998
Pooled Investment Vehicles			
Unit Trusts		523,418	566,768
Property		92,128	102,073
Other		91,831	91,918
Derivative Contracts			
Forward Foreign Exchange Contracts		654	238
		911,900	991,995
Cash deposits	6	6,198	5,292
Other investment balances	5	1,001	817
<b>Investments Liabilities</b>			
Forward Foreign Exchange Contracts	10	(122)	(647)
Other investment balances	5	(215)	0
<b>Current Assets</b>	5	9,752	16,954
<b>Current Liabilities</b>	5	(1,643)	(1,481)
<b>TOTAL NET ASSETS</b>		<b>926,871</b>	<b>1,012,930</b>



# NOTES TO THE PENSION FUND ACCOUNTS

## 1. INTRODUCTION

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

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

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

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

## 2. ACCOUNTING POLICIES

### (a) Accounts

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with Chapter 2 ("Recommended Accounting Practice") of the Statement of Recommended Practice (Financial Reports of Pensions Schemes) 2007 and the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Fund is administered in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009.

### (b) Basis of preparation

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

- (c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2014. The actuarial present value of promised retirement benefits, valued on an IAS19 basis is disclosed in note 12 of the Accounts as permitted under IAS26.

#### Fund Account - Revenue Recognition

##### Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which it relates. Any amount due in the year but unpaid will be classified as a current asset.

Employer deficit contributions are accounted for in accordance with the agreement under which they are paid.

### (d) Investments

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

- (i) Listed securities are shown by reference to bid price at the close of business on 31st March 2014.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2014.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2014.
- (iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.
- (v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2014. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.
- (vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent unrealised gains or losses on forward contracts.
- (vii) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

### (e) Investment Income

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

# NOTES TO THE PENSION FUND ACCOUNTS

## 2 ACCOUNTING POLICIES Cont...

### Fund account - expense items

(f) **Management Expenses**

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

(g) **Benefits Payable**

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

### Net assets statement

#### Financial Assets

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

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

(i) Market-quoted investments

Market quoted investments – the value of an investment for which there is a readily available market price is determined

(ii) Fixed interest securities

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

(iii) Unquoted investments

The Forward Foreign Exchange Contracts are stated at fair value which is determined by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

## 2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

There is just one item in the authority's net asset statement as at 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year.

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

The assumptions interact in complex ways. During 2013/14, the Council's actuaries advised that the net pensions liability had decreased by £34.4 million to £488.6 million as a result of higher return on investment assets and a reduction in the salary increase rate.

### 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 Rates used during the financial year ending the 31 March 2014 range from 15.8% to 44.1% of pensionable pay. The Council paid an agreed additional monetary contribution of £16.5m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2012/13 £'000	2013/14 £'000
Members normal contributions		
Council	7,571	8,849
Admitted bodies	223	222
Scheduled body	843	911
<b>Total members</b>	<b>8,637</b>	<b>9,982</b>
Employers		
Normal contributions		
Council	17,979	21,210
Admitted bodies	997	1,064
Scheduled bodies	2,282	2,505
Deficit funding contributions		
Council	15,250	16,500
Other contributions		
Council	958	1,122
<b>Total employers</b>	<b>37,466</b>	<b>42,401</b>
<b>Total contributions</b>	<b>46,103</b>	<b>52,383</b>

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2013/14 employees made contributions of £26,465.94 (£44,059.40 in 2012/13) into the AVC Scheme operated by Aviva (Norwich Union) and £6,444.33 to Equitable Life (£6,444.33 in 2012/13). The contributions are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 but are deducted from salaries and remitted directly to the provider.

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

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Benefits are index linked to keep pace with inflation. In April 2011, the method of indexation changed from the retail prices index to the consumer prices index. Transfers out/in are those sums paid to, or received from, other pension schemes and relate to the period of previous pensionable employment. Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2012/13				2013/14			
	Council	Admitted Bodies	Scheduled Bodies	Total	Council	Admitted Bodies	Scheduled Bodies	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pensions	(32,650)	(872)	(749)	(34,271)	(33,852)	(968)	(861)	(35,681)
Lump sum retirement benefits	(4,943)	(768)	(392)	(6,103)	(6,817)	(31)	(288)	(7,136)
Lump sum death benefits	(1,012)	0	0	(1,012)	(990)	0	(52)	(1,042)
<b>Total Pensions and Benefits</b>	<b>(38,605)</b>	<b>(1,640)</b>	<b>(1,141)</b>	<b>(41,386)</b>	<b>(41,659)</b>	<b>(999)</b>	<b>(1,201)</b>	<b>(43,859)</b>
Transfer Values Received	2,939	0	0	2,939	3,527	0	0	3,527
Transfer Values Paid	(3,458)	0	0	(3,458)	(2,778)	0	0	(2,778)
<b>Total</b>	<b>(39,124)</b>	<b>(1,640)</b>	<b>(1,141)</b>	<b>(41,905)</b>	<b>(40,910)</b>	<b>(999)</b>	<b>(1,201)</b>	<b>(43,110)</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.

	2012/13 £'000	2013/14 £'000
<b>Debtors</b>		
<b>Other Investment Balances</b>		
Investment sales	0	27
Dividends receivable	691	514
Tax recoverable	310	276
	<u>1,001</u>	<u>817</u>
<b>Current Assets</b>		
Contributions due from admitted bodies	87	86
London Borough of Tower Hamlets Pension Fund	340	62
	<u>427</u>	<u>148</u>
<b>Total Debtors</b>	<b>1,428</b>	<b>965</b>
<b>Creditors</b>		
<b>Other Investment Balances</b>		
Investment purchases	215	0
<b>Current Liabilities</b>		
Unpaid benefits	1,073	1,171
Administrative expenses	570	263
London Borough of Tower Hamlets Pension Fund		47
	<u>1,643</u>	<u>1,481</u>
<b>Total Creditors</b>	<b>1,858</b>	<b>1,481</b>
<b>Net Debtors</b>	<b>(430)</b>	<b>(516)</b>

## 6. CASH

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

	2012/13 £'000	2013/14 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	2,477	3,803
Schroders: Multi Asset Portfolio	15	14
Schroders: Property Portfolio	3,698	1,465
London Borough of Tower Hamlets Pension Fund	9,324	16,806
<b>TOTAL CASH</b>	<b>15,524</b>	<b>22,098</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 the UK and certain other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

## 8. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP which is published as part of the Local Government Pensions Scheme Annual Report was approved by the Council's Pensions Committee on 14th November 2013.

## 9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March 2014

	2013	2014
<b>London Borough of Tower Hamlets</b>		
Active Members	4,789	6,158
Pensioners	3,957	4,043
Deferred Pensioners	5,970	6,332
Dependants	965	959
	<b>15,681</b>	<b>17,492</b>
<b>Admitted &amp; Scheduled Bodies</b>		
Active Members	509	634
Pensioners	191	203
Deferred Pensioners	322	332
Dependants	14	16
	<b>1,036</b>	<b>1,185</b>

The following bodies have been admitted into the Fund:

### Admitted Bodies

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

### Scheduled Bodies

Bethnal Green Academy  
 Canary Wharf College  
 Sir William Burrough School  
 St. Pauls Way Community School  
 Tower Hamlets Homes Limited  
 Culloden Primary School  
 Old Ford Primary School

## 10. INVESTMENTS

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

### Manager

Baillie Gifford Life Ltd.  
 GMO UK Ltd.  
 Investec Asset Management  
 Legal & General Investment Management  
 Ruffer LLP  
 Schroders Asset Management Property Fund

### Mandate

Global Equity, Diversified Growth  
 Global Equity  
 Absolute Return Bonds  
 UK Equity, Index Linked Gilts  
 Diversified Growth  
 Property

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

	2013		2014	
	£ million	%	£ million	%
Baillie Gifford Life Ltd - Diversified Growth	46.3	5.0	46.9	4.7
Baillie Gifford Life Ltd - Equities	163.1	17.7	183.1	18.4
GMO UK Ltd.	227.3	24.7	261.3	26.2
Investec Asset Management	97.0	10.6	97.5	9.8
Legal & General Investment Management - Equities	194.1	21.1	211.6	21.2
Legal & General Investment Management	51.3	5.6	49.0	4.9
Ruffer LLP	45.5	5.0	45.0	4.5
Schroders Asset Management Property Fund	94.1	10.3	103.1	10.3

## 10. INVESTMENTS (continued)

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

	Market Value as at 1 Apr 2013 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2014 £'000	Transaction Costs £'000
Baillie Gifford Life Ltd - Diversified Growth	46,313	69	0	507	46,889	0
Baillie Gifford Life Ltd - Equities	163,061	0	0	20,005	183,066	0
GMO UK Ltd.	223,829	138,258	(108,035)	2,626	256,678	74
Investec Asset Management	97,034	0	0	468	97,502	0
Legal & General Investment Management	245,390	0	0	15,166	260,556	0
Ruffer LLP	45,518	0	0	(488)	45,030	0
Schroders Asset Management Property	90,633	13,236	(10,879)	8,638	101,628	0
	<b>911,778</b>	<b>151,563</b>	<b>(118,914)</b>	<b>46,922</b>	<b>991,349</b>	<b>74</b>

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2013 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2014 £'000
<b>UK Investment Assets</b>					
Quoted	687,949	13,305	(10,879)	44,296	734,671
<b>Overseas Investment Assets</b>					
Quoted	223,297	138,905	(108,273)	3,158	257,087
Unquoted	532	(647)	238	(532)	(409)
	<b>911,778</b>	<b>151,563</b>	<b>(118,914)</b>	<b>46,922</b>	<b>991,349</b>

### Derivative Contracts

The fund managers GMO UK Ltd is permitted to use forward foreign exchange contracts to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of the assets held or to adjust the foreign currency exposure of the portfolio. The only derivative contracts held at 31st March 2014 were forward foreign exchange contracts.

Forward Foreign Exchange Contracts are over-the-counter contracts whereby two parties agree to exchange currencies on a specified future date at an agreed rate of exchange. They are used to manage economic exposure to markets.

The amounts included in the accounts represent the unrealised gains or losses arising from the closing out of the contract at the reporting date. The market value of the contracts is represented by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

The Forward Foreign Exchange Contracts are stated at fair value which is determined by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

The global equity manager GMO is instructed to use forward foreign exchange contracts to minimise currency risk exposure. Net exposure to forward foreign exchange is restricted to 10% of the portfolio.

### Forward Foreign Exchange Contracts

	Sterling value of obligation on purchase or sale date £'000	Sterling value of equal and opposite obligation at 31 March 2014 £'000	Gains/(losses) on Contract £'000
Currency contracted to purchase	(34,483)	33,836	(647)
Currency contracted to sell	25,701	(25,463)	238
<b>Net Position</b>	<b>(8,782)</b>	<b>8,373</b>	<b>(409)</b>

Contract	Manager	Expiration	Gains/(Losses) on Contract £'000
Australian Dollar Foreign Currency	GMO UK Ltd	April 2014	(16)
Canadian Dollar Foreign Currency	GMO UK Ltd	April 2014	3
Danish Krone	GMO UK Ltd	April 2014	
Euro Foreign Currency	GMO UK Ltd	April 2014	2
Hong Kong Dollar Foreign Currency	GMO UK Ltd	April 2014	
Japanese Yen Foreign Currency	GMO UK Ltd	April 2014	(351)
Norwegian Krone Foreign Currency	GMO UK Ltd	April 2014	(32)
Singapore Dollar Foreign Currency	GMO UK Ltd	April 2014	2
Swedish Krona Foreign Currency	GMO UK Ltd	April 2014	7
Swiss Franc Foreign Currency	GMO UK Ltd	April 2014	8
US Dollar Forward Currency	GMO UK Ltd	April 2014	(32)
<b>Unrealised Gain</b>			<b>(409)</b>

Unrealised losses were made on foreign exchange contracts in the year amounting to £0.409 million.

## 11. INVESTMENT INCOME

Investment income is broken down as follows.

	2012/13 £'000	2013/14 £'000
Dividends from overseas equities	7,217	7,886
Net rents from properties	3,159	3,427
Interest on cash deposits	51	58
Foreign tax	159	169
<b>TOTAL</b>	<b>10,586</b>	<b>11,540</b>

## 12 ACTUARIAL POSITION

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

The 2013 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £365 million and the funding level to be 72%. This compares to a deficit at the previous revaluation in 2010 of £305 million and a corresponding funding level of 71%.

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

	£m
2014/15	18.50
2015/16	20.50
2016/17	22.00

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2013 determined that this would require a contribution (additional to the future contribution rate) of 15.2% of members' pensionable pay equivalent to £18.5 million per annum.

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

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

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

## 12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2013/14 was 15.8%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2016 and the recommendations implemented from 1st April 2017.

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

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with IAS26 took place at 31st March 2013. The main actuarial assumptions used in revaluation and applied during the intervalation period were as follows:

Financial Assumptions	Nominal	Real
Price inflation (CPI)	2.5%	
Pay increases	3.8%	1.3% Real rates are nominal rates
Funding basis discount rate	4.6%	2.1% adjusted for inflation

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	22.2	24.2
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	24.3	26.4

### Actuarial Value of Promised Retirement Benefits

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

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1.503 million (£1,497 million in 2012/13).

## 13. ADMINISTRATIVE EXPENSES

	2012/13 £'000	2013/14 £'000
Investment Advice	116	153
Performance Measurement	15	15
Administration	806	686
Audit Fees	21	21
Other Fees/Income	(32)	212
	<b>926</b>	<b>1,087</b>



## 14. RISK MANAGEMENT

### Nature and extent of risks arising from financial instruments

#### Risk and Risk Management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. The aim of investment risk management is to minimise the risk of a reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level.

#### Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The market value of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers. Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

The Council only invests money with institutions with a minimum Fitch credit rating of A+ or higher.

#### Liquidity risk

This is the risk that the Fund might not have the cash flow required in order to meet its financial obligations when they become due. Over the years contributions have tended to be greater than benefits and this has ensured that sufficient cash has been available to meet payments.

The Fund currently operates two bank accounts. One is held by the Fund's custodian (State Street Bank) and holds cash relating to the investment activities and the other is the LBTH Pension Fund bank account and this is used to hold cash relating to member activities.

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets.

#### Market risk

This is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises; interest rate risk, currency risk and other price risk. The Fund mitigates these risks as follows:

#### Interest rate risk

Cash deposits held in the Pension Fund bank account are invested in accordance with the Council's approved Treasury Management Strategy.

The Fund holds a percentage of its portfolio in fixed interest securities to mitigate this risk should interest rates fall.

The Fund's direct exposure to interest rate movements as at 31st March 2013 and 31st March 2014 is set out below.

Interest Rate Risk	As At 31st March 2013	As At 31st March 2014
Asset Type	£'000	£'000
Cash and cash equivalents	6,198	5,292
Cash balances	9,752	16,954
Fixed interest securities	148,287	146,517
<b>Total</b>	<b>164,237</b>	<b>168,763</b>

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2014	Change in year in net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Cash and cash equivalents	5,292	53	(53)
Cash balances	16,954	170	(170)
Fixed interest securities	146,517	1,465	(1,465)
<b>Total change in net assets available</b>	<b>168,763</b>	<b>1,688</b>	<b>(1,688)</b>

#### Interest rate risk - sensitivity analysis

Interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The table below shows the effect of a +/- 100 BPS change in interest rates.

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2013	Change in year in net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Cash and cash equivalents	6,198	155	(155)
Cash balances	9,752	4	(4)
Fixed interest securities	148,287	(1,483)	1,483
<b>Total change in net assets available</b>	<b>164,237</b>	<b>(1,324)</b>	<b>1,324</b>

## 14. RISK MANAGEMENT (continued)

### Currency risk

The Fund invests in financial instruments denominated in currencies other than Sterling and as a result is exposed to exchange rate risk. This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To alleviate this risk the Fund allows investment managers to use derivative contracts, in accordance with the contract conditions:

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 5.8%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2013 £'000	As At 31st March 2014 £'000
Overseas quoted securities	205,044	238,710
Overseas unit trusts	7,384	5,949
Cash	2,300	13
<b>Total overseas assets</b>	<b>214,728</b>	<b>244,672</b>

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2014 £'000	Change in year in net assets available to pay benefits	
		+5.8% £'000	-5.8% £'000
Overseas quoted securities	238,710	252,555	224,865
Overseas unit trusts	5,949	6,294	5,604
Cash	13	14	12
<b>Total change in net assets available</b>	<b>244,672</b>	<b>258,863</b>	<b>230,481</b>

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2013 £'000	Change in year in net assets available to pay benefits	
		+5.7% £'000	-5.7% £'000
Overseas quoted securities	205,044	216,732	193,356
Overseas unit trusts	7,384	7,805	6,963
Cash	2,300	2,431	2,169
<b>Total change in net assets available</b>	<b>214,728</b>	<b>226,968</b>	<b>202,488</b>

The percentage change in the year of 5.8% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

### Other Price risk

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

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

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

### Other price risk - sensitivity analysis

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Price Risk - sensitivity analysis	Potential Market Movements (+/-)
Asset Type	
UK equities	12.1%
Global equity	11.9%
Total fixed interest	2.8%
Alternatives	4.4%
Cash	0.0%
Pooled Property Investments	1.9%

## 14. RISK MANAGEMENT (continued)

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

Asset Type	Value as at 31 March 2014 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	22,098	0.0%	22,098	22,098
<b>Investment portfolio assets</b>				
UK equities	211,541	12.1%	237,074	186,008
Global equity	440,153	11.9%	492,311	387,995
Total fixed interest	146,517	2.8%	150,678	142,356
Alternatives	91,919	4.4%	95,963	87,875
Pooled Property Investments	101,628	1.9%	103,518	99,738
Net derivative assets	(409)	0.0%	(409)	(409)
Investment income due	817	0.0%	817	817
Amounts receivable for sales	0		0	0
Amounts payable for purchases	0	0.0%	0	0
<b>Total assets available to pay benefits</b>	<b>1,014,264</b>		<b>1,102,050</b>	<b>926,478</b>

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

Asset Type	Value as at 31 March 2013 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	15,523	0.0%	15,523	15,523
<b>Investment portfolio assets</b>				
UK equities	194,137	13.4%	220,151	168,123
Global equity	386,358	12.8%	435,812	336,904
Total fixed interest	148,287	2.9%	152,587	143,987
Alternatives	91,831	4.7%	96,147	87,515
Pooled Property Investments	90,633	1.4%	91,902	89,364
Net derivative assets	532	0.0%	532	532
Investment income due	1,001	0.0%	1,001	1,001
Amounts receivable for sales	0		0	0
Amounts payable for purchases	(215)	0.0%	(215)	(215)
<b>Total assets available to pay benefits</b>	<b>928,087</b>		<b>1,013,440</b>	<b>842,734</b>

### Refinancing risk

The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 15. FINANCIAL INSTRUMENTS DISCLOSURES

The net assets of the Fund are made up of the following categories of financial instruments:

	Long-term		Current	
	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000
<b>Financial Assets</b>				
Loans and receivables	0	0	16,611	17,709
Financial assets at fair value through profit or loss	911,246	991,757	994	5,592
<b>Total Financial Assets</b>	<b>911,246</b>	<b>991,757</b>	<b>17,605</b>	<b>23,301</b>
<b>Financial Liabilities</b>				
Payables	0	0	(1,858)	(1,481)
Financial liabilities at fair value through profit or loss	0	0	(122)	(647)
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>(1,980)</b>	<b>(2,128)</b>

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

### Fair Value Hierarchy

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

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

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

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

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2014.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	230,998	0	0	230,998
Pooled Funds				
Unit Trusts	566,768	0	0	566,768
Property Unit Trust	102,073	0	0	102,073
Other	91,918	0	0	91,918
Derivative Contracts				
Forward Foreign Exchange Contracts	0	(409)	0	(409)
Cash and bank Deposits	22,160	0	0	22,160
Current Assets	903	0	0	903
Current Liabilities	(1,481)	0	0	(1,481)
	<b>1,013,339</b>	<b>(409)</b>	<b>0</b>	<b>1,012,930</b>

During the year ended 31st March 2014 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2013 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	203,869	0	0	203,869
Pooled Funds				
Unit Trusts	523,418	0	0	523,418
Property Unit Trust	92,128	0	0	92,128
Other	91,831	0	0	91,831
Derivative Contracts				
Forward Foreign Exchange Contracts	0	532	0	532
Cash and bank Deposits	15,864	0	0	15,864
Current Assets	1,087	0	0	1,087
Current Liabilities	(1,858)	0	0	(1,858)
	<b>926,339</b>	<b>532</b>	<b>0</b>	<b>926,871</b>

## 15. FINANCIAL INSTRUMENTS DISCLOSURES

### Net gains and losses on financial instruments

	Long-term	
	2012/13 £'000	2013/14 £'000
<b>Financial Assets</b>		
Loans and receivables		
Financial assets at fair value through profit or loss*	88,568	69,645
<b>Total Financial Assets</b>	<b>88,568</b>	<b>69,645</b>
<b>Financial Liabilities</b>		
Payables		
Financial liabilities at fair value through profit or loss	(225)	(532)
<b>Total Financial Liabilities</b>	<b>(225)</b>	<b>(532)</b>

## 16. INVESTMENT MANAGEMENT EXPENSES

	2012/13	Fund Value	2013/14	Fund Value
	£'000	%	£'000	%
Payments to Managers	2,283	0.25	2,364	0.23

## 17. RELATED PARTY TRANSACTIONS

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

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

The Council incurred costs of £680k (£806k 2012/13) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £16.5m (£15.3m 2012/13) to the Fund in respect of back funding. All monies owing to and from the Fund were paid in the year.

During the year no Committee Members or Council Chief Officers with direct responsibility for pension fund issues, have undertaken any declarable transactions with the Pension Fund, other than administrative services undertaken by the Council on behalf of the Pension Fund.

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31st March 2014, the Fund held an average investment of £6.0m (£5.5m 31st March 2013), earning interest of £62k (£68k in 2012/13).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £2.3m (£2.2m 2012/13) from this company.

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

Fund Administration Expenses	2012/13 £'000	2013/14 £'000
Payroll / HR Support	478	374
Corporate Finance	328	306
	806	680

### Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2014 include:

Chief Accountant

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

	2012/13 £'000	2013/14 £'000
Short term benefits	25	18
Long term/post retirement benefits	3	4

### Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. For 2013/14 there were no Members of the Pension Fund Committee who had involvement with other organisations.

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

## 18. CONTINGENT LIABILITIES

The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations. The liability as at 31st March 2014 was £1.572m (£5.338m 2012/13).

## 19. CONTINGENT ASSETS

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

## 20. IMPAIRMENT LOSSES

During 2013/14 impairment losses were nil (impairment losses in 2012/13 were also nil).

**Independent auditor’s report to the members of the London Borough of Tower Hamlets**

To Follow – allow 4 pages









## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's responsibilities

The Council is required:

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

The Statement of Accounts for 2013/14 will be considered for approval by the Council's Audit Committee on 23rd September 2015.

### Chair of Committee

### The responsibilities of the Corporate Director of Resources

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

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

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

The Corporate Director of Resources has also:

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

I certify that the Statement of Accounts 2013/14 presents fairly the financial position of the Council at 31<sup>st</sup> March 2014 and its income and expenditure for the year.

**Zena Cooke**  
**Corporate Director of Resources**  
Re-certified 23rd September 2015

Original Certification  
Chris Holme – Acting Corporate Director of Resources  
30<sup>th</sup> June 2014

## Draft Annual Governance Statement 2013/14

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 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.

### 1. Scope of Responsibility

Tower Hamlets is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Mayor in Cabinet and the Head of Paid Service and was most recently endorsed in June 2014.

Tower Hamlets' has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk) or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. On 4<sup>th</sup> April 2014, the Department for Communities and Local Government (DCLG) appointed PricewaterhouseCoopers LLP (PwC) to carry out a Best Value inspection of the Council. PwC have completed their work and their findings are shown under section 4 of this statement, under Review of Effectiveness.

The Council's Standards Advisory Committee received an update in June 2013 of the Council's current local governance arrangements and the report recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements. Actions arising from this review continue to be monitored and implemented, a further review of the Council's governance arrangements is underway.

### 2. The Purpose of the Governance Framework

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

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

Tower Hamlets' governance framework exists through its systems, processes, culture and values. These are regularly reviewed. The governance framework has been in place throughout the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Advisory Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance. Following abolition of the Standards Board for England, local arrangements have been put in place including a code of conduct for elected members with a report being presented to the Full Council on 16 May 2012. The new regime operated from 1 July 2012.

### 3. The Governance Framework

The key elements of the systems and processes that comprise the Authority's governance arrangements are described below.

#### 3.1 Vision and Priorities

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

The Council is part of the Tower Hamlets Partnership with a vision to 2020 set out in the borough's Sustainable Community Strategy, known as the Community Plan. The Community Plan has four main themes to make Tower Hamlets:

- **A Great Place to Live** - Tower Hamlets will be a place where people live in quality affordable housing, located in clean and safe neighbourhoods served by well connected and easy to access services and community facilities;
- **A Prosperous Community** - Tower Hamlets will be a place where everyone, regardless of their background and circumstances, has the aspiration and opportunity to achieve their full potential;
- **A Safe and Cohesive Community** - Tower Hamlets will be a safer place where people feel safe, get on better together and difference is not seen as a threat but a core strength of the borough; and
- **A Healthy and Supportive Community** - Tower Hamlets will be a place where people are supported to live healthier, more independent lives and the risk of harm and neglect to vulnerable children and adults is reduced.

Running through this vision is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2013/14, 19 priorities were identified, ([http://www.towerhamlets.gov.uk/lgs/20001-20100/strategic\\_plan\\_2013-14.aspx](http://www.towerhamlets.gov.uk/lgs/20001-20100/strategic_plan_2013-14.aspx)). Within these broad themes, there are five strong priorities for the Council which the Mayor has made the centre-piece of his aspirations for the borough – these are:

- Increasing the availability of affordable family sized housing and reducing overcrowding;
- Improving attainment at age 16 and above and increasing activities out of school for young people;
- Further reducing crime and anti-social behaviour;
- Tackling worklessness; and
- Further improving cleanliness and the public realm.

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

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

There was significant consultation with local people to develop the Community Plan through Local Strategic Partnership (LSP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people, culminating in the development of the Tower Hamlets Community Plan 2011. The Plan is due to be refreshed in 2014/15.

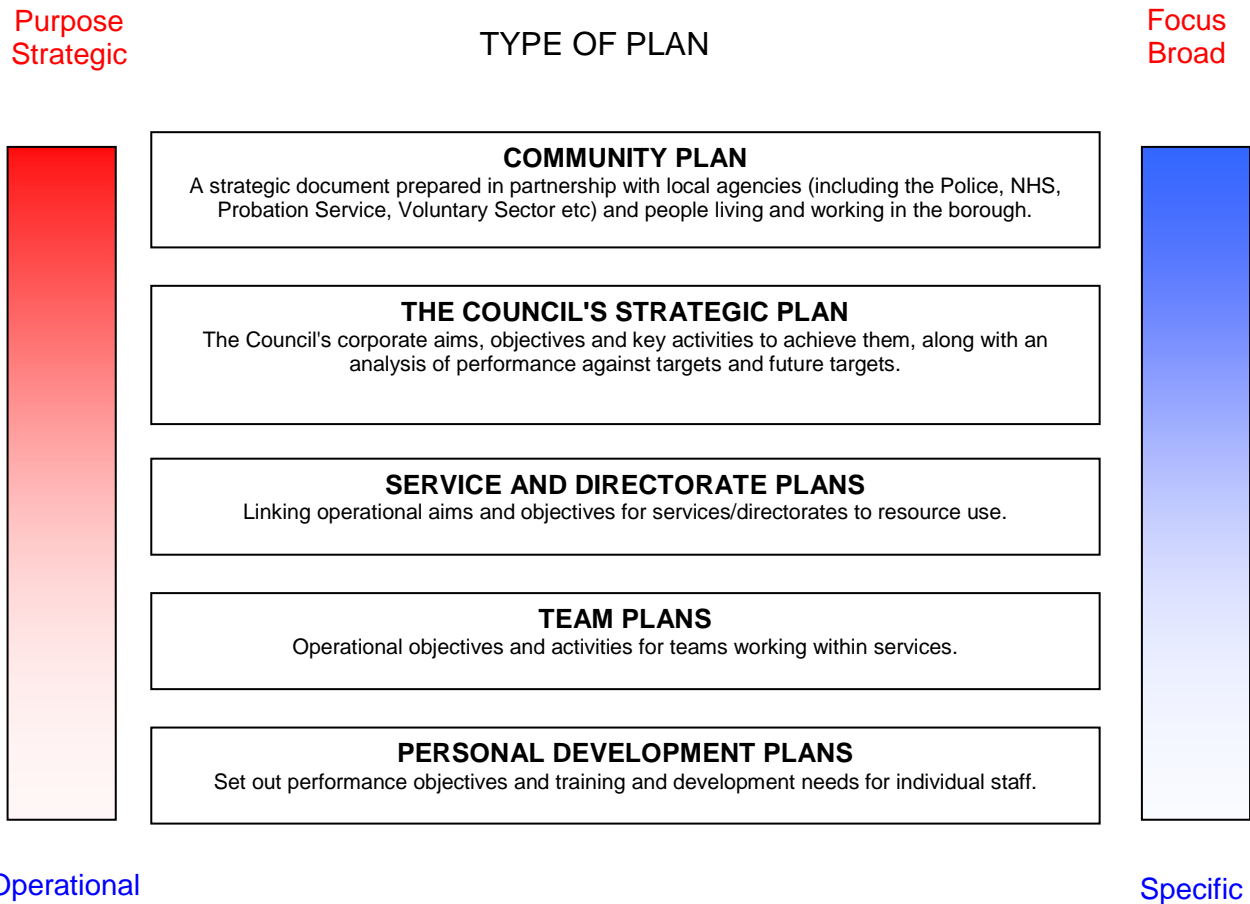
The vision, themes and priorities of the Community Plan are delivered through the Tower Hamlets Partnership structures which comprise the Partnership Executive, the Community Plan Delivery Groups (CPDGs), and localised governance structures.

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

### 3.2 Corporate and Service Plans

The overall planning framework is illustrated in the following diagram. As the diagram below shows, the Council aligns its Strategic Plan with the Community Plan and is structured around the themes, priorities and objectives of the Community Plan.

The Strategic Plan is refreshed each year through Cabinet, at which time it is also reviewed by Overview and Scrutiny. The Community Plan is refreshed every three years.



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

### 3.3 Performance Management

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

The Council's Corporate Management Team (CMT), comprising the Corporate Directors for each service (including the Council's Section 151 officer and the Monitoring Officer), is responsible for the overall management of the Council. The CMT also has responsibility for reviewing and challenging the Council's performance and delivery of the strategic plan.

### **3.4 Council Constitution**

The Council has an agreed Constitution that details how the Council operates and sets out:

- the rules and procedures to be followed by the Council and committees when conducting their business;
- the decision making powers of the Executive and of Committees;
- the financial and contract regulations;
- the scheme of delegation to chief officers;
- codes of conduct for councillors and employees; and
- members' interests and allowances.

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

All key decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public.

In 2012, the Council requested a governance review of the constitution which was undertaken during 2013/14. This review has indicated that the constitution is fit for purpose and conforms with statute and best practice. The review has indicated that there are some areas of the constitution where we have options to expand or amend wording to clarify certain issues. The Interim Monitoring Officer is reviewing the work done to date and will develop an options paper for consideration by a new Constitution Working Party to be set up after the 2014 election. A verbal update on the work of the Constitutional Working Party was given by the Monitoring Officer to the General Purposes Committee in September 2014. The Monitoring Officer continues to work with the General Purposes Committee to complete the constitutional review.

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

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

### **3.5 Codes of Conduct**

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

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

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

The Council's rules and procedure is part of four of the Council's Constitution. The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as are reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Financial Procedures, Codes of Conduct and Protocols. Key documents are available to Members and staff through the Council's intranet and to a wider audience through publication on the Council's website. All

policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

### **3.7 Overview and Scrutiny**

During 2013/14 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and the Health Scrutiny Panel. A “call-in” procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

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

### **3.8 Audit Committee**

For 2013/14, the Audit Committee comprised seven members; four from the majority group and one each from the three largest minority groups in proportion to their representation on the Council. The Audit Committee’s remit is to review the Council’s systems of internal control and its risk management and governance arrangements, as outlined in the Public Sector Internal Audit Standards. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority’s annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority’s risk management framework; to meet the accounts and audit regulations in respect of approving the authority’s Annual Financial Report, including the annual statement of accounts, and to consider reports from the Council’s external auditor, KPMG. The Audit Committee met four times during the financial year 2013/14.

### **3.9 Internal Audit**

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

Internal audit is an independent appraisal function 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 Corporate Director, Resources’ Section 151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management is required to give an opinion on the Council’s internal control framework based upon the work carried out during the year in the form of an annual report. For 2013/14, the overall the control environment is adjudged to be adequate.

Following the publication of the Public Sector Internal Audit Standards (PSIAS), the Council’s internal audit arrangements have been updated and the Audit Charter endorsed by the Audit Committee most recently in June 2014.

### **3.10 External Audit**

The Council’s external auditors, KPMG:

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

In 2012/13 KPMG issued an unqualified audit opinion on the Council’s financial statements and were satisfied that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for that year.



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

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

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

The Council also has a whistle blowing policy which is actively promoted with the number of whistle blows received during the year reported to the Corporate Management Team and the Audit Committee. The effectiveness of this policy and the type of issues raised are reviewed and monitored by the Audit Committee on an annual basis.

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

### **3.12 Risk Management**

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

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

During 2013, Zurich Municipal Engineering undertook a review of the Council's risk management arrangements and suggested enhancements to further embed risk management within the organisation. The risk team has developed an action plan and an Annual report which was also shared with the Audit Committee in June 2014.

### **3.13 Financial Management**

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

Internal financial control is based on a well established framework of financial regulations and financial procedures which include the segregation of duties, management supervision and a system of delegation and accountability. On-going development and maintenance of the various processes is a management responsibility. The control arrangements in 2013/14 included:

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

Since the publication of the CIPFA statement on the role of the Financial Officer in Local Government (2010), a self assessment of the Council has shown the authority conforms to the good practice identified within the code.

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

Value for money and continuous service improvement are secured through a range of processes, including the application of best value principles and the carrying out of efficiency reviews. During 2013/14, the Council continued work on its efficiency programme and has made plans to manage with significantly reduced financial resource in the future. As part of its service and financial planning process, the Council set efficiency targets and brought performance data into the consideration of resource allocation. As noted under the Scope of Responsibility (section 1) of this statement, the authority has been subject to a Best Value inspection and the findings arising from the inspection are captured under review of effectiveness (Section 4). KPMG's most recent assessment on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resource in relation to 2012/13 concluded that the Council had put proper arrangements in place.

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

### **3.15 Learning and Organisational Development**

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

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

### **3.16 Communication and Engagement**

The Council publishes numerous documents on its website as well as providing a weekly paper, East End Life to keep residents up-to-date, in an informal and accessible way, on the work of the Council. The Secretary of State is considering whether the Council can continue to publish the weekly paper, East End Life.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council on the perception of the services it provides and the experience of services users. Further, the authority uses its citizen engagement portal to engage with a wide range of stakeholders. The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

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

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

Elected Members of the council also hold regular surgeries for their wards.

### **3.17 Partnerships**

The most significant partnership for the Council is the Tower Hamlets Partnership. In February 2012, the partnership structure was refreshed. In the new structure, the Partnership Executive and Board has been rationalised but still with responsibility for developing the overall strategy and for ensuring plans are delivered. The Community Plan Delivery Groups have been updated but with continued focus on the five key themes in the community plan including the statutory boards. The previously established eight local area partnerships whose role was to allow residents to

influence their locality have been changed with the creation of Mayoral Assemblies. The Mayor's Assemblies are a new element of the structure and provide a mechanism for residents to engage with the Mayor, the Cabinet and cross agency public service providers at a local level.

The Council also has partnership arrangements with the clinical commissioning groups and the partnership has led on a number of public health programmes in recent months. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

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

#### **4. Review of Effectiveness**

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

- The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- The annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate.
- The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- The Council is subject to external audit activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control.
- Monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- The provisional outturn on the 2013/14 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Quarterly monitoring of strategic risks of the Council by the Corporate Management Team and the Mayor's Advisory Board.

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective. We propose over the coming year to take steps to further enhance our governance arrangements.

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

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

PricewaterhouseCoopers published their final report on 4 November 2014. In their report, PWC reported that the authority was not achieving Best Value in the following areas: -

- The authority's payments of grants and connected decisions;
- The transfer of property to third party; and
- Spending and the decisions of the authority in relation to publicity

In respect of processes and practices relating to entering of contacts, the inspectors reported the Council was complying with its Best Value duty but highlighted areas where the authority could improve.

The Secretary of State has considered the report and representations from the Council and issued Directions on 17 December 2014. The directions issued by the Secretary of State to the Council were to:-

- Draw up and agree with the Commissioners a strategy and action plan for securing the authority's compliance with its Best Value duty, including putting in place robust and transparent arrangements for grant decisions;
- Report on progress against the strategy and plan on a six monthly basis to the Secretary of State;
- Undertake a recruitment exercise with the aim of appointing to all posts designated as statutory officers of the Council within three months of the Secretary of State's directions;
- Obtain written agreement of the Commissioners before entering into any commitment to dispose of, or otherwise transfer to third parties, any real property other than existing single dwellings for the purposes of residential occupation;
- Prepare a fully costed plan for the authority's proper use of publicity and agree that plan with the Commissioners;
- Prepare and implement an action plan in consultation with the Commissioners to achieve improvements in relation to the processes and practices the authority adopts for entering into contracts;

Further details of the directions can be found at <https://www.gov.uk/government/news/secretary-of-state-sends-in-commissioners-to-tower-hamlets>.

The Council is co-operating fully with the Commissioners to ensure it complies with the directions issued by the Secretary of State and the matters raised in the PwC report, and address the issues raised as soon as possible.

### Significant Governance Issues

The review of the effectiveness of the governance arrangements in 2013/14 has identified areas where action is appropriate to enhance the Council's governance. The specific actions are set out below and 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.

<b>Governance Issue</b>	<b>Action taken and next steps</b>	<b>CMT Lead</b>
Payments to third sector organisations outside Mainstream Grants.	Following an external referral, internal audit findings from a review of an organisation that received payments from the Council raised concerns that have been reported to the police.  A wider review of process management is underway covering all grant making and spot purchase functions.	Corporate Director - Communities, Localities and Culture
A comprehensive review of the management arrangements for the control and monitoring of grants.	In view of the issues raised by the inspection around the current Mainstream Grant Programme and any future refresh of the programme, consideration is being given to proposals to improve the governance arrangements for third sector grants.	Corporate Director - Development and Renewal

Governance Issue	Action taken and next steps	CMT Lead
	This will include improvements to management functions and systems, controls and processes.	
Strengthen controls over disposal of assets that demonstrate best value is secured by the Council.	Following an investigation into disposal of assets by Mazars (Council's internal audit partners), an action plan has been developed to improve the control environment by the end of the financial year.	Corporate Director - Development and Renewal
To make suitable permanent appointments to the posts designated as statutory officers of the Council.	All statutory officer posts are in various stages of the appointment process with a view to making permanent appointments as soon as possible.	Council
Financial and workforce impact of delivering the new and revised duties within the Care Act (Care and Health Reform Bill).	<p>A Care and Health reform programme has been set up to oversee the implementation of the Care act. Work streams are planned out and risks identified, as follows: -</p> <p>Careful planning of the programme resources required and use of the grant money agreed.</p> <p>Programme Manager appointed within ESCW and is linked into the London region ADASS network that informs DH on funding issues. The Interim Corporate Director, Resources is a member of the Board.</p> <p>The next steps include development of work streams to identify workforce needs and issues that are being fed into a workforce lead in HR, which is linked to national and regional work.</p> <p>Careful planning of all work to deliver the changes to be through bespoke governance arrangements designed by the Programme Manager.</p>	Corporate Director - Education, Social Care and Wellbeing
Pupil Place Planning to expand school provision to meet the rising demand for places.	<p>The directorate has identified the short term primary place needs (2014/15 school year) and developed a technical feasibility plan of temporary school expansion.</p> <p>Further steps are planned to strengthen the pupil projections by engaging the Greater London Authority with projections modelling to ensure the pupil planning is based on robust data. Current medium term expansion</p>	Corporate Director - Education, Social Care and Wellbeing

Governance Issue	Action taken and next steps	CMT Lead
	plans will continue to be implemented in to 2015/16.	
Budget pressures for adult social care packages have emerged during 2013/14, which have been contained within existing directorate resources. The on-going position however points to an unfunded set of adults social care package.	<p>Action has been initiated by the directorate, which includes; transfer of management accountability to Adults Social Care service area; improved process, regularity and administration of care panels; and enhanced arrangements for identifying, monitoring and controlling costs.</p> <p>The next steps include the need to strengthen financial controls and lines of accountability; improved data quality and consideration of the policy framework.</p>	Corporate Director - Education, Social Care and Wellbeing
Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance.	The Local Government Association reviewed the Council's constitution and indicated that the constitution is fit for purpose and conforms with statute and best practice. Further, recognising that there may be areas where the authority may learn from other authorities with an Executive Mayor, an independent external review was also commissioned comparing the Council's constitution with those of similar local authorities. This review confirmed there were no fundamental weaknesses of gaps in the Council's constitution. There are opportunities to word elements more clearly or tighten up some areas of process to enable the Executive and non-Executive business to run more smoothly.	Monitoring Officer – Law Probity and Governance
Election and pre-election period.	<p>Elections in Tower Hamlets are always vigorously contested and in the past there have been allegations of malpractice. These have been fully investigated by the police and Electoral Commission and none have been upheld. The Electoral Commission made various recommendations about improving the trust and confidence in the integrity of May 2014 elections, which have been implemented.</p> <p>The Electoral Commission has reviewed progress in the implementation of the recommendations and has strongly supported the steps that have been</p>	Returning Officer – Law Probity and Governance

Governance Issue	Action taken and next steps	CMT Lead
	<p>taken.</p> <p>In preparation for the 2015 general election, further action is planned to tighten up procedures around registration for, and management of postal votes. Other actions include; joint on-going working between the Returning Officer and police to deter and detect electoral fraud; local protocol committing all those involved in May 2014 elections to work towards free and fair elections; pre-election guidance reviewed and issued to all managers, staff and members and pre-election restrictions from 14 April including complete review of Council website and other publicity.</p>	
<p>Enhance the financial system to maximise benefits derived from the enhanced functionality of the new finance system and refresh of financial regulations and procedures.</p>	<p>The Council made a decision to replace its outmoded financial system to meet the evolving information needs of its users and the Council. The new system went live in May 2013 and working with the Council's Strategic IT partner, Agilisys, the new arrangements continue to be monitored to ensure that they deliver the expected benefits and enhanced systems of controls.</p> <p>During 2013/14, the finance team was also re-structured to better align the finance service to the needs of the organisation. During 2014/15, the new structure will be monitored and key roles filled and the Council's financial regulations and procedures refreshed.</p>	<p>Interim Corporate Director Resources -</p>
<p>Enhance contract management and contract letting process.</p>	<p>The Procurement Strategy and procedures have been refreshed and adopted.</p> <p>To ensure compliance around procurement, the Competition Planning Forum and the Competition Board continue to monitor and recommend the best course of action for all significant purchases.</p> <p>The new procedures now provide greater visibility and input from the Corporate procurement team and over the next financial year, the team plan</p>	<p>Chair of Competition Board - Interim Corporate Director, Resources</p>

Governance Issue	Action taken and next steps	CMT Lead
	to seek better outcomes from the organisation's spend and enhance contract monitoring arrangements across the organisation.	
Governance arrangements at schools	Following internal audit findings from regularity audits of schools and external referrals alleging irregularity at some schools, the governance arrangements are being reviewed with a view to ensuring sound practices are in place.	Corporate Director - Education, Social Care and Wellbeing

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

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Head of Paid Service

Date:

.....

Mayor

Date:



## GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

### FINANCIAL TERMS

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

**Accounting policies** – The specific principles, bases, conventions, rules, and practices, applied by the Council, in preparing and presenting the financial statements.

**Accounting standards** – A set of rules explaining how accounts are to be kept. (See 'International Financial Reporting Standards')

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

**Accumulated Absences Account** – This account represents the value of leave rolled over from one financial year to another. This reserve account is used to avoid reducing general fund reserves.

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

**Actuarial Valuation** – Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates. The most recent valuation was in 2013.

**Agency services** – Services provided by or for another local authority or public body where the cost of carrying out the service is reimbursed.

**Arm's Length Management Organisation (ALMO)** – Arm's length management organisation. An organisation set up to manage all or part of a local authority's housing stock. Ownership of the stock remains with the local authority.

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

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

**Asset** – Something valuable that the Council owns, benefits from, or has use of, in generating income.

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

**Benchmarking** - the analysis of selected activities and processes, and their comparison with similar analyses for other organisations.

**Billing Authority** – Refers to a local authority that is responsible for the collection of tax, both on behalf of itself and local authorities in its area.

**Budget** – A forecast of future expenditure plans for the Council. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the Council Tax is set. Budgets are revised throughout the year for changes as necessary.

**Business Rate Supplement** – The Business Rate Supplements Act 2009 enables levying authorities - county councils, unitary district councils and, in London, the Greater London Authority - to levy a supplement on the Business Rate to support additional projects aimed at economic development of the area.

**Capital Adjustment Account** – Represents amounts set aside from revenue resources or capital receipts to finance expenditure on property, plant, and equipment (PPE) or for the repayment of external loans, or certain other capital financing transactions.

**Capital Expenditure** – Expenditure on the acquisition of property, plant, and equipment (PPE) or expenditure which adds to the value of an existing item of PPE.

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

**Capital Grants Receipts in Advance** – Balances of capital grants and contributions that have conditions which may require future repayment if not spent.

**Capital Grants Unapplied** – Grant balances that will be used for future capital expenditure.

**Capital Receipt** – Income received from the sale of PPE such as land or buildings.

**Capital Receipts Reserve** – Represents proceeds from the sale of PPE available to meet future capital investment.

**Carrying Value** – In relation to the value of assets, the value is based on the original cost of the asset less any depreciation, amortization or impairment costs made against the asset. It is the amount to be recognised on the Balance Sheet.

**Cash Equivalents** – Highly liquid and safe investments that can easily be converted into cash.

**Chartered Institute of Public Finance and Accountancy (CIPFA)** – A professional accountancy body, that specialises in the Public Sector. It promotes best practice by issuing guidelines and Codes of Practice.

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

**Collection Fund Adjustment Account** – The Collection Fund Adjustment Account represents the Council's share of the Collection Fund Surplus/Deficit.

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

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

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

**Corporate and Democratic Core (CDC)** - This includes corporate policy making, activities that relate to the corporate management of the Council and all other member-based activities. Under the terms of SeRCOP, all support costs are allocated to services except for CDC and Non Distributed Costs.

**Consumer Price Index (CPI)** – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The CPI includes some financial services in the basket of goods not included in the RPI.

**Creditors** - Amount of money owed by the Council for goods and services received. Also referred to as, Payables.

**Current Assets** - Any asset expected to last or be in use for less than one year is considered a current asset. Examples are stock, cash and debtors.

**Current Liability** - An amount which will become payable or could be called in within the next accounting period. Examples are creditors and Short Term Borrowing.

**Debtors** - Amount of money owed to the Council by individuals, and organisations. Also referred to as, Receivables.

**Dedicated Schools Grant** – Grant monies provided by the Department of Education ring-fenced to schools budgets. This is a ring-fenced grant.

**Deferred Capital Receipts** - Income that is received in instalments over agreed periods of time. They arise from mortgages on sales of Council houses and repayments from loans.

**Deferred Income – Receipt in Advance** – This represents a receipt received as part of entering into a building lease. The credit is being released over the term of the lease.

**Deferred Liabilities** – These are future payments that the Council is contractually obliged to pay in future years. These liabilities relate to Private Finance Initiative (PFI) schemes.

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

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

**Direct Revenue Funding (DRF)** – The use of revenue monies to pay for capital expenditure. Also referred to as Revenue Contributions to Capital Outlay (RCCO).

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

**Fair Value** - It is the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arms length transaction.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**National Non-Domestic Rates (NNDR) Pool** - Non-Domestic Rates are collected by the Council. As of 1<sup>st</sup> April 2013 the Council keeps 30%, gives the GLA 20% and the other 50% is passed over to the DCLG.

**Net Book Value** – The amount at which PPE is included in the balance sheet after depreciation has been provided for.

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

**Non Current Assets Held for Sale** – Items of PPE whose carrying amount is to be recovered principally through a sale rather than continued use by the Council.

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

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

**Precept** – The charge made by the Greater London Authority (the precepting authority) on the Council to finance its net expenditure.

**Private Finance Initiative (PFI)** – Instead of providing and owning the assets needed for their services, public authorities arrange for private sector bodies (usually formed from consortia) to provide and own them. These other bodies' then make the assets available under operating leases to enable public authorities to deliver the services required.

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

**Property, Plant, and Equipment (PPE)** – The land and building assets under the council's control or ownership.

Assets under the control or owned by the Council that have a physical existence and are expected to be used for a period exceeding one year form PPE. Important components of PPE include land and land improvements, buildings, plant and machinery, vehicles and equipment where material.

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

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

**Registered Social Landlord** – A not-for-profit organisation which owns and manages social housing.

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

**Retail Price Index (RPI)** – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The RPI includes mortgage interest payments and council tax in the basket of goods not included in the CPI.

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

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

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)** – Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of long-term assets, that has been charged as expenditure to the relevant service revenue account in the year

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

**Right To Buy (RTB)** - The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt, some of which will be retained by the council to spend on capital expenditure, while the remainder must be paid over to the DCLG under pooling arrangements.

**Ring-Fenced Grant** – A grant that can only be spent on a specific purpose, such as the Dedicated Schools Grant.

**Service Level Agreements** - agreements between operational units, which state the price and specifications of the support service by one to another.

**Service Reporting Code of Practice (SeRCOP)** – CIPFA's accounting recommendations for local authorities that legally constitute proper accounting practice, below the statement of accounts level.

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

**Supplementary Business Rates (SBR)** – Locally raised business rates for local projects. London Councils are levying a SBR for the Cross-rail project.

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

**Surplus Assets** – Those assets which are not being used to deliver services, but do not meet the criteria to be classified as either Investment Properties or Non Current Assets Held for Sale.

**Unusable Reserves** – These represent reserve balances that cannot be spent as part of an organisation's medium term financial plan. An example is the revaluation reserve.

**Usable Reserves** – These represent reserve balances that can be spent as part of an organisation's medium term financial plan. Any organisation has to review reserve levels to ensure long-term financial stability. General fund and Housing Revenue Account reserves are usable reserves.

**Value for money (VFM)** – This term is used to describe the relationship between the economy, efficiency, and effectiveness (known as the 'three Es') of a service, function or activity. Value for money is high when there is an optimum balance between all three.

## **Abbreviations used in Accounts**

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

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