



LONDON BOROUGH OF TOWER HAMLETS

ANNUAL FINANCIAL REPORT 2014-15



INVESTOR IN PEOPLE



ANNUAL FINANCIAL REPORT 2014-15

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EXPLANATORY FOREWORD

Overview by Corporate Director of Resources

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2014/15, 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 2014/15, 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

Although the UK economy has shown signs of improvement, on-going reductions in main stream government grant funding and a continuing upward trend in the demand for key front line services in adult social care, children's services and housing have collectively created a challenging financial environment for the Council.

Through sound financial management the Council's spend for the year is in line with the revenue budget and the level of general reserves increased by £6.5 million to £71.5 million. This increase is in line with the revised plan in the 2015/16 budget and is the result of unallocated contingencies for price increases that did not materialise and additional income from core grants.

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

Key achievements in 2014/15 include:

1. Supporting delivery of over 600 affordable homes.
2. Bringing more than 3,000 homes up to the Decent Homes standard.
3. Improving our public realm, including new street lighting, undertaking a borough-wide deep clean and road resurfacing works.
4. Making our borough greener, including a programme of tree planting in streets, parks and open spaces.
5. Providing free school meals to all primary school children in the borough.
6. Continuing to raise attainment - Tower Hamlets' Key Stage 2 and GCSE results are better than the national average.
7. Reducing the number of young people not in education, employment or training.

8. Supporting more than 1,000 residents into jobs; the Borough's employment rate is now at its highest recorded level.

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

The Council has continued to invest in its infrastructure with £137 million spent on its capital programme. The main areas of investment were in housing and schools, with £77 million of improvement works through the housing capital programme and £11.7 million through the Building Schools for the Future programme. Other major projects included the acquisition of sites for the new civic centre and a burial ground.

On 4th April 2014 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.

Under the legislation the Council is required to pay for the inspection, and £1m has been provided in 2014/15 to re-imburse DCLG for the cost of PwC's work.

DCLG concluded that with regard to the processes and practices relating to entering of contracts the Council had not failed in its duty to deliver best value, as required by the local government act of 1999, but with regard to the other areas (grants, disposals and publicity), it had.

As a result, the Government has appointed Commissioners to oversee decision making and improvement in the areas affected, and furthermore take over the role of the Council in grant-making. The DCLG subsequently extended the scope of directions and appointed two further commissioners. Under the legislation, the council is required to pay the pay for the cost of the Commissioners and their reasonable expenses.

In addition, an Electoral Court, after being petitioned under the Representation of the Peoples Act 1983, declared the Mayoral Election held in May 2014 to be void.

The circumstances have been challenging for the Council, and improvement plans have been developed and agreed with the Commissioners, in parallel, the Council remains committed to focussing on the delivery of quality services that are valued by residents.

Looking forward the Council will continue to face significant financial challenges. The 2015-2018 Medium Term Financial Plan agreed by Full Council in March 2015 includes a £68m million savings programme in the years to 2017/18 and work is underway to deliver £28m of this target during 2015/16. This forms the basis of a balanced budget over the next three years, Major external challenges include the potential impact of government welfare reforms and changes to the way in which local authority services are funded. Following the outcome of the recent General Election, the next spending review is unlikely to be before Autumn 2015, but there are likely to be more austerity cuts announced. The Council is currently reviewing the Medium Term Financial Plan to 2018/19 with a view to developing longer term strategies to deliver savings.

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

Review of the Year

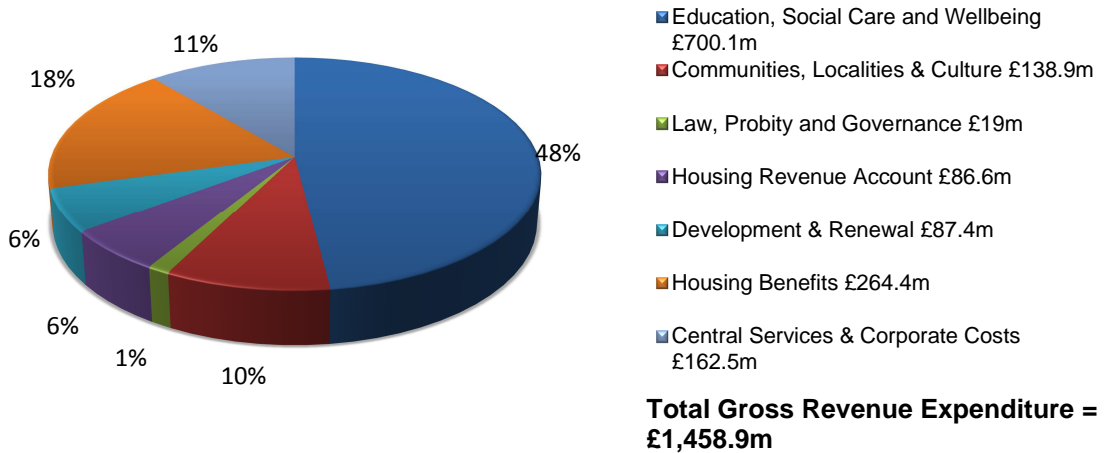
Revenue Income and Expenditure

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 breakeven against the net General Fund budget of £293.9 million after the planned transfer of £6.4 million of unused contingencies to General Fund Reserves. The HRA account showed an additional surplus of some £2.9 million against budget.

The Council's gross expenditure on services, excluding accounting adjustments, was £1.5 billion (£1.4 billion in 2013/14). An analysis by directorate is shown in the following diagram.

Analysis of Gross Revenue Expenditure by Service Area

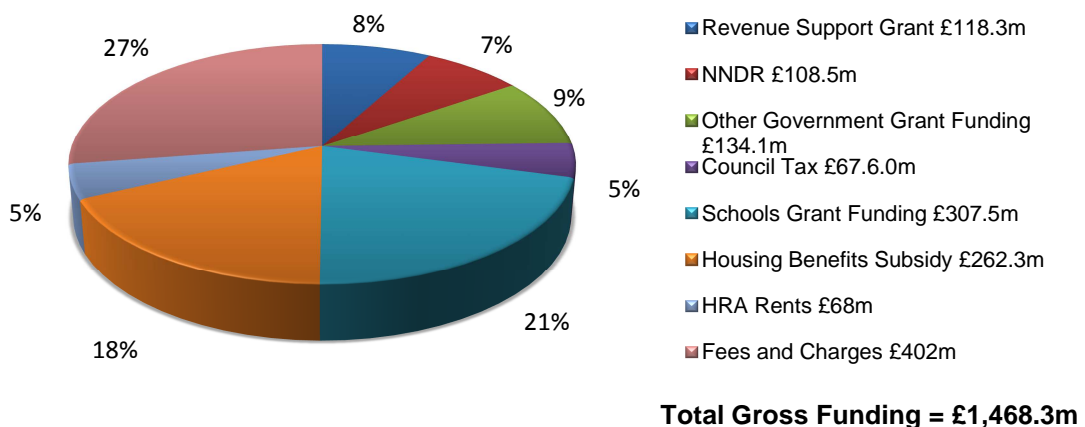


Revenue Funding

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

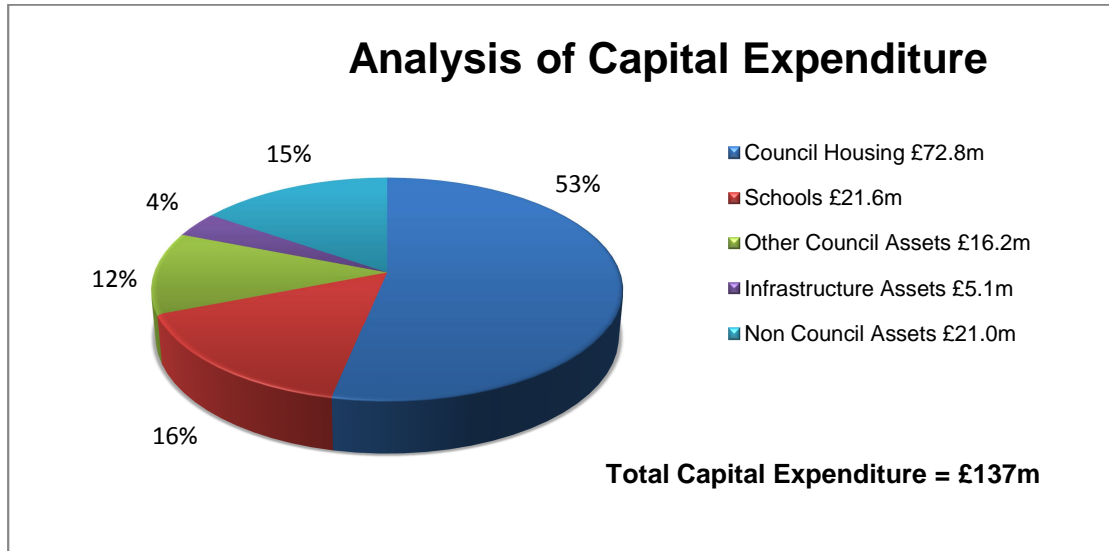
The main specific grant continues to be the Dedicated Schools Grant which can only be used to fund the education services and is largely 'passported' directly to the schools. An analysis of all the funding sources is shown in the diagram below.

Analysis of Revenue Funding Sources



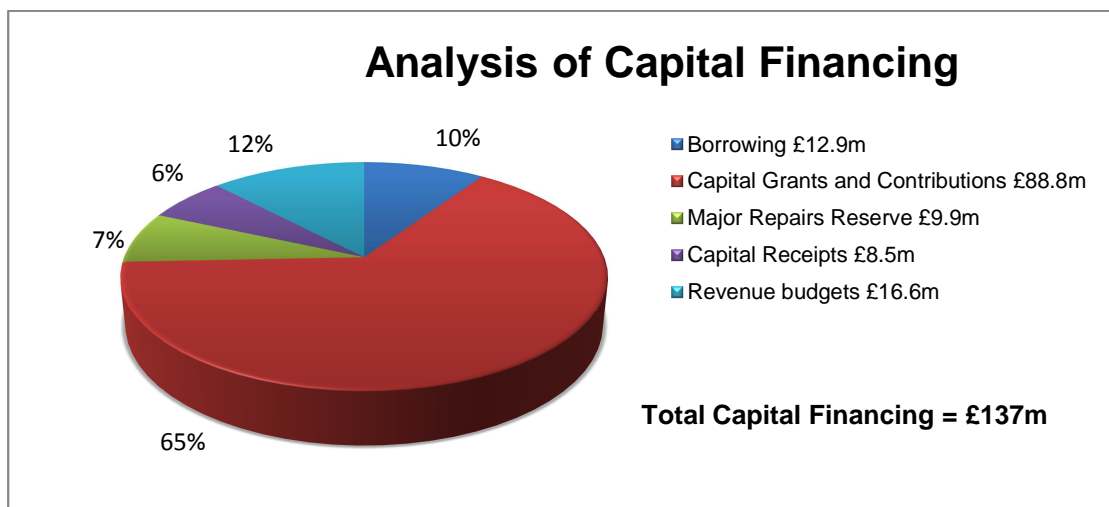
Capital Investment

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 £72.8 million on its housing assets.



Investment shown as being in 'non-Council assets' includes £7.3 million of expenditure on schools and children centres not owned by the Council and £3.9m of expenditure on leaseholder properties.

The table below shows the sources of funding for the capital programme. The majority of this funding was from capital grants and contributions. In addition, £9.9 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 £89 million (£90 million 2013/14). 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 2014/15 there was a net liability of £638 million (£496 million 2013/14). Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet the deficit will be addressed by increased contributions to the scheme in future years. These increased contributions have been reflected in the Council's Medium Term Financial Plan.

Though pension investments increased in value by £125m in the year, the IAS19 deficit increased as at 31 March 2015 compared to the value reported at 31 March 2014. This is principally due to the impact of unfavourable financial assumptions used at 31 March 2015. 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

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
Balance as at 31 March 2013		38,060	135,153	16,233	12,364	20,642	55,701	278,153	324,685	1,153,640	(522,962)	1,588	1,032	(3,369)	110	954,724	1,232,877
<u>Movement in reserves during 2013/14</u>																	
Surplus or (Deficit) on the Provision of Services		20,382	0	61,812	0	0	0	82,194	0	0	0	0	0	0	0	0	82,194
Other comprehensive expenditure and income		0	0	0	0	0	0	0	32,686	0	44,724	0	0	0	0	77,410	77,410
Total Comprehensive Expenditure and Income		20,382	0	61,812	0	0	0	82,194	32,686	0	44,724	0	0	0	0	77,410	159,604
Adjustments between accounting basis and funding basis under regulations		13,197	0	(59,893)	4,032	306	(1,164)	(43,522)	(10,263)	72,615	(17,708)	(821)	(180)	(58)	(63)	43,522	0
Net Increase or Decrease before Transfers to Earmarked Reserves		33,579	0	1,919	4,032	306	(1,164)	38,672	22,423	72,615	27,016	(821)	(180)	(58)	(63)	120,932	159,604
Transfers to or from earmarked reserves	8	(3,800)	3,800	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves	8	(2,853)	2,853	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase or (Decrease) in 2013/14		26,926	6,653	1,919	4,032	306	(1,164)	38,672	22,423	72,615	27,016	(821)	(180)	(58)	(63)	120,932	159,604
Balance as at 31 March 2014 carried forward		64,986	141,806	18,152	16,396	20,948	54,537	316,825	347,108	1,226,255	(495,946)	767	852	(3,427)	47	1,075,654	1,392,481
<u>Movement in reserves during 2014/15</u>																	
Surplus or (Deficit) on the Provision of Services		(7,202)	0	258,213	0	0	0	251,011	0	0	0	0	0	0	0	0	251,011
Other comprehensive expenditure and income		0	0	0	0	0	0	0	(1,477)	0	(139,066)	0	0	0	0	(140,543)	(140,543)
Total Comprehensive Expenditure and Income		(7,202)	0	258,213	0	0	0	251,011	(1,477)	0	(139,066)	0	0	0	0	(140,543)	110,468
Adjustments between accounting basis and funding basis under regulations		28,511	0	(255,220)	5,778	28,188	947	(191,796)	(3,367)	202,316	(14,552)	7,280	(284)	439	(36)	191,796	0
Net Increase or Decrease before Transfers to Earmarked Reserves		21,309	0	2,993	5,778	28,188	947	59,215	(4,844)	202,316	(153,618)	7,280	(284)	439	(36)	51,253	110,468
Transfers to or from earmarked reserves	8	(13,581)	13,581	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves	8	(1,264)	1,264	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase or (Decrease) in Year		6,464	14,845	2,993	5,778	28,188	947	59,215	(4,844)	202,316	(153,618)	7,280	(284)	439	(36)	51,253	110,468
Balance as at 31 March 2015		71,450	156,651	21,145	22,174	49,136	55,484	376,040	342,264	1,428,571	(649,564)	8,047	568	(2,988)	11	1,126,907	1,502,949

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	2013/14		Note	2014/15		Net Expenditure
	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	
£'000	£'000	£'000		£'000	£'000	£'000
Continuing Operations						
113,847	20,092	93,755	Adult Social Services	108,770	21,733	87,037
8,478	6,866	1,612	Central Services	6,193	5,035	1,158
562,042	461,430	100,612	Children's and Education Services	565,398	452,525	112,873
28,507	10,650	17,857	Corporate and Democratic Core	37,476	18,720	18,756
23,797	4,192	19,605	Cultural and Related Services	37,369	5,071	32,298
45,162	9,413	35,749	Environment and Regulatory Services	46,528	7,625	38,903
29,943	20,411	9,532	Highways and Transport Services	31,249	21,935	9,314
345,700	323,860	21,840	Housing Services	333,104	306,415	26,689
53,883	90,274	(36,391)	Local Authority Housing (Housing Revenue Account) ¹	(118,296)	89,126	(207,422)
0	1,023	(1,023)	Non-distributed Costs	38	0	38
26,748	15,283	11,465	Planning Services	22,084	13,544	8,540
30,279	32,369	(2,090)	Public Health	32,355	33,434	(1,079)
1,268,386	995,863	272,523	NET COST OF SERVICES	1,102,268	975,163	127,105
		14,201	Other Operating Expenditure			(1,533)
		34,018	Financing and Investment Income and Expenditure			28,660
		(402,937)	Taxation and Non-Specific Grant Income			(405,243)
		(82,195)	(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES			(251,011)
			Other Comprehensive Income and Expenditure			
		(32,686)	(Surplus)/Deficit on revaluation of non-current assets			1,477
		(44,724)	Actuarial (gains) or losses on pension assets and liabilities			139,066
		(77,410)	OTHER COMPREHENSIVE INCOME AND EXPENDITURE			140,543
(159,605) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				(110,468)		

¹ HRA gross expenditure includes reversal of previous valuation losses of £194m

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 2015.

31 March 2014 £'000		Notes	31 March 2015 £'000
	Long-term Assets		
1,839,299	Property, plant and equipment	12	2,042,623
9,310	Heritage Assets	43	9,310
590	Long Term Debtors	13	613
1,849,199	Total Long-term assets		2,052,546
	Current Assets		
185,636	Short-term investments	15	215,748
225	Assets held for sale	21	225
1,739	Inventories	16	0
128,136	Short-term debtors	19	115,248
138,111	Cash and cash equivalents	20	202,357
453,847	Total Current Assets		533,578
	Current liabilities		
1,984	Short-term borrowing	15	1,710
199,552	Short-term creditors	22	215,640
9,338	Provisions	23	4,741
210,874	Total Current liabilities		222,091
	Long Term Liabilities		
9,587	Provisions	23	7,340
88,892	Long-term borrowing	15	88,528
495,946	Liability related to defined benefit pension schemes	41	649,564
64,475	Capital grants receipts in advance	37	76,190
38,472	Deferred liabilities	40	37,509
2,318	Deferred Income - Receipt in Advance		1,947
699,690	Total Long-Term Liabilities		861,078
1,392,482	NET ASSETS		1,502,956
	Reserves		
	Usable Reserves		
64,989	General Fund		71,457
18,152	Housing Revenue Account		21,145
107,080	Earmarked reserves	8	120,663
34,724	Schools reserves	8	35,988
20,948	Capital receipts reserve		49,136
54,537	Capital grants unapplied		55,484
16,396	Major repairs reserve		22,174
316,826	Total Usable Reserves		376,047
	Unusable Reserves	25	
347,108	Revaluation Reserve		342,264
1,226,255	Capital Adjustment Account		1,428,571
767	Collection Fund Adjustment Account		8,047
852	Financial Instruments Adjustment Account		568
(495,946)	Pensions reserve		(649,564)
(3,427)	Accumulated Absences Account		(2,988)
47	Deferred capital receipts		11
1,075,656	Total Unusable Reserves		1,126,909
1,392,482	TOTAL RESERVES		1,502,956

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.

2013/14 £'000		Notes	2014/15 £'000
82,195	Net surplus or (deficit) on the provision of services		251,011
47,185	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>26A</u>	(43,815)
(62,227)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>26A</u>	(59,632)
67,153	Net cash flows from Operating Activities		147,564
(64,145)	Investing Activities	<u>27</u>	(81,972)
(893)	Financing Activities	<u>28</u>	(1,346)
2,115	Net increase or decrease in cash and cash equivalents		64,246
135,996	Cash and cash equivalents at the beginning of the reporting period		138,111
138,111	Cash and cash equivalents at the end of the reporting period	<u>20</u>	202,357

NOTE 1. STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31st March 2015. 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 2014/15 and the *Service Reporting Code of Practice (SeRCOP) 2014/15*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council including the group accounts for the year ending 31st March 2015 and to ensure it is compliant with relevant statutory accounting requirements issued by the International Accounting Standards Board (IASB). Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

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

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that

economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. This includes the accounting for fees, charges and rents due from customers; these are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet if material.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.
- The Council operates a de minimis threshold for revenue accruals of £10,000 below which items of income and expenditure are not required.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice. Cash equivalents are investments that mature no more than three months 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 when 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:

Property, Plant and Equipment – The materiality level for assessing whether assets contain separately depreciable components has been reviewed and has changed from £0.5m to £1m. This threshold is considered appropriate as it encompasses 90% of the asset value for those assets subject to componentisation.

Future Changes in Accounting Policy - The Code of Practice on Local Council Accounting in the United Kingdom 2015/16 (the Code) has introduced several changes in accounting policies which will be required from 1st April 2015. If these had been adopted for the financial year 2014/15 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:

- **IFRS13 Fair Value Measurement (May 2011)** – This standard requires that valuations are based on transfer prices in principal or most advantageous markets.
- **IFRIC21 Levies** – This standard outlines how levies imposed by Government are to be recognised. This standard is unlikely to materially affect how the Council accounts for levies as disclosed in note 9 – Other Operating Expenditure
- **Annual Improvements to IFRSs (2011-2013 cycle)** – A cyclical review of IFRS standards clarifies some standards. The issues covered are as follows:
- **IFRS1 – Meaning of effective IFRSs** – this allows the early introduction of standards before they become mandatory.
- **IFRS3 – Scope exceptions for joint ventures** – this applies to accounts for joint ventures. There are no material joint ventures that apply to the Council at present.
- **IFRS13 – Fair Value Measurement** - This permits the netting off of related assets and liabilities in some cases.
- **IAS40 – Investment Property** - Clarifies the interrelationship of IFRS3, Business Combinations and IAS40, Investment Property when classifying property as investment property or owner occupied. At present the Council has no investment properties.

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 2014/15 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 contribution scheme – no liability for future payments of benefits is recognised in the

Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The DfE set the teacher's pension contribution rate.

The Local Government Pension Scheme

The Local Government scheme is a defined benefits scheme.

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

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

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iBoxxSterling Corporates Index, AA over 15 years) as at 31st March 2015.

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 2015. This valuation is based on valuations for art and museum collections where the asset has a material value. The council holds information on the value of an item of material value within the art collection (one painting), two public sculptures and civic regalia (value held for insurance purposes).

Valuations are made by any method that is appropriate, including reference to sale proceeds of similar items by the same artist to demonstrate values are clearly under materiality limits. 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 2014/15 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 2014/15 (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, or the excess over the amount in the revaluation reserve, is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st 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, or the excess over the amount in the revaluation reserve, is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Any assets with a depreciable value below £1 million are not considered material for separating components. Separate components will be considered in an asset with a value

greater than £1 million if the component has a value of greater than 25% of the asset and the remaining life of the asset is materially different from the underlying asset.

Disposals and Non-Current Assets Held for Sale

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

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, 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).

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 second phase which will last until 31 March 2015. 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 assumptions made in the medium term financial plan in 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.
- 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. The Council has made provision to meet some of the potential revaluations.

3 Restated Accounting Statements

The split between creditor types in note 22 has been restated in 2013/14 figures to reflect a change of categorisation.

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 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

Valuations at 1st April 2014 are used to construct the balance sheet. However the Valuers have indicated that market values for housing properties have increased by roughly 12.5%, this would equate to £113m. The impact of these increases will be taken into account in a more detailed valuation exercise for the 2015/16 Accounts.

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 £1.2 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.

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 2015, the value of these creditors was £71.7 million (£76.9 million at 31st March 2014).

NNDR Appeals - There are over 5,400 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 lists. The Council has used its experience of the outcomes of previous appeals to calculate the provision for the possible outcome of the current appeals that are yet to be heard. The Council is satisfied that this is the most appropriate approach to assessing the provision but notes that there is a risk that the actual outcome for the current appeals may be different from the historic trends

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 2014/15, the Council's actuaries advised that the net pensions liability had increased by £153.6 million to £649.6 million mainly as a result of a lower discount factor used to calculate the net present value of future pension payments. This is despite investments increasing in value by £127 million in the year.

5 Material Items of Income and Expense

Current Year Items

Actuarial gain on pension fund - there was a £153.6 million actuarial loss on the pension fund mainly due to a lower discount factor used to calculate the net present value of future pension payments.

Revaluation of HRA dwellings - The valuation of property, plant and equipment as at 1st April 2014 resulted in an increase in the value of dwellings of £198m, of which £194m was credited to HRA gross expenditure as a reversal of previous revaluation losses.

6 Events After the Balance Sheet Date

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

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

	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
2014/15									
Adjustments involving the Capital Adjustment Account									
<u>Reversal of items debited or credited to the Comprehensive I&E</u>									
Charges for depreciation and impairment of non current assets	23,632	0	0	15,718	0	0	39,350	(39,350)	0
Revaluation losses on PPE (charged to SDPS)	31,911	0	(194,072)	0	0	0	(162,161)	162,161	0
Capital grants and contributions applied	(18,748)	0	(1,803)	0	0	(68,134)	(88,685)	88,685	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	16,951	0	4,044	0	0	0	20,995	(20,995)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	0	0	33,497	0	0	0	33,497	(33,497)	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(6,881)	0	0	0	0	0	(6,881)	6,881	0
Capital expenditure charged against the General Fund and HRA balances	(7,720)	0	(8,855)	0	0	0	(16,575)	16,575	0
Adjustments involving the Capital Receipts Reserve									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	0	0	(34,814)	0	34,814	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(8,549)	0	(8,549)	8,549	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,572	0	0	0	(1,572)	0	0	0	0
Unattached capital receipts	(681)	0	(2,778)	0	3,459	0	0	0	0
Deferred Capital Receipts	0	0	0	0	36	0	36	(36)	0
Adjustment involving the Major Repairs Reserve									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(9,940)	0	0	(9,940)	9,940	0
Adjustments involving the Financial Instruments Adjustment Account									
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	102	0	182	0	0	0	284	(284)	0
Adjustment involving the Pensions Reserve									
Reversal of items relating to retirement benefits debited or credited to the CIES	55,603	0	1,296	0	0	0	56,899	(56,899)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(39,814)	0	(2,533)	0	0	0	(42,347)	42,347	0
Adjustments involving the Collection Fund Adjustment Account									
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	(7,280)	0	0	0	0	0	(7,280)	7,280	0
Adjustments involving the Unequal Pay Back Pay Adjustment Account									
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>									
Adjustments involving the Capital Grants Unapplied Account									
Capital grants and contributions unapplied credited to CIES when receivable	(19,697)	0	(49,384)	0	0	69,081	0	0	0
Adjustment between the Capital Adjustment Account and the Revaluation Reserve									
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
Adjustments involving the Accumulated Absences Account									
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	(439)	0	0	0	0	0	(439)	439	0
Total Adjustments	28,511	0	(255,220)	5,778	28,188	947	(191,796)	191,796	0

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2013/14	USABLE RESERVES							UNUSABLE RESERVES	
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account									
<u>Reversal of items debited or credited to the Comprehensive I&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
Adjustments involving the Capital Receipts Reserve									
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
Adjustment involving the Major Repairs Reserve									
Reversal of Major Repairs Allowance credited to the HRA	0	0	0	(11,799)	0	0	(11,799)	11,799	0
Use of the Major Repairs Reserve to finance new capital expenditure									0
Adjustments involving the Financial Instruments Adjustment									
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
Adjustment involving the Pensions Reserve									
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
Adjustments involving the Collection Fund Adjustment Account									
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
Adjustments involving the Unequal Pay Back Pay									
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>									
Adjustments involving the Capital Grants Unapplied Account	(20,648)	0	(27,841)	0	0	48,489	0	0	0
Capital grants and contributions unapplied credited to CIES when receivable									
Adjustment between the Capital Adjustment Account and the	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
Transfers from General Fund (as directed by Secretary of State)									
Adjustments involving the Accumulated Absences Account	58	0	0	0	0	0	58	(58)	0
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									
Total Adjustments	13,197	0	(59,893)	4,032	306	(1,164)	(43,522)	43,522	0

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 2014/15

	BALANCE AT 1 APRIL 2013 £'000	TRANSFERS OUT 2013/14 £'000	TRANSFE-RS IN 2013/14 £'000	BALANCE AT 31 MARCH 2014 £'000	TRANSFERS OUT 2014/15 £'000	TRANSFERS IN 2014/15 £'000	BALANCE AT 31 MARCH 2015 £'000
GENERAL FUND							
General Fund Reserve	38,060	0	26,929	64,989	0	6,467	71,456
EARMARKED RESERVES							
Corporate							
1 Improvement & Efficiency	9,412	(1,446)	4,527	12,493	(927)	5,351	16,917
2 Severance	7,000	0	4,000	11,000	0	4,000	15,000
3 Finance Systems	2,100	0	410	2,510	0	0	2,510
4 ICT Refresh	1,355	0	500	1,855	(676)	370	1,549
5 Olympic Legacy Schemes	711	(60)	0	651	0	0	651
6 Education Grant Reduction	2,569	(670)	194	2,093	(760)	0	1,333
7 Employment and other Corporate Initiatives	11,905	(5,656)	8,215	14,464	(3,366)	2,747	13,845
8 Other	2,135	(162)	1,491	3,464	0	70	3,534
Service Specific							
9 Homelessness	3,024	(449)	0	2,575	(361)	0	2,214
10 Parking Control	1,756	(1,383)	540	913	0	1,006	1,919
11 Development & Renewal Other	3,201	(415)	79	2,865	(100)	1,789	4,554
12 Communities, Localities & Culture	1,089	(209)	336	1,216	(88)	709	1,837
13 Children, Schools & Families	1,172	(380)	803	1,595	(402)	988	2,181
14 Adults, Health & Wellbeing	5,293	(4,493)	0	800	0	1,138	1,938
15 Chief Executives & Resources	464	0	100	564	0	0	564
Revenue Reserves - Other							
16 Insurance	23,108	(2,255)	58	20,911	(582)	2,736	23,065
17 Schools Balances	31,871	0	2,853	34,724	(2,148)	3,412	35,988
18 CSF - Early Intervention	4,969	(3,359)	706	2,316	0	146	2,462
19 Housing Revenue Account (HRA)	15,233	0	1,920	17,153	(1)	2,993	20,145
20 Housing Revenue Account - Future Housing Supply	1,000	0	0	1,000	0	0	1,000
Capital Reserves							
21 Capital Programme (General Fund)	22,019	(751)	3,527	24,795	(7,800)	7,593	24,588
Earmarked Reserve Total	151,386	(21,688)	30,259	159,957	(17,211)	35,048	177,794
Total Usable Reserve Total	189,446	(21,688)	57,188	224,946	(17,211)	41,515	249,250

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 Council's finance systems.
- 5 Reserve created from grant income to support initiatives related to the Olympics programme.
- 6 Reserve to mitigate the impact of reductions to education improvement grant funding.
- 7 Reserve for employment, business support and corporate initiatives.
- 8 Other 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 Children, School & Families 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

2013/14 £'000	Note	2014/15 £'000
Levies		
235	- Lee Valley Regional Park Authority	236
171	- Environment Agency	173
1,233	- London Pensions Fund Authority	1,261
1,639	Total Levies	1,670
1,807	Payments to Housing Capital Receipts Pool	1,572
11,447	Net (gain)/loss on disposal of non-current assets	(1,316)
(692)	Unattached capital receipts	(3,459)
14,201	Total	(1,533)

Nine burial subsidy payments totalling £2,250 were paid after the commissioners were appointed. As these payments have been considered grants and were not approved by the commissioners before paying, this expenditure is considered unlawful. As the Council does not have a cemetery within its boundaries, these subsidy payments are to assist with the cost of burials in three cemeteries in Redbridge and Newham. This expenditure is shown within the Central Services line of the CI&E.

10 Financing and Investment Income and Expenditure

2013/14 £'000		2014/15 £'000
13,186	Interest payable and similar charges	9,745
23,137	Pensions interest cost and expected return on pensions assets	21,175
(2,336)	Interest receivable and similar income	(2,254)
31	Surplus or deficit of trading operations	(6)
34,018	Total	28,660

11 Taxation and Non Specific Grant Income

2013/14 £'000		2014/15 £'000
(64,266)	Council Tax income	(67,576)
(96,259)	Non domestic rates	(108,528)
(172,749)	Non-ringfenced Government grants	(146,321)
(69,663)	Capital grants and contributions	(82,818)
(402,937)	Total	(405,243)

12 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2014/15	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
Cost or Valuation									
At 1 April 2014	905,913	974,232	23,414	143,975	49,677	24,588	0	2,121,799	270,854
Additions	69,969	32,881	762	5,055	3,900	285	2,840	115,692	7,167
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(10,338)	(16,748)	0	0	0	0	0	(27,086)	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	194,071	(31,919)	0	0	0	0	0	162,152	0
Derecognition - Disposals	(34,002)	0	0	0	0	0	0	(34,002)	0
Derecognition - Other	0	0	0	0	0	0	0	0	0
Assets Reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	0	0	0	0	0	0	0	0	0
At 31 March 2015	1,125,613	958,446	24,176	149,030	53,577	24,873	2,840	2,338,555	278,021
Accumulated Depreciation and Impairment									
At 1 April 2014	152,733	71,326	19,106	38,976	0	359	0	282,500	6,722
Depreciation charge	14,141	20,086	1,071	3,643	0	607	0	39,548	7,702
Depreciation written out to the Revaluation Reserve	(14,234)	(11,376)	0	0	0	0	0	(25,610)	0
Derecognition - Disposals	(506)	0	0	0	0	0	0	(506)	0
Derecognition - Other	0	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	0	0	0	0	0	0	0	0	0
At 31 March 2015	152,134	80,036	20,177	42,619	0	966	0	295,932	14,424
Net Book Value									
At 31 March 2015	973,479	878,410	3,999	106,411	53,577	23,907	2,840	2,042,623	263,597
At 31 March 2014	753,180	902,906	4,308	104,999	49,677	24,229	0	1,839,299	264,132

12 PROPERTY, PLANT AND EQUIPMENT (continued)

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

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 2014/15, 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 £98.525 million at 31st March 2015 (£92.197 million at 31st March 2014).

	Committed sum £m	Costs to 31/3/2015 £m	2015/16 onwards £m	Contract End Date
Decent Homes Contract	175.000	76.475	98.525	31/03/2017
TOTAL	175.000	76.475	98.525	

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 2014/15, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 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	-	9,697	3,999	106,411	53,577	-	2,840	176,524
Valued at fair value in:								
2014/15	973,479	77,047	-	-	-	-	-	1,050,526
2013/14	-	66,667	-	-	-	23,907	-	90,574
2012/13	-	657,377	-	-	-	-	-	657,377
2011/12	-	25,411	-	-	-	-	-	25,411
2010/11	-	42,211	-	-	-	-	-	42,211
Value at 31 March 2015	973,479	878,410	3,999	106,411	53,577	23,907	2,840	2,042,623

13 LONG TERM DEBTORS

	1st April 2013 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2014 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2015 £'000
Mortgages on Right to Buy properties	128	5	(72)	61	4	(37)	28
Sundry Loans	544	154	(169)	529	183	(127)	585
	672	159	(241)	590	187	(164)	613

14 INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licences, not internally generated software. Since the provision of IT services transferred to the Council's partner organisation on 1st May 2012 there have been no intangible asset transactions.

15 FINANCIAL INSTRUMENT NOTES

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

Amortised Cost

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

Fair Value

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

Compliance

The Council has:

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

Types of Financial Instruments

Financial Instrument Categories	Long-Term		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2014	2015	2014	2015	2014	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Liabilities						
Borrowings at amortised cost	88,892	88,528	1,046	746	89,938	89,274
Deferred Liabilities (PFI)	38,472	37,509	938	964	39,410	38,473
Creditors - Financial Liabilities carried at contract amount	0	0	87,343	71,728	87,343	71,728
Total Liabilities	127,364	126,037	89,327	73,438	216,691	199,475
Financial Assets						
Loans and receivables	0	0	185,636	215,748	185,636	215,748
Debtors - financial assets carried at contract amounts	0	0	25,348	25,655	25,348	25,655
Cash held at bank and cash equivalents	0	0	138,111	202,357	138,111	202,357
Total Financial Assets	0	0	349,095	443,760	349,095	443,760

NOTES

1. Market loans (LOBOs) of £77.5 million have been included in long term borrowing.
2. Included in loans and receivables is £10m of deposits due to be settled within 1 and 3 years as at 31 March 2015.
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 2015 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 £165.9 million (£107.6 million as at 31st March 2014) 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 2014/15 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:

	2013/14		2014/15	
	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	13,186	0	9,745	0
Interest income	0	2,336	0	2,254
TOTAL INTEREST AND INVESTMENT INCOME	13,186	2,336	9,745	2,254

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 2015.
- 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 2014	31 March 2014	31 March 2015	31 March 2015
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Public Works Loans Board	12,131	14,996	11,455	14,598
Lender's option, borrower's option loans	77,807	76,876	77,818	100,297
Deferred liabilities - Private Finance Initiatives (PFI)	39,410	39,410	38,473	38,473
Creditors - Financial Liabilities carried at contract amount	87,343	87,343	71,728	71,728
Financial Liabilities	216,691	218,625	199,474	225,096

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 2014	31 March 2014	31 March 2015	31 March 2015
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Fixed term deposits with banks and building societies	185,629	185,807	215,741	215,945
Equity Shares (not quoted in an active market)	7	7	7	7
Debtors - financial assets carried at contract amounts	25,348	25,348	21,615	21,615
Cash held at Bank	30,544	30,544	67,188	67,188
Cash equivalents (deposits with banks and other financial institutions)	107,567	107,567	135,169	135,129
Financial Assets	349,095	349,273	439,720	439,884

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 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%
TOTAL	323,740	0%	0%	0%

	Amounts at 31 March 2015 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2015 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	102,207	0%	0%	0%
Money Market Funds	100,150	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	0%	0%	0%
3 - 6 months	60,091	0%	0%	0%
6 - 12 months	145,621	0%	0%	0%
Over 12 months	10,029	0%	0%	0%
TOTAL	418,098	0%	0%	0%

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 £6 million of the £75 million balance (2013/14 - £5.6 million of the £87.8 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 2014 £'000	31 March 2015 £'000
Three to six months	1,307	1,191
Six months to one year	1,104	1,496
More than one year	3,178	3,334
TOTAL	5,589	6,021

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 2014 £'000	31 March 2015 £'000
Public Works Loans Board	12,131	11,455
Market debt	77,807	77,818
PFI	39,410	38,473
TOTAL	129,348	127,746
Less than 1 year	1,984	1,710
Between 1 and 2 years	2,032	3,094
Between 2 and 5 years	8,626	9,590
Between 5 and 10 years	17,886	19,580
More than 10 years	98,820	93,772
TOTAL	129,348	127,746

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 2015, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2013/14 £'000	2014/15 £'000
Increase in interest payable on variable rate borrowings	706	775
Increase in interest receivable on variable rate investments	(4,140)	(3,909)
Impact on Income and Expenditure Account	(3,434)	(3,134)

Fair Value Movements	2013/14 £'000	2014/15 £'000
Decrease in fair value of fixed rate investments	861	956
Decrease in fair value of fixed rate borrowing liabilities	2,890	3,993
Impact on Income and Expenditure Account	3,751	4,949

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)

	2013/14 £'000	2014/15 £'000
The Tower Hamlets Local Education Partnership	7	7
Total	7	7

16 INVENTORIES

	Consumable Stores		Client Services Work in Progress		Total	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Balance outstanding at start of year	20	14	370	1,725	390	1,739
Purchases	0	0	1,664	0	1,664	0
Recognised as an expense in the year	(6)	(14)	(309)	(1,725)	(315)	(1,739)
Balance outstanding at year-end	14	0	1,725	0	1,739	0

Note: consumable stores consists of pre-paid postage rechargeable to services. Consumerable stores to be charged direct to revenue in future as not material. Work in progress charged to revenue in 2014/15.

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 2015 and concluded that there was no significant impairment to report.

19 DEBTORS

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	38,044	26,850
Other local authorities	0	5,851
Other entities and individuals	87,851	79,708
Payments in advance	2,241	2,839
Total	128,136	115,248

20 CASH AND CASH EQUIVALENTS

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

	31 March 2014 £'000	31 March 2015 £'000
Cash held by the Council	30,544	67,188
Short-term deposits with banks and building societies	107,567	135,169
Total Cash and Cash Equivalents	138,111	202,357

21 ASSETS HELD FOR SALE

As at the 31st March 2015, the Council has one property which is classified as Assets Held for Sale.

	Current		Non Current	
	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000
Value at 1st April	3,248	225	0	0
Assets newly classified as held for sale:				
Property, Plant and Equipment	0	0	0	0
Assets sold	(3,023)	0	0	0
Value at 31st March	225	225	0	0

22 CREDITORS

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	33,694	40,483
Other local authorities	10,638	10,407
Other entities and individuals	62,912	76,895
Accruals*	76,949	71,728
Receipts in advance	15,359	16,127
Total	199,552	215,640

The above creditors include provision for an external audit inspection of the Council undertaken by PricewaterhouseCoopers. This was 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. The DCLG notified the Council that £998,044 is to be charged to the Council.

23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 1 April 2013 £'000	Amounts used in 2013/14 £'000	Contributions in 2013/14 £'000	Balance at 31 March 2014 £'000	Amounts used in 2014/15 £'000	Contributions in 2014/15 £'000	Balance at 31 March 2015 £'000
(a) Single Status	329	(155)	0	174	0	0	174
(b) ICT provision and other corporate provisor	0	0	772	772	(195)	878	1,455
(c) Adoption Fees	40	0	0	40	(40)	0	0
(d) Redundancy provisions	117	(117)	0	0	0	0	0
(e) Carbon Reduction provision	333	(333)	0	0	0	0	0
(f) Contract disputes	102	(102)	102	102	0	0	102
(g) Business rates appeals provision	0	0	8,250	8,250	(7,040)	1,800	3,010
TOTAL	921	(707)	9,124	9,338	(7,275)	2,678	4,741

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

LONG-TERM PROVISIONS	Balance at 1 April 2013 £'000	Amounts used in 2013/14 £'000	Contributions in 2013/14 £'000	Balance at 31 March 2014 £'000	Amounts used in 2014/15 £'000	Contributions in 2014/15 £'000	Balance at 31 March 2015 £'000
(h) Insurance Fund	12,508	(4,112)	628	9,024	(2,247)	0	6,777
(i) Repayment of deposits	169	0	0	169	0	0	169
(j) Repayment of European funding	394	0	0	394	0	0	394
TOTAL	13,071	(4,112)	628	9,587	(2,247)	0	7,340

12,081

- (a) For additional costs resulting from the single status agreement which changed employees' conditions of service.
- (b) Provision for ICT licences and corporate provision.
- (c) Provision required in 2013/14 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 2015.
- (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) 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.
- (i) 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.
- (j) 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.

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 2014 £'000		31 March 2015 £'000
347,108	Revaluation Reserve	342,264
0	Available for Sale Financial Instruments Reserve	0
1,226,255	Capital Adjustment Account	1,428,571
852	Financial Instruments Adjustment Account	568
(495,946)	Pensions Reserve	(649,564)
767	Collection Fund Adjustment Account	8,047
(3,427)	Accumulating Compensated Absences Adjustment Account	(2,988)
47	Deferred Capital Receipts	11
1,075,656	Total Unusable Reserves	1,126,909

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.

2013/14 £'000		2014/15 £'000
324,686	Balance at 1 April	347,109
33,643	Upward revaluation of assets	14,170
(957)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(15,647)
<u>32,686</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(1,477)
(3,595)	Difference between fair value depreciation and historical cost depreciation	(3,228)
(6,668)	Accumulated gains on assets sold or scrapped	(139)
(10,263)	Amount written off to the Capital Adjustment Account	(3,367)
347,109	Balance at 31 March	342,265

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.

2013/14 £'000		2014/15 £'000
1,153,639	Balance at 1 April	1,226,254
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(39,236)	Charges for depreciation and impairment of non current assets	(39,350)
21,374	Revaluation losses and reversals on Property, Plant and Equipment	162,161
(31,004)	Revenue expenditure funded from capital under statute	(20,995)
(27,507)	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	(33,497)
(76,373)		68,319
10,263	Adjusting amounts written out of the Revaluation Reserve	3,367
(66,110)	Net written out amount of the cost of non current assets consumed in the year	71,686
	Capital financing applied in the year:	
14,701	Use of the Capital Receipts Reserve to finance new capital expenditure	8,549
11,799	Use of the Major Repairs Reserve to finance new capital expenditure	9,940
95,131	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	88,685
6,836	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	6,882
10,258	Capital expenditure charged against the General Fund and HRA balances	16,575
138,725		130,631
1,226,254	Balance at 31 March	1,428,571

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 2015 will be charged to the General Fund over the next 10 years.

2013/14 £'000		2014/15 £'000
1,032	Balance at 1 April	852
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in	
(180)	accordance with statutory requirements	(284)
852 Balance at 31 March		568

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.

2013/14 £'000		2014/15 £'000
(522,962)	Balance at 1 April	(495,946)
44,724	Actuarial gains or losses on pensions assets and liabilities	(139,066)
(56,858)	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	(56,899)
39,150	Employer's pensions contributions and direct payments to pensioners payable in the year	42,347
(495,946) Balance at 31 March		(649,564)

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.

2013/14 £'000		2014/15 £'000
1,588	Balance at 1 April	767
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in	
(821)	accordance with statutory requirements	7,280
767	Balance at 31 March	8,047

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.

2013/14 £'000		2014/15 £'000
110	Balance at 1 April	48
(62)	Transfer to the Capital Receipts Reserve upon receipt of cash	(37)
48	Balance at 31 March	11

26a NOTE A TO THE CASH FLOW STATEMENT

2013/14 £'000		2014/15 £'000
82,195	Net Surplus or (Deficit) on the Provision of Services	251,011
	<u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u>	
39,235	Depreciation	39,349
(21,374)	Impairment and downward valuations	(162,161)
(244)	Adjustments for effective interest rates	57
(969)	Increase/Decrease in Interest Creditors	(602)
38,160	Increase/Decrease in Creditors	(13,290)
1,225	Increase/Decrease in Interest and Dividend Debtors	0
(57,651)	Increase/Decrease in Debtors	49,890
(1,349)	Increase/Decrease in Inventories	1,739
17,712	Pension Liability	14,550
4,933	Contributions to/(from) Provisions	(6,844)
27,507	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	33,497
47,185		(43,815)
	<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>	
(45,477)	Capital Grants credited to surplus or deficit on the provision of services	(20,551)
0	Premiums or Discounts on the repayment of financial liabilities	(808)
(16,750)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(38,273)
(62,227)		(59,632)
67,153	Net cash flows from operating activities	147,564

26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2013/14 £'000		2014/15 £'000
3,688	Interest received	2,311
(14,299)	Interest paid	(10,347)
(10,611)		(8,036)

27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2013/14 £'000		2014/15 £'000
(90,462)	Purchase of property, plant and equipment, investment property and intangible assets	(123,351)
(39,300)	Purchase of short-term and long-term investments	(30,112)
(159)	Other payments for investing activities	0
16,122	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	34,815
49,654	Proceeds from short-term and long-term investments	36,676
(64,145)	Net cash flows from investing activities	(81,972)

28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2013/14 £'000		2014/15 £'000
841	Billing Authorities - Council Tax and NNDR adjustments	808
	Other receipts from financing activities	(1,216)
(845)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	0
(889)	Repayments of short- and long-term borrowing	(938)
(893)	Net cash flows from financing activities	(1,346)

29 TRADING OPERATIONS

The following services are reported as trading activities

	2013/14			2014/15			Balance 31/03/2015 £'000
	Expenditure	Income	Surplus/ (Deficit)	Expenditure	Income	Surplus/ (Deficit)	
	£'000	£'000	£'000	£'000	£'000	£'000	
Street Trading	2,419	2,388	(31)	2,482	2,488	6	216
TOTAL TRADING ACCOUNTS	2,419	2,388	(31)	2,482	2,488	6	216

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 2014/15 this commission amounted to £820,555 (£788,521 in 2013/14).

31 POOLED BUDGETS

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

- (a) Integrated Community Equipment Service (ICES)
- (b) Services for Adults with Learning Difficulties (LDSA)

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.

2014/15	ICES £'000	LDSA £'000
Income		
The Council	984	1,706
Barts and the London Trust health services	813	1,420
	1,797	3,126
Expenditure	1,961	3,126
Surplus/(Deficit) for the year	(164)	0

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

32 MEMBERS' ALLOWANCES

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

	2013/14 £'000	2014/15 £'000
Allowances	959	836
Total	959	836

Note - The number of Members in Tower Hamlets was reduced to 45 from the May 2014 election.

33 OFFICERS' REMUNERATION

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

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
Total Head of Paid Service	160,915	0	0	25,004	0	185,919
Corporate Directors						
Assistant Chief Executive (Legal Services) ¹	85,260	0	127,138	9,948	0	222,346
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 ²	74,000	0	0	11,449	0	85,449
Children, Schools & Families (Acting) ³	13,043	0	69,341	434	0	82,818
Education, Social Care & Wellbeing (Acting) ⁴	58,859	0	0	8,051	0	66,910
Other						
Interim Monitoring Officer ⁶	22,295	0	0	3,523	0	25,818
Monitoring Officer ⁷	23,839	0	0	0	0	23,839
Public Health ⁵	89,786	0	0	12,570	0	102,356
	793,151	0	196,479	111,962	0	1,101,592

¹ Left 31/08/2013

² Commenced 01/10/2013

³ Left 07/04/2013

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

⁵ Director transferred to the authority from NHS PCT to form LBTH Public Health 01/04/2013

⁶ Commenced 18/09/2013, left 31/12/2013

⁷ Commenced 20/01/2014

2014/15	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr S Halsey - Head of Paid Service & Corporate Director CLC	161,329	0	0	25,004	0	186,333
Total Head of Paid Service	161,329	0	0	25,004	0	186,333
Corporate Directors						
Resources (Acting)	123,417	0	0	19,094	0	142,511
Education, Health and Wellbeing	148,000	0	0	22,898	0	170,898
Development and Renewal	142,086	0	0	21,963	0	164,049
Public Health	101,265	0	0	14,177	0	115,442
Other						
Monitoring Officer	119,840	0	0	0	0	119,840
	795,936	0	0	103,137	0	899,073

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 (£)	2013/14					2014/15				
	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	201	(2)	82	(2)	283	220	(2)	97	(2)	317
55,000 - 59,999	134	(2)	43	(3)	177	135	(1)	42	(1)	177
60,000 - 64,999	48	(1)	40	(1)	88	64	0	52	(3)	116
65,000 - 69,999	31	0	23	0	54	31	0	21	(1)	52
70,000 - 74,999	23	0	26	0	49	28	0	31	(1)	59
75,000 - 79,999	17	0	5	(1)	22	16	0	5	(1)	21
80,000 - 84,999	8	0	4	0	12	11	(1)	3	0	14
85,000 - 89,999	3	0	8	(1)	11	6	0	4	(1)	10
90,000 - 94,999	8	(1)	3	(1)	11	4	0	1	0	5
95,000 - 99,999	4	(1)	6	(1)	10	4	0	7	(2)	11
100,000 - 104,999	2	0	7	0	9	4	0	7	(1)	11
105,000 - 109,999	1	0	1	0	2	1	0	4	(1)	5
110,000 - 114,999	1	0	2	(1)	3	1	0	0	0	1
115,000 - 119,999	1	0	0	0	1	1	0	0	0	1
120,000 - 124,999	1	0	0	0	1	1	0	0	0	1
125,000 - 129,999	0	0	0	0	0	1	0	0	0	1
135,000 - 139,999	2	0	0	0	2	0	0	0	0	0
140,000 - 144,999	1	0	0	0	1	3	0	0	0	3
170,000 - 174,999	0	0	1	(1)	1	0	0	0	0	0
	486	(7)	251	(12)	737	531	(4)	274	(14)	805

*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)	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
0 - 20,000	8	4	28	14	36	18	414	153
20,001 - 40,000	0	1	6	11	28	12	793	326
40,001 - 60,000	0	0	26	6	11	6	520	306
60,001 - 80,000	0	0	12	3	8	3	551	203
80,001 - 100,000	0	0	9	2	4	2	367	174
100,001 - 150,000	0	0	3	4	5	4	585	477
150,001 - 200,000	0	0	0	0	0	0	0	0
200,001 - 250,000	0	0	0	0	0	0	0	0
Total	8	5	84	40	92	45	3,230	1,639

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.

	2013/14 £'000	2014/15 £'000
Expenditure		
Property, Plant and Equipment	101,903	115,692
Intangible Assets	-	-
Heritage Assets	-	-
Revenue Expenditure Funded from Capital Under Statute	31,004	20,995
TOTAL	132,907	136,687
Sources of Finance		
Borrowing	1,018	12,939
Capital Grants and Contributions	95,131	88,685
Capital Receipts	14,701	8,548
Major Repairs Reserve	11,799	9,940
Direct Revenue Funding	10,258	16,575
TOTAL	132,907	136,687
	2013/14 £'000	2014/15 £'000
Opening Capital Financing Requirement	225,848	220,720
Capital investment		
Property, Plant and Equipment	101,903	115,692
Intangible Assets	-	-
Heritage Assets	0	0
Revenue Expenditure Funded from Capital under Statute	31,004	20,995
Sources of finance		
Capital grants and contributions	(95,131)	(88,685)
Capital receipts	(14,701)	(8,548)
Major repairs reserve	(11,799)	(9,940)
Sums set aside from revenue:		
• Direct revenue contributions	(10,258)	(16,575)
• Minimum Revenue Provision ¹	(6,146)	(6,142)
Closing Capital Financing Requirement	220,720	227,517
Explanation of movements in year		
Decrease in underlying need to borrow (supported by government financial assistance)	(5,493)	(2,842)
Decrease in underlying need to borrow (unsupported by government financial assistance)	365	9,639
Increase/(decrease) in Capital Financing Requirement	(5,128)	6,797

¹ 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.

	2013/14 £'000	2014/15 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	294	280
Addition fees payable to external Audit for inquiries relating to 2012/13 invoiced in 2013/14	12	0
Addition fees payable to external Audit for inquiries relating to 2013/14 invoiced in 2014/15	0	50
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	28	30
Fees payable in respect of other services provided by external auditors during the year	26	13
Fees to external auditor for grants not under PSAA	4	7
Total	364	380

The fees payable to the external auditors for other services comprise of NNDR - £2.6k, £50k for various audit work related to 2013/14 but completed in 2014/15 & fees relating to provision of VAT advice - £2.5k.

The Audit commission paid a rebate of £30.7k in 2014/15. This has the effect of reducing the overall cost to the Council.

The cost of the Best Value Inspection by PwC has been accounted for in 2014/15. The amount charged will be £998,440. This will impact upon the overall cost to the council.

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 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	Carry forward to 2014/15	7,579	(187)	7,392

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

Notes	DSG Receivable for 2014/15	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2014/15 before Academy Recoupment	46,023	270,351	316,374
B	Academy figure Recouped 2014/15	0	(16,249)	(16,249)
C	Total DSG after Academy Recoupment 2014/15	46,023	254,102	300,125
D	Brought forward from 2013/14	0	0	7,392
E	Carry forward to 2015/16 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2014/15	53,415	254,102	307,517
G	In-year adjustments		0	0
H	Final budget distribution for 2014/15	53,415	254,102	307,517
I	Less actual central expenditure	(50,680)	0	(50,680)
J	Less actual ISB deployed to schools	0	(252,742)	(252,742)
K	Council contribution for 2014/15	3,818	0	3,818
L	Carry forward to 2015/16	6,553	1,360	7,913

A	DSG figure as issued by DfE in March 2015
B	Academy figure Recouped 2014/15
C	Total DSG after Academy Recoupment 2014/15
D	Figure brought forward from 2013/14
E	The amount which the Council decided after consultation with the schools forum to carry forward to 2015/16 rather than distribute in 2014/15
F	Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum
G	Changes to Initial distribution in 2014/15
H	Budgeted distribution of DSG at year end
I	Actual amount of central expenditure items in 2014/15
J	Amount of ISB distributed to schools
K	Contribution from the Council in 2014/15 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 2014/15:

	2013/14	2014/15
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Non-Ringfenced Government Grants		
Business Rate Related Grants	(4,981)	(7,025)
Council Tax Freeze Grant	(846)	(871)
Council Tax Related Grants	(788)	(209)
Education Services Grant	(1,889)	0
Local Service Support Grant	(135)	(135)
New Homes Bonus	(16,896)	(19,811)
Revenue Support Grant (Formula Grant)	(146,442)	(118,270)
RSG Capitalisation	(772)	0
Total Non-Ringfenced Government Grants	(172,749)	(146,321)
Capital Grants and Contributions		
Non-conditional grants:		
Schools-funded Capital Programme	(2,402)	(3,480)
Transport for London Funding	(2,781)	(2,992)
Major Works Contributions (cash received)	(2,716)	(3,384)
Capital Maintenance Grant	(3,554)	(3,095)
Basic Needs/New Pupil Places	(8,181)	(6,805)
Decent Homes Backlog Funding	(25,000)	(46,000)
Other Non-Conditional Grants Received	(2,334)	(1,138)
Conditional grants:		
Building Schools for the Future	(19,179)	(4,513)
Targeted Basic Need Grant	0	(4,383)
Other Conditional Grants Applied	(147)	(1,136)
Developers' Contributions	(3,369)	(5,892)
Total Capital Grants and Contributions	(69,663)	(82,818)
Credited to Services		
Capital Grants funding REFCUS	(19,933)	(4,868)
Developers' Contributions (capital) funding REFCUS	(4,370)	(1,947)
Developers' Contributions (revenue)	(1,249)	(2,350)
PFI Credits	(8,124)	(8,037)
School Sixth Form Grant	(16,619)	(17,589)
Pupil Premium Grant	(20,658)	(24,753)
Public Health Grant	(31,382)	(32,261)
Other Revenue Grants	(20,372)	(24,016)
Total Credited to Services	(122,707)	(115,821)
Total Grant Income in Comprehensive Income & Expenditure Account	(365,119)	(344,960)

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 2014 £'000	31st March 2015 £'000
Capital Grants Receipts in Advance		
Developers' Contributions	45,454	53,124
Building Schools for the Future	71	0
Major Works Invoices	8,546	8,485
National Affordable Housing Programme	6,265	6,265
Energy Efficiency Programme (DECC)	2,254	2,254
Targeted basic need programme	1,179	0
GLA Building the Pipeline Grant	0	5,100
Other capital grants and contributions	706	962
Total	64,475	76,190

38 RELATED PARTIES

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

Central Government

Central government has effective control over the general operations of the Council– it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 44 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2015 are within the creditors note.

Partnerships

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

Pension Fund

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

Subsidiary

Tower Hamlets Homes is a wholly owned subsidiary of London Borough of Tower Hamlets. Details of Tower Hamlets Homes are within note 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 2013/14 £'000	Payments by the Council over £10k 2014/15 £'000	Amounts due to Orgs. > £10k at 31/03/15 £'000
15billion	D Chesterton*	Member			
Aldgate and Allhallows Barking Foundation	S Islam	Council Representative			
	D Jones	Council Representative			
Balagonji Educational Trust	S Ali	Council Representative			
Bangladesh Youth Movement	A Khan	Employee		59	13
Bengali Educational Society	S Islam	Treasurer			
Bromley By Bow Centre	H Uddin	Employee	496	577	154
Central Foundation Girls School	M M Miah*	Governor		19	
Community Martial Arts Trust	A Miah*	Employee		16	
Developmental Council of Bangladeshis in the UK	K U Ahmed	Joint Treasurer			
Docklands Sailing & Watersports Centre	D Chesterton*	Member		21	
Eastside Books Ltd	D Jones	Director of bookshop that supplies books to LBTH schools			
East End Homes	H Uddin	Board Member	239	586	36
	G Robanni	Member			
Friends of Tower Hamlets Cemetery Park	R Blake*	Member		33	11
GMB	A M O Ahmed	Member	95	101	24
	K U Ahmed	Member			
	A Khan	Member			
	R Blake*	Member			
	J J Peck	Member			
	A Asad	Member			
	H Uddin	Member			
	M Francis	Member			
	S Haque	Member			
	S Khatun	Member			
	A Ali	Member			
Golapgonj Education Trust	A M O Ahmed	Trustee			
	S Khatun*	Member			
	A Miah*	Member			
Green Candle Dance Company	P Golds	Council Representative		26	
Heritage of London Trust	D Jones	Council Representative			
Hermitage Primary School	M Alam*	Governor			
Ian Mikardo High School	D Hassell*	Governor			
Island Homes Housing Association	M Miah	Resident Board Member - receives a monthly allowance			
Island Sports Trust	P Golds				
Isle of Dogs Community Foundation	D J Edgar	Council Representative			
John Scurr Primary School	S Islam	Governor			
Leaside Regeneration Ltd	D J Edgar	Council Representative			
Lee Valley Regional Park Authority	D Jones	Council Representative		20	
	S Ali	Deputy Member			
London Education Trust	M A Mustaqim*				
London Youth Games	L Pavitt	Council Representative (2013/14 only)	18		
Mile End Park Partnership Board	D Jones	Council Representative			
	J Peck	Member			
Mulberry Girls School	D Jones			13	
National Union of Teachers	D Hassell*	Member			
Old Ford Housing Association	M Francis	Board Director	63		
Olga Primary School	C Harrison*	Governor		28	
Gateway Housing Association	H Uddin	Employer has a Working Relationship with this Organisation	258	1,541	279
Poplar Harca	A M O Ahmed		1,155	2,854	404
Rich Mix Cultural Foundation	D Jones	Director			
Solander Gardens Community & Education	H Miah	Secretary			
Smithy Street Primary School	A Khan	School Governor			
Spitalfields Housing Association Ltd	A Mukit*	Board Member			
St Katherine & Shadwell Trust	S Haque	Deputy			
	D Jones	Council Representative (Ceased in Oct 2013)			
St Matthias Primary School	A Mukit*	School Governor			
St Peters Bengali Association	M A Mustaqim*			82	27
Sylhet Divisional Welfare Council	K U Ahmed	General Secretary			
The Childrens Society	A Whiteclock				
Tower Hamlets Cemetery	D J Edgar	Member			
Tower Hamlets Community Housing	G Robanni	Council Representative	150	205	59
Tower Hamlets Homes	G Robanni	Member	13,318	15,677	
	A Choudhury	Council Representative			
Trinity Buoy Wharf	D Jones	Director			
Unison	C Harrison*	Employee		467	119
	D Hassell*	Member			
Victoria & Albert Museum of Childhood	D Jones	Council Representative		11	
Wiltons Music Hall	D Jones	Trustee			

*New Member from May 2014

39 LEASES

Authority as Lessee

Finance Leases

As a Lessee the Council has no material finance leases 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 2014 £'000	Vehicles Plant & Equipment 31 March 2014 £'000	Land & Buildings 31 March 2015 £'000	Vehicles Plant & Equipment 31 March 2015 £'000
Adults Health and Wellbeing				
Not later than one year	164	0	150	0
Later than one year and not later than five years	654	0	601	0
Later than five years	1,992	0	1,678	0
Chief Executive's				
Not later than one year	0	0	0	164
Later than one year and not later than five years	0	0	0	80
Later than five years	0	0	80	0
Children Schools and Families				
Not later than one year	240	337	142	332
Later than one year and not later than five years	421	265	318	371
Later than five years	634	6	577	9
Communities Localities and Culture				
Not later than one year	0	654	0	649
Later than one year and not later than five years	0	1,775	0	1,452
Later than five years	0	651	0	410
Development and Renewal				
Not later than one year	2,896	6	2,895	0
Later than one year and not later than five years	11,579	0	11,579	0
Later than five years	7,818	0	2,136	0
Total				
Not later than one year	3,300	997	3,187	1,144
Later than one year and not later than five years	12,654	2,040	12,497	1,903
Later than five years	10,444	657	4,472	419
	26,398	3,694	20,156	3,467

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 2014 £'000	Vehicles Plant & Equipment 31st March 2014 £'000	Land & Buildings 31st March 2015 £'000	Vehicles Plant & Equipment 31st March 2015 £'000
Adults Health and Wellbeing				
Minimum Lease Payments	164	0	150	0
Chief Executive's				
Minimum Lease Payments	0	0	0	164
Communities Localities and Culture				
Minimum Lease Payments	0	809	0	673
Children Schools and Families				
Minimum Lease Payments	250	957	240	494
Development and Renewal				
Minimum Lease Payments	2,896	6	2,895	0
Total				
Minimum Lease Payments	3,310	1,772	3,285	1,331

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 2014 £'000	31st March 2015 £'000
Not later than one year	(3,262)	(3,313)
Later than one year and not later than five years	(10,939)	(10,896)
Later than five years	(17,262)	(16,595)
	(31,463)	(30,804)

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. 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
Asset value at 31 March 2014	31,247	230,187	2,699	264,133
Depreciation	(757)	(6,642)	(303)	(7,702)
Revaluations	0	0	0	0
Enhancements	75	7,092	0	7,167
Derecognition	0	0	0	0
Asset value at 31 March 2015	30,565	230,637	2,396	263,598

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liabilities at 31 March 2014	6,715	30,126	2,570	39,411
Repayments	(237)	(503)	(198)	(938)
Liabilities at 31 March 2015	6,478	29,623	2,372	38,473
Consisting of:				
Long term liability	6,228	29,107	2,174	37,509
Short-term liability	250	516	198	964
Liability value at 31 March 2015	6,478	29,623	2,372	38,473

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liability				
Within 1 year	250	516	198	964
Within 2 - 5 years	1,332	3,901	791	6,024
Within 6 - 10 years	2,185	13,202	988	16,375
Within 11 - 15 years	2,711	12,004	395	15,110
	6,478	29,623	2,372	38,473
Interest				
Within 1 year	727	4,661	0	5,388
Within 2 - 5 years	2,583	17,568	0	20,151
Within 6 - 10 years	2,338	16,485	0	18,823
Within 11 - 15 years	777	3,501	0	4,278
	6,425	42,215	0	48,640
Service Charges				
Within 1 year	673	4,423	0	5,096
Within 2 - 5 years	2,694	9,115	0	11,809
Within 6 - 10 years	3,367	13,414	0	16,781
Within 11 - 15 years	2,694	7,200	0	9,894
	9,428	34,152	0	43,580

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	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Account						
Cost of Services						
Current service costs	32,829	35,148	397	329	33,226	35,477
Impact of settlements and curtailments	495	209	0	38	495	247
Total Service Cost	33,324	35,357	397	367	33,721	35,724
Interest income on plan assets	(38,328)	(38,519)	(1,670)	(2,218)	(39,998)	(40,737)
Interest cost on defined benefit obligation	60,790	59,382	2,345	2,530	63,135	61,912
Total Net Interest	22,462	20,863	675	312	23,137	21,175
Net Charge to the Comprehensive Income and Expenditure Account	55,786	56,220	1,072	679	56,858	56,899
Remeasurement of the Scheme Liabilities						
Changes in demographic assumptions	(5,312)	0	671	0	(4,641)	0
Changes in financial assumptions	7,868	209,109	(3,579)	7,006	4,289	216,115
Other experience	(32,938)	(13,659)	(826)	72	(33,764)	(13,587)
Return on plan assets excluding amounts included in net interest	(467)	(70,160)	0	(1,384)	(467)	(71,544)
Total remeasurements recognised in Comprehensive Income and Expenditure Statement	(30,849)	125,290	(3,734)	5,694	(34,583)	130,984
Movement in Reserves Statement - General Fund Balance						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(55,786)	(56,220)	(1,072)	(679)	(56,858)	(56,899)
Actual amount charged against the General Fund Balance for pensions in the year	38,357	41,554	793	793	39,150	42,347

In 2014/15 the Council paid £11.133 million into the Teachers Pension Scheme, representing 14.1% of pensionable pay. The figures for 2013/14 were £11.139 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 and 2014/15 there were no added year payments by the Council.

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Account, actuarial losses of £ 139.066 million (£47.143 million in 2013/14) 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 £519.370 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	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
1st April	(1,453,831)	(1,503,100)	(67,336)	(61,951)	(1,521,167)	(1,565,051)
In-year adjustment to exclude/(incorporate) THH deficit	(19,959)	(19,172)	0	0	(19,959)	(19,172)
Current service cost	(32,829)	(35,148)	(397)	(329)	(33,226)	(35,477)
Interest cost	(60,790)	(59,382)	(2,345)	(2,530)	(63,135)	(61,912)
Contributions	(8,858)	(9,638)	(79)	(81)	(8,937)	(9,719)
Actuarial gains / (losses)	30,382	(195,450)	3,734	(7,078)	34,116	(202,528)
Benefits paid	43,280	44,494	4,472	3,598	47,752	48,092
Losses on curtailments	(495)	(209)	0	(38)	(495)	(247)
31st March	(1,503,100)	(1,777,605)	(61,951)	(68,409)	(1,565,051)	(1,846,014)

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

	The Council		LPFA		Total	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
1st April	947,684	1,012,951	50,521	56,154	998,205	1,069,105
In-year adjustment to exclude/(incorporate) THH deficit	22,537	11,090	0	0	22,537	11,090
Expected rate of return	38,328	38,519	1,670	2,218	39,998	40,737
Actuarial (losses) / gains	467	70,160	7,563	1,384	8,030	71,544
Members	8,858	9,638	79	81	8,937	9,719
Employer	38,357	41,554	793	793	39,150	42,347
Benefits paid	(43,280)	(44,494)	(4,472)	(3,598)	(47,752)	(48,092)
31st March	1,012,951	1,139,418	56,154	57,032	1,069,105	1,196,450

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

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Present value of liabilities:					
The Council	(1,042,983)	(1,214,784)	(1,453,831)	(1,503,100)	(1,777,605)
LPFA	(54,168)	(59,245)	(67,336)	(61,951)	(68,409)
Fair value of assets					
The Council	740,326	803,077	947,684	1,012,951	1,139,418
LPFA	48,135	48,405	50,521	56,154	57,032
Deficit in the scheme					
The Council	(302,657)	(411,707)	(506,147)	(490,149)	(638,187)
LPFA	(6,033)	(10,840)	(16,815)	(5,797)	(11,377)
Total deficit in the schemes	(308,690)	(422,547)	(522,962)	(495,946)	(649,564)

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 £649.5 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 2016 are £43.246 million to the Council's scheme and £0.824 million to the LPFA scheme (per actuary's reports).

41 PENSION SCHEME (continued)

Basis for estimating assets and liabilities

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

	The Council		LPFA	
	2013/14	2014/15	2013/14	2014/15
Long-term expected rate of return on assets in the scheme ¹	4.3%	4.3%	4.0%	4.0%
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	22.2 years	22.2 years	21.0 years	21.1 years
Women	24.2 years	24.2 years	24.4 years	24.4 years
Longevity at 65 for future pensioners:				
Men	24.3 years	24.3 years	23.4 years	23.5 years
Women	26.4 years	26.4 years	26.6 years	26.7 years
Rate of inflation			3.4%	3.0%
Rate of increase in salaries	4.1%	3.8%	4.4%	4.0%
Rate of increase in pensions	2.8%	2.4%	2.6%	2.2%
Rate for discounting scheme liabilities	4.3%	3.2%	4.2%	3.0%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%		

¹ The expected rates of return are set equal to the discount rate.

Major categories of assets as a proportion of total assets

The categories of assets are as follows.

	The Council		LPFA	
	2013/14	2014/15	2013/14	2014/15
Equities	65%	66%	53%	43%
Bonds	15%	17%	0%	0%
Property	10%	10%	3%	3%
Infrastructure	0%	0%	4%	5%
Commodities	0%	0%	1%	1%
Cash	1%	4%	3%	11%
Cash flow matching	0%	0%	6%	8%
Target return portfolio/other	9%	3%	30%	29%

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2014/15 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2015:

	2010/11	2011/12	2012/13	2013/14	2014/15
	%	%	%	%	%
The Council					
Experience gains and (losses) on assets	-8.88	-5.40	6.10	0.05	6.96
Experience gains and (losses) on liabilities	-16.98	5.98	9.89	-2.20	11.94
London Pensions Fund Authority					
Experience gains and (losses) on assets	17.75	-0.01	4.52	13.47	0.00
Experience gains and (losses) on liabilities	-1.58	8.19	12.05	-5.45	10.35

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 recorded in the report to Cabinet in July 2015 was as follows:

DIRECTORATE CI&E 2014/15	Directorate of Law, Probity & Governance £'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	(9,293)	(116,808)	(62,790)	(69,988)	(88,220)	(14,177)	(89,427)	(450,703)
Government grants	(143)	(359,943)	(3,951)	(295)	(266,260)	(61,203)	0	(691,795)
TOTAL INCOME	(9,436)	(476,751)	(66,741)	(70,283)	(354,480)	(75,380)	(89,427)	(1,142,498)
Employee expenses	5,603	345,959	41,429	23,955	29,294	17,548	368	464,156
Other service expenses	8,302	307,852	89,845	18,746	282,635	5,888	47,712	760,980
Support service recharges	5,165	47,915	16,124	43,936	50,468	0	38,528	202,136
TOTAL EXPENDITURE	19,070	701,726	147,398	86,637	362,397	23,436	86,608	1,427,272
NET EXPENDITURE	9,634	224,975	80,657	16,354	7,917	(51,944)	(2,819)	284,774

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

	£'000
Net expenditure in the Directorate Analysis	284,774
Net expenditure of services and support services not included in the Analysis	0
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(137,643)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(20,026)
COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT	127,105

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 2014/15	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	(450,703)	147,520	(188)	(605)	(303,976)	0	(303,976)
Interest and investment income	0	0	0	2,254	2,254	(2,254)	0
Unattached capital receipts	0	0	0	0	0	(3,459)	(3,459)
Government grants and contributions - service specif	(691,795)	0	(1,061)	23,741	(669,115)	0	(669,115)
Income from Council tax	0	0	0	0	0	(67,576)	(67,576)
Government grants and contributions - non-service sp	0	0	0	0	0	(146,321)	(146,321)
Distribution from non-domestic rates pool	0	0	0	0	0	(108,528)	(108,528)
Capital Grants and Contributions	0	0	(6,815)	0	(6,815)	(82,818)	(89,633)
HRA Settlement Determination (including Premia)	0	0	0	0	0	0	0
(Surplus)/Deficit on Trading Activities	0	0	0	2,488	2,488	0	2,488
TOTAL INCOME	(1,142,498)	147,520	(8,064)	27,878	(975,164)	(410,956)	(1,386,120)
Employee expenses	464,156	0	(5,928)	0	458,228	0	458,228
Other service expenses	760,980	0	(123,651)	(39,500)	597,829	0	597,829
Support service recharges	202,136	(147,520)	0	0	54,616	0	54,616
Depreciation, amortisation and impairment	0	0	0	0	0	0	0
Interest payments	0	0	0	(4,252)	(4,252)	9,745	5,493
Precepts and levies	0	0	0	(1,670)	(1,670)	1,670	0
Payments to Housing Capital Receipts Pool	0	0	0	0	0	1,572	1,572
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	(1,316)	(1,316)
Pensions interest costs and expected return on pensi	0	0	0	0	0	21,175	21,175
HRA Settlement Determination (including Premia)	0	0	0	0	0	0	0
(surplus)/Deficit on Trading Activities	0	0	0	(2,482)	(2,482)	(6)	(2,488)
TOTAL EXPENDITURE	1,427,272	(147,520)	(129,579)	(47,904)	1,102,269	32,840	1,135,109
SURPLUS OR DEFICIT ON THE PROVISION OF SE	284,774	0	(137,643)	(20,026)	127,105	(378,116)	(251,011)

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 COMPARATIVE FIGURES	Directorate of Law, Probity & Governance £'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)	(452,908)
Government grants	(529)	(350,610)	(3,890)	(83)	(282,256)	0	0	(637,368)
TOTAL INCOME	(9,930)	(460,352)	(65,820)	(71,793)	(323,771)	(68,265)	(90,345)	(1,090,276)
Employee expenses	9,281	336,182	40,922	26,295	23,029	17,341	31,926	484,976
Other service expenses	4,113	240,021	47,648	47,148	248,195	2,661	51,223	641,009
Support service recharges	5,932	113,775	56,901	18,053	62,080	0	3,033	259,774
TOTAL EXPENDITURE	19,326	689,978	145,471	91,496	333,304	20,002	86,182	1,385,759
NET EXPENDITURE	9,396	229,626	79,651	19,703	9,533	(48,263)	(4,163)	295,483

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

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 COMPARATIVE FIGURES	Amounts not reported to Management						
	Directorate analysis £'000	Services & support services not in analysis £'000	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	(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
TOTAL INCOME	(1,090,276)	117,137	(25,060)	2,336	(995,863)	(405,965)	(1,401,828)
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
TOTAL EXPENDITURE	1,385,759	(117,137)	1,201	(1,437)	1,268,386	51,247	1,319,633
SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	295,483	0	(23,859)	899	272,523	(354,718)	(82,195)

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 2013 £'000	2013/14 Acquisitions £'000	2013/14 Disposals £'000	2013/14 Revaluation £'000	Balance at 31st March 2014 £'000	2014/15 Acquisitions £'000	2014/15 Disposals £'000	2014/15 Revaluation £'000	Balance at 31st March 2015 £'000
Value of Heritage Assets held by Council									
(a) - Works of art	4,410	0	0	4,500	8,910	0	0	0	8,910
(b) - Civic Regalia	389	0	0	0	389	0	0	0	389
(c) - Local History Library and Archive Collections	0	0	0	0	0	0	0	0	0
(d) - Public Art (Middlesex Street)	11	0	0	0	11	0	0	0	11
TOTAL HERITAGE ASSETS	4,810	0	0	4,500	9,310	0	0	0	9,310

(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 1/4/2013	2013/14 Expenditure	2013/14 Income	Balance at 31/3/2014	2014/15 Expenditure	2014/15 Income	Balance at 31/3/2015
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) Welfare Savings / Client Financial Affairs	954	3,226	3,226	954	5,882	8,571	3,643
(b) Social Services Trust Funds - sundry other	1,630	91	5	1,544	1,792	315	67
(c) Tower Hamlets Further Education Trust	214	806	755	163	1,472	1,410	101
(d) Globe Town Picture Fund	160	0	0	160	0	0	160
(e) Sundry Other	39	0	15	54	40	0	14
TOTAL TRUST FUNDS	2,997	4,123	4,001	2,875	9,186	10,296	3,985

- (a) The fund represents monies held by Social Services on behalf of deputyship and appointeeship service users. It is held to protect the service users monies and to finance the purchase of goods and services on behalf of residents.
- (b) These Funds represent monies held by the Council on behalf of 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 2015 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 2015 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.

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

	The Council		THH		TOTAL	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Non-current assets - equipment	4,308	3,999	131	101	4,439	4,100
Inventories	1,739	0	0	0	1,739	0
Short-term debtors	128,136	78,238	(334)	(756)	127,802	77,482
Cash and cash equivalents	138,111	202,357	5,366	5,915	143,477	208,272
Short-term creditors	199,552	178,629	1,489	1,159	201,041	179,788
Pensions liability	495,946	649,564	0	0	495,946	649,564
Pensions reserve	(495,946)	(649,564)	0	0	(495,946)	(649,564)
Income and Expenditure Reserve	0	0	3,674	4,101	3,674	4,101

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	2013/14 £'000	2014/15 £'000
EXPENDITURE			
Repairs and maintenance		20,470	21,061
Supervision and management		31,946	32,098
Rents, rates, taxes and other charges		2,732	2,534
Depreciation of non-current assets	6		
On dwellings		14,234	14,141
On other assets		1,596	1,577
Revaluation losses (and reversals)		(19,676)	(194,063)
Debt management costs		73	73
Movement in the allowance for bad debts		514	239
Sums directed by the Secretary of State that are expenditure in accordance with the Code		1,994	4,044
TOTAL EXPENDITURE		53,883	(118,296)
INCOME			
Gross rental income			
Dwelling rents		66,530	67,966
Non dwelling rents		3,545	3,876
Charges for services and facilities		20,064	17,169
Contributions towards expenditure		135	115
TOTAL INCOME		90,274	89,126
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT		(36,391)	(207,422)
HRA services share of Corporate and Democratic Core		157	157
NET COST OF HRA SERVICES		(36,234)	(207,265)
HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account			
(Gain)/loss on sale of HRA non-current assets		(4,435)	(1,317)
Unattached capital receipts		(26)	(2,778)
Interest payable and similar charges	12	3,312	3,338
Interest and investment income		(69)	(300)
Pensions interest cost and expected return on pension assets	7	3,481	1,296
Capital grants and contributions receivable		(27,841)	(51,187)
DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES		(61,812)	(258,213)

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	2013/14		2014/15	
		£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward			(15,234)		(17,153)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		(61,812)		(258,213)	
Net additional amount required by statute to be credited to the HRA balance for the year		59,893		255,220	
Decrease (Increase) in the HRA Balance			(1,919)		(2,993)
Transfers to or (from) reserves			0		0
Balance on the Statutory HRA Carried Forward			(17,153)		(20,146)

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2013/14		2014/15	
	£'000	£'000	£'000	£'000
Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year				
Revenue expenditure funded from capital under statute	(1,994)		(4,044)	
Capital grants and contributions	27,841		51,187	
Gain or loss on sale of HRA non-current assets	4,435		1,317	
Unattached capital receipts	26		2,778	
Reversal of revaluation losses on non-current assets	21,748		194,072	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	(79)		(182)	
Net charges made for retirement benefits in accordance with IAS19	(1,167)		1,237	
Transfers from General Fund (as directed by Secretary of State)	<u>0</u>	50,810	<u>0</u>	246,365
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year				
Capital expenditure financed from revenue	9,083		8,855	
Other adjustments (transfer to capital receipts reserve)	<u>0</u>	9,083	<u>0</u>	8,855
Net additional amount required by statute to be debited to the HRA Balance for the year		59,893		255,220

2 HOUSING STOCK

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

	2013/14	2014/15
Low-rise flats (1-2 storeys)	265	262
Medium-rise flats (3-5 storeys)	7,282	7,115
High-rise flats (6 or more storeys)	4,089	3,927
Houses and bungalows	789	781
TOTAL AT 31st MARCH	12,425	12,085

3 NON-CURRENT ASSETS

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

	2013/14 £'000	2014/15 £'000
Dwellings	753,180	973,479
Other Land and Buildings	57,641	57,087
Surplus Assets Not Held for Sale	1,753	1,690
Assets Under Construction	0	2,840
Assets Held for Sale	225	225
TOTAL	812,799	1,035,321

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	Assets Under Construction £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 1 st April 2013	703,285	54,224	1,264	0	525	759,298
Additions, disposals, transfers and revaluations	49,895	3,417	489	0	(300)	53,501
Total value at 31 st March 2014	753,180	57,641	1,753	0	225	812,799
Additions, disposals, transfers and revaluations	220,299	(554)	(63)	2,840	0	222,522
TOTAL VALUE AT 31st MARCH 2015	973,479	57,087	1,690	2,840	225	1,035,321

The vacant possession value of dwellings within the Council's HRA was £3,700 million in 2014/15 (£2,878 million in 2013/14). 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

	2013/14 £'000	2014/15 £'000
Balance at 1st April	12,364	16,396
Transfer from Capital Adjustment Account - depreciation	15,831	15,718
Financing of capital expenditure	(11,799)	(9,940)
Balance at 31st March	16,396	22,174

5 CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	2013/14			2014/15		
	Dwellings £'000	Other £'000	Total £'000	Dwellings £'000	Other £'000	Total £'000
Expenditure	49,061	1,194	50,255	72,810	4,044	76,854
Sources of finance						
Borrowing	0	0	0	0	144	144
Capital Receipts	4,356	0	4,356	7,620	0	7,620
Capital Grants and Contributions	25,016	0	25,016	48,409	0	48,409
Major Repairs Reserve	10,605	1,194	11,799	6,040	3,900	9,940
Direct Revenue Financing	9,083	0	9,083	10,741	0	10,741
TOTAL CAPITAL FINANCING	49,060	1,194	50,254	72,810	4,044	76,854

(ii) Capital Receipts

Capital receipts (gross) in 2014/15 from the disposal of non-current assets within the HRA amounted to £34.813 million (£10.277 million in 2013/14) as follows:

	2013/14 £'000	2014/15 £'000
Dwellings	9,247	34,813
Other land and buildings	1,030	0
TOTAL CAPITAL RECEIPTS	10,277	34,813

6 DEPRECIATION

The total depreciation charge for the year was £15.718 million (£15.831 million in 2013/14), made up of £14.141 million (£14.234 million in 2013/14) in respect of council houses and £1.577 million (£1.596 million in 2013/14) 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.

	2013/14 £'000	2014/15 £'000
Dwellings	14,234	14,141
Other Land and Buildings	1,596	1,577
TOTAL DEPRECIATION	15,830	15,718

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	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Net Cost of Services						
Current service costs	2,029	0	12	0	2,041	0
Net Operating Expenditure						
Interest cost	3,756	3,665	71	76	3,827	3,741
Settlements / Curtailments	31	0	0	0	31	0
Expected return on assets in the scheme	(2,368)	(2,378)	(50)	(67)	(2,418)	(2,445)
Past Service Costs	0	0	0	0	0	0
Net Charge to the Income and Expenditure Account	3,448	1,287	33	9	3,481	1,296
Statement of Movement in the HRA Balance						
Reversal of net charges made for retirement benefits in accordance with IAS19	(3,448)	(1,287)	(33)	(9)	(3,481)	(1,296)
Employer's contribution to scheme	2,307	2,533	7	0	2,314	2,533

8 RENT ARREARS

	2013/14 £'000	2014/15 £'000
Gross rent arrears at 31 st March	3,407	3,877
Arrears as % of rent receivable	5.1	5.7
Provision made for bad debts	2,478	2,869

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 2014/15.

10 ITEM 8 INTEREST ADJUSTMENT

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

COLLECTION FUND

	Note	2013/14 £'000	2013/14 £'000	2014/15 £'000	2014/15 £'000
INCOME					
Council Tax (net of benefits)	2	86,556		92,504	
Transfers from General Fund - Council Tax Benefits			86,556		92,504
Distribution of prior year deficit on Collection Fund			0		0
National Non-Domestic Rates - Transitional Protection	3	352,905 449	353,354	369,804 1,364	371,168
Business Rate Supplement			12,026		12,156
TOTAL INCOME			451,936		475,828
EXPENDITURE					
Council Tax					
Precepts and demands					
London Borough of Tower Hamlets		63,342		66,395	
Greater London Authority		21,674	85,016	22,419	88,814
Increase in provision for Council Tax bad debts	5		292		2,111
Distribution of prior year Council Tax surplus on Collection Fund			2,212		0
National Non-Domestic Rates					
Interest		0		10	
Transitional Protection		1,264		0	
Cost of collection allowance		944	2,208	946	956
National Non-Domestic Rates Precepts & Demands					
London Borough of Tower Hamlets		96,361		102,429	
DCLG		160,602		170,714	
Greater London Authority		64,241	321,204	68,286	341,429
Distribution of Prior Year Surplus on NNDR Collection Fund					
London Borough of Tower Hamlets		0		2,085	
DCLG		0		3,474	
Greater London Authority		0	0	1,390	6,949
Business Rate Supplement	4				
Payment to Greater London Authority		12,000		12,065	
Cost of collection allowance		26	12,026	22	12,087
National Non-Domestic Rates Provision For Bad Debt					
London Borough of Tower Hamlets		835		736	
DCLG		1,392		1,226	
Greater London Authority		557	2,784	491	2,453
National Non-Domestic Rates Provision For Appeals					
London Borough of Tower Hamlets		8,250		1,800	
DCLG		13,750		3,000	
Greater London Authority		5,500	27,500	1,200	6,000
TOTAL EXPENDITURE			453,242		460,799
INCREASE/(DECREASE) IN FUND BALANCE			(1,306)		15,029
COLLECTION FUND BALANCE					
Balance at the beginning of the year			2,139		833
(Deficit)/Surplus for the year			(1,306)		15,029
BALANCE AT END OF YEAR	1		833		15,862

NOTES TO THE COLLECTION FUND

1. GENERAL

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

The Council Tax surplus on the Fund (£2.754m) is attributable to the Council (£2.059m) and the Greater London Authority (£0.695m). The latter amount is carried as a creditor in the Council's Balance Sheet.

Under the NNDR collection arrangements, there was a surplus of £13.039m in 2014/15 (deficit of £0.342m during 2013/14). Of this 30%, £3.911m (30%) is attributable to the Council, £2.608m (20%) to the GLA and £6.520m (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 2014/15 Council Tax was set the position was as follows:

Band	2013/14 No. of Properties	2013/14 Council Tax Base	2014/15 No. of Properties	2014/15 Council Tax Base
A	2,356	752	3,005	628
B	25,738	16,271	25,897	16,634
C	35,703	27,674	36,342	28,666
D	22,837	20,085	23,643	21,032
E	17,094	18,485	17,631	19,228
F	7,969	10,365	8,108	10,627
G	3,129	4,704	3,179	4,817
H	458	1,226	469	858
Total	115,284	99,562	118,274	102,490

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:

	2013/14		2014/15		Increase / (Decrease)	
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000	£	%
Tower Hamlets	885.52	63,342	885.52	66,395	0	0
Greater London Authority	303.00	21,674	299.00	22,419	-4.00	-1.32%
TOTAL	1,188.52	85,016	1,184.52	88,814	-4.00	-0.34%

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 2014/15 was 48.2p in the £ (47.1p in the £ in 2013/14). The total rateable value in the borough as at 31 March 2015 was £827.6 million (£815.6 million at 31 March 2014). A periodic revaluation of business properties took place in April 2010. At March 2015 there were over 5,400 NNDR appeals that are yet to be heard by the Government's Valuation tribunal. 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 £15.9 billion Crossrail project. Details on the progress of the project so far and the proposed policies for the BRS in the 2014/15 financial year are set out below.

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

The Crossrail BRS multiplier for 2014/15 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

2013/14 £'000		2014/15 £'000
13,431	Non Domestic Rates Due	12,467
	Less Allowances and Other Adjustments	
632	Mandatory & Discretionary Relief	376
772	Provision for Bad Debts	0
26	Cost of Collection	26
12,001	Collectable from Business Rate Supplement Payers	12,065

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 2014/15 the Council Tax bad debt provision was increased by £0.045 million (increased by £0.292 million in 2013/14) and £2.066 million of irrecoverable debts were written off (£1.949 million in 2013/14).

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2013/14 £'000	2014/15 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	42,401	46,135
From members	3	9,982	11,031
Transfers in			
Transfers in from other pension funds	4	3,527	1,719
Benefits			
Pensions	4	(35,681)	(37,265)
Lump sum benefits	4	(8,178)	(8,055)
Payments to and on account of leavers			
Refunds of contributions		(3)	(125)
State scheme premiums		(3)	(132)
Transfers out to other pension funds		(2,778)	(7,263)
Administrative expenses	13	(1,087)	(803)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		8,180	5,242
RETURN ON INVESTMENTS			
		2013/14 £'000	2014/15 £'000
Investment income	11	11,540	16,581
Taxes on Income		(410)	(329)
Change in market value of investments			
Realised		22,195	23,292
Unrealised	10	46,918	82,933
Investment management expenses	13	(2,364)	(2,450)
NET RETURN ON INVESTMENTS		77,879	120,027
Net increase in the Fund during the year		86,059	125,269
Add: Opening net assets of the scheme		926,871	1,012,930
CLOSING NET ASSETS OF THE SCHEME		1,012,930	1,138,199
NET ASSETS STATEMENT AS AT 31ST MARCH			
		2014 £'000	2015 £'000
Investments Assets			
Equities		230,998	244,335
Pooled Investment Vehicles			
Unit Trusts		566,768	628,744
Property		102,073	116,945
Other		91,918	101,303
Derivative Contracts			
Forward Foreign Exchange Contracts		238	0
		991,995	1,091,327
Cash deposits	6	5,292	5,414
Other investment balances	5	817	978
Investments Liabilities			
Forward Foreign Exchange Contracts	10	(647)	0
Other investment balances	5	0	(223)
Current Assets	5	16,954	42,154
Current Liabilities	5	(1,481)	(1,451)
TOTAL NET ASSETS		1,012,930	1,138,199

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 Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (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 2015. 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 2015.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2015.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2015.
- (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 2015. 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

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

Administrative Expenses

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

Oversight & Governance Costs

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

Investment Management Expenses

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

(g) Benefits Payable

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

Net assets statement

Financial Assets

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

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

(i) Market-quoted investments

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

(ii) Fixed interest securities

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

(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 are no items in the authority's net asset statement as at 31st March 2015 which constitute a significant risk of material adjustment in the forthcoming financial year.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 12.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2015 range from 15.9% to 41.4% of pensionable pay. The Council paid an agreed additional monetary contribution of £18.5m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2013/14 £'000	2014/15 £'000
Members normal contributions		
Council	8,849	9,731
Admitted bodies	222	221
Scheduled body	911	1,079
Total members	9,982	11,031
Employers		
Normal contributions		
Council	21,210	22,356
Admitted bodies	1,064	1,015
Scheduled bodies	2,505	3,484
Deficit funding contributions		
Council	16,500	18,500
Other contributions		
Council	1,122	780
Total employers	42,401	46,135
Total contributions	52,383	57,166

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2014/15 employees made contributions of £60,530.28 (£26,465.94 in 2013/14) into the AVC Scheme operated by Aviva (Norwich Union) and £9,455.96 to Equitable Life (£6,444.33 in 2013/14). 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.

	2013/14				2014/15			
	Council	Admitted Bodies	Scheduled Bodies	Total	Council	Admitted Bodies	Scheduled Bodies	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pensions	(33,852)	(968)	(861)	(35,681)	(35,259)	(1,126)	(880)	(37,265)
Lump sum retirement benefits	(6,817)	(31)	(288)	(7,136)	(6,027)	(307)	(379)	(6,713)
Lump sum death benefits	(990)	0	(52)	(1,042)	(1,232)	(42)	(68)	(1,342)
Total Pensions and Benefits	(41,659)	(999)	(1,201)	(43,859)	(42,518)	(1,475)	(1,327)	(45,320)
Transfer Values Received	3,527	0	0	3,527	1,719	0	0	1,719
Transfer Values Paid	(2,778)	0	0	(2,778)	(7,263)	0	0	(7,263)
Total	(40,910)	(999)	(1,201)	(43,110)	(48,062)	(1,475)	(1,327)	(50,864)

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.

	2013/14 £'000	2014/15 £'000
Debtors		
Other Investment Balances		
Investment sales	27	8
Dividends receivable	514	583
Tax recoverable	276	387
	<u>817</u>	<u>978</u>
Current Assets		
Contributions due from admitted bodies	86	101
London Borough of Tower Hamlets Pension Fund	62	230
	<u>148</u>	<u>331</u>
Total Debtors	965	1,309
Creditors		
Other Investment Balances		
Investment purchases	0	223
Current Liabilities		
Unpaid benefits	1,171	1,138
Administrative expenses	263	313
London Borough of Tower Hamlets Pension Fund	47	0
	<u>1,481</u>	<u>1,451</u>
Total Creditors	1,481	1,674
Net Debtors	(516)	(365)

6. CASH

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

	2013/14 £'000	2014/15 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	3,803	2,930
Schroders: Multi Asset Portfolio	14	15
Schroders: Property Portfolio	1,465	2,458
London Borough of Tower Hamlets Pension Fund	16,806	41,823
TOTAL CASH	22,098	47,236

7. TAXATION

UK Income Tax

Investment income is subject to UK tax which the Fund cannot recover under current tax legislation, except for tax deducted at source from Property unit trusts.

Value Added Tax

As Tower Hamlets Council is the Administering Authority for the Fund, VAT input tax is recoverable on all Fund activities.

Overseas Tax

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

8. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP which is published as part of the Local Government Pensions Scheme Annual Report was approved by the Council's Pensions Committee on 14th November 2014.

9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March 2015

	2014	2015
London Borough of Tower Hamlets		
Active Members	6,158	6,249
Pensioners	4,043	4,131
Deferred Pensioners	6,332	6,434
Dependants	959	993
	17,492	17,807
Admitted & Scheduled Bodies		
Active Members	634	611
Pensioners	203	221
Deferred Pensioners	332	352
Dependants	16	18
	1,185	1,202

The following bodies have been admitted into the Fund:

Admitted Bodies

Agilysis
 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
 Culloden Primary School
 London Enterprise Academy
 Old Ford Primary School
 Sir William Burrough School
 Solebay Academy
 St. Pauls Way Community School
 Tower Hamlets Homes Limited

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:

	2014		2015	
	£ million	%	£ million	%
Baillie Gifford Life Ltd - Diversified Growth	46.9	4.7	50.7	4.6
Baillie Gifford Life Ltd - Equities	183.1	18.4	217.7	19.8
GMO UK Ltd.	261.3	26.2	274.3	25.0
Investec Asset Management	97.5	9.8	99.6	9.1
Legal & General Investment Management - Equities	211.6	21.2	225.7	20.1
Legal & General Investment Management	49.0	4.9	59.4	5.9
Ruffer LLP	45.0	4.5	50.6	4.6
Schroders Asset Management Property Fund	103.1	10.3	119.5	10.9

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 2014 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2015 £'000
Baillie Gifford Life Ltd - Diversified Growth	46,889	72	0	3,724	50,685
Baillie Gifford Life Ltd - Equities	183,066	2,004	0	32,600	217,670
GMO UK Ltd.	256,678	196,511	(184,536)	1,984	270,637
Investec Asset Management	97,502	0	0	2,129	99,631
Legal & General Investment Management	260,556	0	0	24,585	285,141
Ruffer LLP	45,030	0	0	5,588	50,618
Schroders Asset Management Property	101,628	12,757	(9,762)	12,322	116,945
	991,349	211,344	(194,298)	82,932	1,091,327

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2014 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2015 £'000
UK Investment Assets					
Quoted	734,671	14,833	(9,762)	80,948	820,690
Overseas Investment Assets					
Quoted	257,087	196,511	(184,536)	1,575	270,637
Unquoted	(409)	0	0	409	0
	991,349	211,344	(194,298)	82,932	1,091,327

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2013/14 £'000	2014/15 £'000
Dividends from overseas equities	7,886	10,617
Net rents from properties	3,427	5,234
Interest on cash deposits	58	170
Foreign tax	169	231
TOTAL	11,540	16,252

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 intervaluation 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 £1.783 million (£1,503 million in 2013/14).

13. MANAGEMENT EXPENSES

	2013/14 £'000	2014/15 £'000
Administration costs	906	714
Investment management expenses	2,364	2,450
Oversight & governance	160	69
Audit fees	21	21
	3,451	3,254

14. INVESTMENT EXPENSES

	2013/14 £'000	2014/15 £'000
Management fees	2,278	2,357
Custody fees	86	93
	2,364	2,450

15. RISK MANAGEMENT

Nature and extent of risks arising from financial instruments

Risk and Risk Management

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

Credit risk

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

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

Liquidity risk

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

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

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

Market risk

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

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31st March 2014 and 31st March 2015 is set out below.

Interest Rate Risk	As At 31st March 2014	As At 31st March 2015
Asset Type	£'000	£'000
Cash and cash equivalents	5,292	5,414
Cash balances	16,954	42,154
Fixed interest securities	146,517	159,079
Total	168,763	206,647

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2015	Change in year in net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Asset Type			
Cash and cash equivalents	5,414	54	(54)
Cash balances	42,154	422	(422)
Fixed interest securities	159,079	(1,591)	1,591
Total change in net assets available	206,647	(1,115)	1,115

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 2014	Change in year in net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Asset Type			
Cash and cash equivalents	5,292	53	(53)
Cash balances	16,954	170	(170)
Fixed interest securities	146,517	(1,465)	1,465
Total change in net assets available	168,763	(1,242)	1,242

15. RISK MANAGEMENT (continued)

Currency risk

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

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 6.3%. 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 2015 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2014 £'000	As At 31st March 2015 £'000
Overseas quoted securities	238,710	245,548
Overseas unit trusts	5,949	3,808
Cash	13	14
Total overseas assets	244,672	249,370

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2015 £'000	Change in year in net assets available to pay benefits	
		+6.3%	-6.3%
Asset Type	£'000	£'000	£'000
Overseas quoted securities	245,548	261,018	230,078
Overseas unit trusts	3,808	4,048	3,568
Cash	14	15	13
Total change in net assets available	249,370	265,081	233,659

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

The percentage change in the year of 6.3% 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 2014/15 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	10.1%
Global equity	10.0%
Total fixed interest	3.4%
Alternatives	4.1%
Cash	0.0%
Pooled Property Investments	2.4%

15. RISK MANAGEMENT (continued)

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

Asset Type	Value as at 31 March 2015 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	47,236	0.0%	47,236	47,236
Investment portfolio assets				
UK equities	225,693	10.1%	248,488	202,898
Global equity	488,307	10.0%	537,138	439,476
Total fixed interest	159,079	3.4%	164,488	153,670
Alternatives	101,303	4.1%	105,456	97,150
Pooled Property Investments	116,945	2.4%	119,752	114,138
Net derivative assets	0	0.0%	0	0
Investment income due	978	0.0%	978	978
Amounts receivable for sales	0		0	0
Amounts payable for purchases	(223)	0.0%	(223)	(223)
Total assets available to pay benefits	1,139,318		1,223,313	1,055,323

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
Cash and cash equivalents	22,098	0.0%	22,098	22,098
Investment portfolio assets				
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
Total assets available to pay benefits	1,014,264		1,102,050	926,478

Refinancing risk

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

16. FINANCIAL INSTRUMENTS DISCLOSURES

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

	Long-term		Current	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Financial Assets				
Loans and receivables	0	0	17,709	42,902
Financial assets at fair value through profit or loss	991,757	1,091,327	5,592	5,593
Total Financial Assets	991,757	1,091,327	23,301	48,495
Financial Liabilities				
Payables	0	0	(1,481)	(1,674)
Financial liabilities at fair value through profit or loss	0	0	(647)	0
Total Financial Liabilities	0	0	(2,128)	(1,674)

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 2015.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	244,335	0	0	244,335
Pooled Funds				
Unit Trusts	628,744	0	0	628,744
Property Unit Trust	116,945	0	0	116,945
Other	101,303	0	0	101,303
Derivative Contracts				
Forward Foreign Exchange Contracts	0	0	0	0
Cash and bank Deposits	47,467	0	0	47,467
Current Assets	1,079	0	0	1,079
Current Liabilities	(1,674)	0	0	(1,674)
	1,138,199	0	0	1,138,199

During the year ended 31st March 2015 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2014 were as follows:

	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)
	1,013,339	(409)	0	1,012,930

16. FINANCIAL INSTRUMENTS DISCLOSURES

Net gains and losses on financial instruments

	Long-term	
	2013/14 £'000	2014/15 £'000
Financial Assets		
Loans and receivables		180
Financial assets at fair value through profit or loss	69,645	106,225
Total Financial Assets	69,645	106,405
Financial Liabilities		
Payables		
Financial liabilities at fair value through profit or loss	(532)	409
Total Financial Liabilities	(532)	409

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 £669k (£680k 2013/14) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £18.5m (£16.5m 2013/14) 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 2015, the Fund held an average investment of £24.8m (£6.0m 31st March 2014), earning interest of £180k (£62k in 2013/14).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.5m (£2.3m 2013/14) from this company.

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

	2013/14 £'000	2014/15 £'000
Fund Administration Expenses		
Payroll / HR Support	374	370
Corporate Finance	306	299
	680	669

Key Management Personnel

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

Chief Accountant

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

	2013/14 £'000	2014/15 £'000
Short term benefits	18	20
Long term/post retirement benefits	4	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 2014/15 there were no Members of the Pension Fund Committee who had involvement with other organisations.

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

18. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2015.

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 2014/15 impairment losses were nil (impairment losses in 2013/14 were also nil).

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

To Follow – 3 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 2014/15 will be considered for approval by the Council's Audit Committee on 22nd March 2016.

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 2014/15 presents fairly the financial position of the Council at 31st March 2015 and its income and expenditure for the year.

Zena Cooke

Corporate Director of Resources

22nd March 2016

Annual Governance Statement 21 Pages

This will be included in the draft financial statements after it has received approval by Audit Committee.

GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

FINANCIAL TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Consumer Price Index (CPI) – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The CPI includes some financial services in the basket of goods not included in the RPI.

Creditors - Amount of money owed by the Council for goods and services received. Also referred to as, Payables.

Current Assets - Any asset expected to last or be in use for less than one year is considered a current asset. Examples are stock, cash and debtors.

Current Liability - An amount which will become payable or could be called in within the next accounting period. Examples are creditors and Short Term Borrowing.

Debtors - Amount of money owed to the Council by individuals, and organisations. Also referred to as, Receivables.

Dedicated Schools Grant – Grant monies provided by the Department of Education ring-fenced to schools budgets. This is a ring-fenced grant.

Deferred Capital Receipts - Income that is received in instalments over agreed periods of time. They arise from mortgages on sales of Council houses and repayments from loans.

Deferred Income – Receipt in Advance – This represents a receipt received as part of entering into a building lease. The credit is being released over the term of the lease.

Deferred Liabilities – These are future payments that the Council is contractually obliged to pay in future years. These liabilities relate to Private Finance Initiative (PFI) schemes.

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

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

Direct Revenue Funding (DRF) – The use of revenue monies to pay for capital expenditure. Also referred to as Revenue Contributions to Capital Outlay (RCCO).

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

Fair Value - It is the 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. From 1st April 2013 the Council keeps 30%, gives the GLA 20% and the other 50% is passed over to the DCLG.

Net Book Value – The amount at which PPE is included in the balance sheet after depreciation has been provided for.

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

Non Current Assets Held for Sale – Items of PPE whose carrying amount is to be recovered principally through a sale rather than continued use by the Council.

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

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

Precept – The charge made by the Greater London Authority (the precepting authority) on the Council to finance its net expenditure.

Private Finance Initiative (PFI) – Instead of providing and owning the assets needed for their services, public authorities arrange for private sector bodies (usually formed from consortia) to provide and own them. These other bodies' then make the assets available under operating leases to enable public authorities to deliver the services required.

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

Property, Plant, and Equipment (PPE) – The land and building assets under the council's control or ownership.

Assets under the control or owned by the Council that have a physical existence and are expected to be used for a period exceeding one year form PPE. Important components of PPE include land and land improvements, buildings, plant and machinery, vehicles and equipment where material.

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

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

Registered Social Landlord – A not-for-profit organisation which owns and manages social housing.

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

Retail Price Index (RPI) – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The RPI includes mortgage interest payments and council tax in the basket of goods not included in the CPI.

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

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

Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of long-term assets, that has been charged as expenditure to the relevant service revenue account in the year

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

Right To Buy (RTB) - The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt, some of which will be retained by the council to spend on capital expenditure, while the remainder must be paid over to the DCLG under pooling arrangements.

Ring-Fenced Grant – A grant that can only be spent on a specific purpose, such as the Dedicated Schools Grant.

Service Level Agreements - agreements between operational units, which state the price and specifications of the support service by one to another.

Service Reporting Code of Practice (SeRCOP) – CIPFA's accounting recommendations for local authorities that legally constitute proper accounting practice, below the statement of accounts level.

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

Supplementary Business Rates (SBR/BRS) – Locally raised business rates for local projects. London Councils are levying a SBR for the Cross-rail project.

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

Surplus Assets – Those assets which are not being used to deliver services, but do not meet the criteria to be classified as either Investment Properties or Non Current Assets Held for Sale.

Unusable Reserves – These represent reserve balances that cannot be spent as part of an organisation's medium term financial plan. An example is the revaluation reserve.

Usable Reserves – These represent reserve balances that can be spent as part of an organisation's medium term financial plan. Any organisation has to review reserve levels to ensure long-term financial stability. General fund and Housing Revenue Account reserves are usable reserves.

Value for money (VFM) – This term is used to describe the relationship between the economy, efficiency, and effectiveness (known as the 'three Es') of a service, function or activity. Value for money is high when there is an optimum balance between all three.

Abbreviations used in Accounts

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

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