

# Audit Committee

**Tuesday, 23 April 2024 at 6.30 p.m.  
Committee Room - Tower Hamlets Town Hall,  
160 Whitechapel Road, London E1 1BJ**

## Supplemental Agenda

- 4 .1 Addressing the Local Audit Backlog and Update on Outstanding Audit of Accounts 2020/21, 2021/22 and 2022/23 (Pages 3 - 540)**

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<p>Non-Executive Report of the:</p> <p><b>Audit Committee</b></p> <p>Tuesday, 23 April, 2024</p>	 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> Corporate Director, Resources</p>	<p><b>Classification:</b> Unrestricted</p>
<p>Addressing the Local Audit Backlog and Update on Outstanding Audit of Accounts 2020/21, 2021/22 and 2022/23</p>	

<b>Originating Officer(s)</b>	Ahsan Khan - Strategic Head of Finance (Chief Accountant) Abdulrazak Kassim - Director of Finance
<b>Wards affected</b>	All wards

### Reasons for urgency

The attached report was not published five clear days in advance of the meeting. Therefore, before the report can be considered at this meeting, the Chair would need to be satisfied that it is necessary to consider the “Audit backlog and update on the outstanding Audit of Accounts reports”. The delay has been to ensure information has been fully collated for the report, including information from external sources.

### Executive Summary

To provide the Audit Committee with a summary of the proposals for addressing the Local Audit Backlog in England which has recently been published for consultation and provides an update to the Committee on the outstanding audits relating to the Council’s accounts for 2020/21, 2021/22 and 2022/23.

### Recommendations:

The Audit Committee is recommended:

1. To note the summary proposals for addressing the Local Audit Backlog in England
2. To note Deloitte’s briefing paper to the Council on Plans for Addressing the Backlog in Local Audits (Appendix A)
3. To note the position on the outstanding external audits of the Council’s Statement of Accounts for 2020/21, 2021/22 and 2022/23
4. To note the councils latest draft accounts for 2020/21, 2021/22 and 2022/23 (Appendix B, C and D respectively)

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

- 1.1 The recommendations are so as to fulfil statutory requirements.

## 2. **ALTERNATIVE OPTIONS**

- 2.1 To defer approval of the accounts if there should be significant reason too, but, ultimately, approval of the accounts is a statutory requirement.

## 3. **DETAILS OF THE REPORT**

### Background

- 3.1 The backlog in the auditing of published draft accounts of local bodies in England has grown to an unacceptable level.
- 3.2 In July 2023, the Minister for Local Government published a cross system statement setting out proposals to tackle the local audit backlog. Since then, organisations involved in the regulation and oversight of local body financial reporting and audit (“system partners”) have been working collectively to agree a proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return.
- 3.3 As a reminder the Council has yet to conclude the audit of the draft accounts for 2020/21 accounts and the 2021/22 and 2022/23 draft accounts audit have not commenced.

### Addressing the Local Audit Backlog

- 3.4 To clear the backlog of historical accounts and ‘reset’ the system, the Department for Levelling Up, Housing and Communities (DLUHC) proposes putting a series of dates in law (the “backstop date”) by which point local bodies would publish audited accounts for all outstanding years.
- 3.5 These proposals were published for consultation with a deadline of submission by 7 March 2024, to which the council responded generally supportive of the proposals. The consultation comprises of the following:
- DLUHC’s intentions for amending the Accounts and Audit Regulations including a joint statement providing context and explanation of the proposals and how their various elements are intended to interact.
  - NAO intentions for amending the Code of Audit Practice;
  - CIPFA LASAAC proposals for temporary changes to the Accounting Code to reduce burdens on those who prepare and audit local body accounts (not yet issued).

The proposed measures consist of three phases:



- 3.6 **Phase 1: Reset** - legislating for a statutory backstop date for the publication of audited financial statements up to and including financial year 2022/23. The proposed date for accounts up to 2022/23 is 30 September 2024. Auditors should issue opinions based on the work they have completed by the backstop date – which may lead to a modified or qualified opinion – and are expected to prioritise to ensure that their audit work provides as much assurance as possible ahead of the date. Clear explanations of what the different types of audit opinions mean, especially to clarify that modified / disclaimed opinions attributable to the backstop date do not necessarily indicate significant financial reporting or financial management issues in the audited body. Reporting on Value for Money (VFM) arrangements will remain a high priority of the backstop arrangement, focussing on enabling auditors to produce a single commentary on VFM arrangements covering all outstanding periods for 2022/23 and earlier years.
- 3.7 **Phase 2: Recovery** - a series of statutory backstop dates covering the financial years 2023/24 to 2027/28 to allow auditors to rebuild assurance over a five-year period of local bodies' financial information, which has been subject to modified opinion as part of the reset. The backstop dates within the Recovery phase are proposed as follows:
- 2023/24: 31 May 2025
  - 2024/25: 31 March 2026
  - 2025/26: 31 January 2027
  - 2026/27: 30 November 2027
  - 2027/28: 30 November 2028
- 3.8 The acknowledged problem of the Reset phase is that for, authorities impacted by the backstop, auditors will not have the assurance from closing balances that would normally support opening balances for 2023/24. Auditors will therefore need to perform sufficient testing on opening balances to rebuild assurance. For VFM it is proposed that the Audit Code identifies that auditor's Annual Report is issued in draft to those charged with governance by 30 November each year (from 2023/24 onwards), irrespective of the position on the audit.
- 3.9 **Phase 3: Reform** - the FRC, alongside DLUHC and other system partners, will continue to work to address systemic challenges in the local audit system and embed timely financial reporting and audit. There are no firm proposals put forward at this stage for Phase 3, but commitments are made in the following areas;
- The government remains committed to establishing the Audit, Reporting and Governance Authority as system leader for local audit when Parliamentary time allows;
  - CIPFA LASAAC's has a workstream looking at long-term reforms to financial reporting based on the needs of accounts users;
  - HM Treasury will shortly be setting out the outcome of the thematic review into the valuation of non-investment assets;

- the FRC intends to publish its Local Audit Workforce Strategy during 2024, including plans to increase the supply of suitably skilled auditors, including changes to Key Audit Partner requirements;
- the government has successfully procured the development of a Local Audit Qualification which will shortly be launched by CIPFA;
- CIPFA and the Local Government Association are working on a workforce strategy for local government finance teams.

Deloitte's Briefing paper to the Council on Plans for Addressing the Backlog in Local Audits

- 3.10 The External Auditors Deloitte's, have prepared a briefing note to respond to the Corporate Director, Resources's report on the council's plans for addressing the backlog in the audit of the council's accounts for years ended 31 March 2021 through to 31 March 2023, which is included within Appendix A.

Tower Hamlets Council External Audit Position

- 3.11 Members will be aware that the Council has experienced great difficulty, historically, in getting its financial accounts through to completion of all the associated proper processes (The certificates for 2016/17 and 2017/18 accounts were finally issued in March 2023 and for 2018/19 and 2019/20 were finally issued in November 2023).
- 3.12 Delays in producing financial accounts and getting audit sign-off could lead to knock-on effects on the quality of the financial management, and possibly result in sub-optimal decision-making; and clearly, the greater the number of years outstanding since accounts were last completed, the greater the risk of errors arising in financial management.
- 3.13 Therefore, as reported to the audit committee in November 2023, senior finance management considered that it would be in the greater public interest to accelerate the production of accounts, in order to clarify and confirm the baselines of available resources again. At the time, the council was in the process of auditing 2020/21 accounts and had yet to publish draft accounts for financial years 2021/22 and 2022/23.
- 3.14 In order to accelerate the production of accounts for 2021/22 and 2022/23 officer time and resource focused on publishing draft accounts for these outstanding years. Therefore, the council was able to publish updated draft accounts for 2020/21 and draft accounts for 2021/22 in December 2023 and draft accounts for 2022/23 in February 2024. The statutory public inspection period for 2021/22 and 2022/23 draft accounts were also observed, concluding in March 2024. This has enabled the council to seize the initiative and will help facilitate a transition to normality in terms of production of the accounts from 2023/24 onwards.
- 3.15 It should be recognised that there were some risks to this approach and different risks to not adopting this approach, but senior management

considered them acceptable and proportionate in view of the greater public interest benefit. The risks to this approach are principally detailed below and relate to potential errors or deficiencies in the accounts, which may need to be reported in Deloitte's final audit reports.

- There are some disclosures, which are notes of a more informational nature (regarding revenue from contracts with customers, remuneration of officers, and related party transactions) where, due to time constraints, comprehensive collation of all required data could either not be achieved, or satisfactorily demonstrated. These disclosures are very unlikely to impact on financial management and decision-making for the Council and these shortcomings will be better addressed from 2023/24 onwards.
- Due to time constraints, there was not time to prepare group accounts. Officers considered this will have negligible impact on the quality of financial management and decision-making for the Council and again will be better addressed from 2023/24 onwards.
- More substantially, we knew that information on scheme members feeding into our actuarial valuations was flawed in some respects. Further work is required to improve the quality of this data and that it would take some months to complete. Therefore, the consideration applied was that we shouldn't hold up everything else, and the correlating benefits, for this one item.

3.16 Subsequently, with 2023/24 year-end fast approaching the focus of officer time and resource quickly then turned to.

- Preparing for year-end closing of the 2023/24 accounts and preparation of draft statement of accounts.
- Channelling resources to support the new auditors Ernst Young (EY) to onboard and scope the audit for 2023/24.
- Support the councils outgoing auditors Deloitte's to complete the necessary VFM work for outstanding years 2020/21, 2021/22 and 2022/23, which remains a crucial part of the backstop arrangement.

3.17 As a consequence, it is likely that the audit of 2020/21, 2021/22 and 2022/23 accounts will not fully complete by the proposed backstop date of 30th September 2024. It may well be that the outcome of this is that Deloitte's issue disclaimers in respect of years 2020/21, 2021/22 and 2022/23. It must be stated that the expectation is this will not be peculiar to Tower Hamlets and more a national trend, to help reset the system nationally and importantly find a way to catch up, when a true-up will be required with our new auditors EY from 2023/24 onwards.

#### **4. EQUALITIES IMPLICATIONS**

4.1 There are no equalities implications arising from this report.

## **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 Approval of the accounts, once Members are satisfied, is a statutory responsibility that falls to Audit Committee.

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

- 6.1 There are no direct financial implications arising from this report.
- 6.2 Audit costs will be met from current allocated budgets.
- 6.3 This whole report presents matters that are directly concerned with fulfilment of the role and responsibilities of the s151 officer.

## **7. COMMENTS OF LEGAL SERVICES**

- 7.1 Regulation 10 of the Accounts and Audit Regulations 2015 requires a local authority to publish their statement of accounts not later than 31 July of the financial year immediately following the end of the financial year to which the statement relates, or, for the financial year starting in 2019, not later than 30 November. These dates have not been kept.
- 7.2 Regulation 3 of the Accounts and Audit Regulations 2015 requires a local authority to have a sound system of internal control which ensures that the financial and operational management of the authority is effective.
- 7.3 Save as mentioned above, the matters set out in this report comply with the above legislation.

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

### **Linked Report**

- There have been various updates provided to this committee since July 2019 from both Deloitte and officers, but this report, taken together with the Deloitte reports presented on this agenda, are self-contained.

### **Appendices**

- Appendix A: Deloitte - Briefing Note on Plans for Addressing the Backlog in Local Audits
- Appendix B: 2020-21 Draft Statement of Accounts
- Appendix C: 2021-22 Draft Statement of Accounts
- Appendix D: 2022-23 Draft Statement of Accounts

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

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

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

- NONE.

**Officer contact details for documents:**

N/A

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## **London Borough of Tower Hamlets**

### **Briefing note on plans for addressing the backlog in local audits**

Issued on 15 April 2024 for the meeting of the audit committee on 23 April 2024

# Briefing note – purpose and background

## 1. Purpose of briefing note

This briefing note has been prepared to respond to the Corporate Director, Resources's report on the council's plans for addressing the backlog in the audit of the council's accounts for years ended 31 March 2021 through to 31 March 2023 which is to be considered at the audit committee meeting on 23 April 2024.

## 2. Background to the reset

The Corporate Director, Resources's report describes the government's proposals for dealing with the national backlog in local audits and consequent changes proposed by the National Audit Office (NAO) to the Code of Audit Practice to support auditors in responding to the government's proposed changes to the Accounts and Audit Regulations. In particular, in relation to the period of our appointment, the report describes the government's proposal to re-set the system of local audit nationally by requiring auditors to issue their reports by a backstop date of 30 September 2024, whether or not they have been able to carry out all of their planned procedures on the financial statements by that date. The consultation recognises that, where the auditor has not been able to obtain sufficient appropriate audit evidence by the backstop date, this will result in either a qualified or disclaimer of opinion on the financial statements.

The proposals envisage only limited exceptions to the requirement to issue the audit report by the backstop date: if the authority has not completed all of its obligations under the Accounts and Audit Regulations in relation to the preparation and approval of the statement of accounts; if the auditor's work on value for money is not complete; and if there are outstanding objections to the accounts which could be material to the opinion.

The government and the NAO have undertaken that system partners will provide clear communications explaining that modified or disclaimed opinions caused by the backstop date do not necessarily indicate significant financial reporting or financial management issues at a local authority. Conversely, the government proposes to publish a list of local bodies and their auditors which do not meet the backstop date.

The proposals recognise that authorities and auditors will need to have

regard to competing priorities such as auditors meeting pre-existing commitments to carry out other public sector audit work including NHS external audit work in determining their approach to the backstop date.

The consultation periods are now closed but, at the time of writing, the government had not yet published its response and plans. Also, it is expected that the NAO will produce statutory guidance in relation to the operation of the reset.

## 3. Status of our audits

Our appointment covers each of the five years of account through to the year ended 31 March 2023. We issued our audit certificates for the first two years of account in November 2023; the audits for the remaining three years of account remain open.

We did not start work on the financial statements for the year ended 31 March 2021 until June 2023 as a result of delays in concluding the audits for the preceding two years of account. The reasons for those delays are set out in our previous reports to the audit committee.

We were not able to complete our planned procedures on the financial statements for that year during our scheduled visit as a result of a slow turnaround of requests for information. We did not arrange additional staffing at the conclusion of the visit to carry out our remaining procedures as further progress was reliant on the provision of information and, as set out in the Corporate Director, Resources's report, the council determined at that time to prioritise preparation and publication of financial statements for later years of account.

We have not performed any procedures in relation to the audit of the financial statements for later years of account. We have requested but not yet received a complete set of information in relation to planning and risk assessment procedures for the purpose of our value for money work.



# Briefing note – local process

## 4. Local process

Once we know the government and the NAO's final plans and have received and considered the NAO's guidance in relation to the changes, we will prepare and issue audit planning reports covering the remaining three open years of account of our appointment which reflect any changes to be made to the regulations and code.

Based on the proposals which the government and the NAO have consulted on:

- We expect to prioritise work on value for money as completion of this is necessary for the reset to operate as intended. We will complete our planning and risk assessment work once we have received the outstanding information requested for that purpose. Where we have identified risks of significant weaknesses in arrangements, we will set out details of those risks in our audit planning report and carry out further procedures to evaluate and respond to those risks. We expect this work to be carried out in June/July 2024. The council's decision to give priority to the preparation of the remaining information needed for our planning and risk assessment and to support any additional testing on areas of identified risk is consistent with this.
- The council proposes to give priority to closing the accounts for the year ended 31 March 2024 and supporting the new auditor's work on those accounts and does not envisage that the council has sufficient capacity to also support completion of our planned procedures on the financial statements for 2020/21 at the same time. This decision on priorities is consistent with the objectives of the government's reset plan.

On this basis, we expect to perform a detailed review of the evidence obtained during our visit in 2023, including identifying gaps where we were not able to complete planned procedures and evaluate whether we have sufficient, appropriate evidence to give an opinion. We expect to conclude this work in June 2024. If, as we currently anticipate, we do not have sufficient, appropriate evidence, we would prepare a qualified or disclaimed opinion. In the latter case, this means that we would state in our audit report that we do not express an opinion on the financial statements as we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

We expect also to carry out limited procedures on the updated version of the statement of accounts which was re-published in December 2023,

subsequent to our visit, such as agreeing to the accounting records, checking the cast and internal consistency of the statement of accounts and checking whether the statement of accounts is in an appropriate format and includes the information which the Code of Practice on Local Government Accounting requires to be disclosed. We expect to perform this work in June/July 2024.

Where we identify errors or other deficiencies, including the deficiencies set out in the Corporate Director, Resources's report which the council does not propose to remediate, we will consider whether our audit report should be modified in respect of those matters, notwithstanding that we may also disclaim our opinion on the financial statements. We expect to complete our evaluation of the results of these procedures and to prepare a draft audit report in July/August 2024.

- We do not expect it would be possible to complete and give an opinion on the accounts for the years ended 31 March 2022 and 31 March 2023 and therefore expect that we would need to issue a disclaimer of opinion in respect of both these years. We will nevertheless expect that we will need to complete some procedures (such as those set out above in relation to the updated statement of accounts for the year ended 31 March 2021) and sufficient time would be needed to be allowed for these, as well as evaluating the impact on our audit report of any errors or deficiencies identified. We expect to complete these procedures in June/July 2024 and evaluate the results of those procedures and draft our audit report in August 2024.

We have the resources in place to carry out this work and will bring a final report to the audit committee setting out the findings from these procedures and proposed wording of our audit reports for each of the open years. We will also bring a consolidated Annual Auditor's Report, including a commentary on value for money, to the meeting. We will agree a suitable date for the meeting, expected to be in September 2024 and in time for the council to comply with its obligations under the revised Regulations in relation to the publication of the statement of accounts.

# Purpose of our report and responsibility statement

This briefing has been prepared for the Audit Committee and the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

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A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, slightly slanted style.

**Deloitte LLP**

London

15 April 2024

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# LONDON BOROUGH OF TOWER HAMLETS

**DRAFT**

**ANNUAL FINANCIAL REPORT 2020/21**

**UNAUDITED**



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# Narrative Report - 2020/21

## Introduction

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2020/21, which reports our financial results for the year.

The year was an extremely challenging year, both for the nation as a whole and for Tower Hamlets, while we adjusted to life under Covid-19, and then back to normal again. The Statement of Accounts allows us to take stock of the position as at 31 March 2021, and to consider what bearing this might have on the future financial position of the Council.

The primary purpose of the Narrative Report is to provide information on the Local Authority, its objectives and strategies and the principal risks that it faces. The Report also provides a commentary on how the Local Authority has used its resources to achieve its intended outcomes, as identified through the development of its local objectives and strategies.

The council's Statement of Accounts for the year 2020/21 have been prepared in accordance with "proper accounting practice" as outlined in the Accounting Policies section, with which councils must comply by statute.

*Julie Lorraine,*

Corporate Director of Resources (Section 151 Officer)

## Introduction to Tower Hamlets

Tower Hamlets offers the best of London in one borough. The new East End that epitomises both the capital's past and its future. London has been moving east, and Tower Hamlets is now at its heart. While Tower Hamlets represents a young, vibrant modern city, our history comes from being the hamlets of the Tower of London. This mix of old and new, combined with award winning parks, international cultural destinations, world class learning institutions and one of the largest economies in the UK, makes Tower Hamlets one of the most popular places to live, work, study and visit.

### **We are one of the fastest growing and most densely populated places in the UK**

- Our population had grown by almost 31 per cent since 2011 to just under 332,000 - it is expected to increase to 364,000 by 2028 (a further 9.6 per cent increase).
- We have fantastic transport links – 26 London Underground and DLR stations serving seven lines, including the Elizabeth Line – the second highest of any London borough.
- More homes are built here than almost anywhere else.
- We are a young borough - the average age was 32 and 44 per cent of the population was between 20 and 39.

### **We are home to international business districts which generate the third highest economic output in the UK**

- Canary Wharf remained one of the most important business districts in the country with 37 office buildings, 300 shops, cafés and restaurants and more than 200 cultural events every year.
- The City Fringe includes Whitechapel, Aldgate and Spitalfields. It is being developed to support London's financial sector and the growing digital-creative businesses in Tech City.

### **We host some of London's best destinations;**

- Historic attractions include the Tower of London, the V&A Museum of Childhood, the Museum of London, Docklands and Tower Bridge.
- There are over 120 parks including Victoria Park, voted London's most loved park, and parts of Queen Elizabeth Olympic Park.
- World famous markets include Spitalfields, Columbia Road and Petticoat Lane. Brick Lane is a melting pot of food and culture - everything from renowned curry houses and Jewish beigel shops to the Old Truman Brewery with its own market.
- Major music festivals and events such as All Points East and the London Marathon happen here.



- World class culture is part of our fabric with 22 art galleries, including the Whitechapel Gallery, amazing street art and venues such as Wilton's Music Hall and Rich Mix.

### **We are a centre for world class learning and innovation**

- Being home to Queen Mary University of London, one of the top Russell Group universities in the country.
- Barts NHS Trust hospitals train more than 4,000 people at any one time for medical careers.
- More than 1.6 million visits are made a year to the borough's eight Idea Stores and libraries.
- The Government Digital Service is driving cutting-edge innovation from its headquarters in Whitechapel.
- The London Metropolitan University School of Art, Architecture and Design is based in Aldgate.

### **We are a world borough with a proud history of diversity and equality**

- Over 117 languages are spoken in the borough's schools – with 43 per cent of residents being born in over 200 different countries.
- 79 per cent of our residents felt that people from different backgrounds get on well together.
- Our residents fought fascism in the Battle of Cable Street and the roots of the Suffragette movement are in Roman Road.
- The London Docks were the drop-off point for many immigrants to the UK as well as being the centre of world trade.

## Organisational Context and Challenges

The Strategic Plan is the main strategic business planning document of the council and a central part of our Performance Management and Accountability Framework. It sets out the corporate priorities and outcomes, the high-level activities that will be undertaken to deliver the outcomes, as well as the measures that will help us determine whether we are achieving the outcomes.

In 2020/21, the Strategic Plan revolved around three priority areas and a set of 11 corporate outcomes:

Priority 1 - People are aspirational, independent and have equal access to opportunities

- People access a range of education, training, and employment opportunities.
- Children and young people are protected so they get the best start in life and can realise their potential.
- People access joined-up services when they need them and feel healthier and more independent.
- Residents feel they fairly share the benefits from growth and inequality is tackled.

Priority 2 - A borough that our residents are proud of and love to live in

- People live in a borough that is clean and green.
- People live in good quality affordable homes and well-designed neighbourhoods.
- People feel safer in their neighbourhoods and anti-social behaviour is tackled.
- People feel they are part of a cohesive and vibrant community.

Priority 3 - A dynamic outcomes-based council using digital innovation and partnership working to respond to the changing needs of our borough

- People say we are open and transparent putting residents at the heart of everything we do.
- People say we work together across boundaries in a strong and effective partnership to achieve the best outcomes for our residents.
- People say we continuously seek innovation and strive for excellence to embed a culture of sustainable improvement.

COVID-19 was one of the most significant issues our residents had faced in recent years and managing life back to normal again. It impacted on every aspect of our everyday lives and by the start of the summer more than 280 local residents and staff had sadly died. In light of COVID-19 the Strategic Plan 2020/21 to 2022/23 was refreshed in July 2020 to ensure our high level actions reflected our on-going response to the pandemic and supported the borough's social and economic recovery at the time.

Alongside this refreshed Strategic Plan we also updated our Medium Term Financial Strategy to ensure our budget could support delivery of our priorities and address the financial challenges facing the council. Through on-going engagement with our partners we refocused our priorities to ensure we could collectively support the recovery of the borough and empower our partners to take a greater lead on delivering our collective priorities.

The impact of the pandemic and 'lockdown' was felt across the board. The revised plan recognised that financial hardship, and the impact on employment, deprivation, mental health, social care, homelessness, education and domestic abuse. Overall, the pandemic shone a light on existing inequalities, and we are committed to tackling this. The response from residents and from partner agencies and organisations to the pandemic is something to be immensely proud of.

The updated Strategic Plan at the time for 2020/21 – 2022/23 placed the social and economic recovery of the borough at the core of our priorities and outcomes. The plan set out the actions to meet local priorities. Some of these actions had been re-shaped by the pandemic, whilst others were reinforced.

We set out to deliver better outcomes for residents by using the opportunities from new ways of working, efficiency and effectiveness learnt through our emergency response. The pandemic required us to work differently to adapt and meet the needs of our community. We rapidly developed new ways of delivering essential services and moving out of lockdowns we decided to make some changes permanent, to accelerate progress towards our transformation vision, meet the needs of our community, and respond to the challenging financial position.

The council alone could not deliver the recovery of the borough and we set out how we would work with partners and residents to deliver this. This included focusing on areas such as employment, health inequalities, poverty, local economy and understanding and responding to the longer-term impact of the pandemic. We set out to build on the unprecedented response of our residents through formal volunteering with us and local voluntary and community sector organisations and also through local mutual aid groups. We set out to support our voluntary and community sector to continue to support all sections of our community and help sustain a vibrant local sector.

Over an unprecedented year, the Council worked hard to prevent and limit the spread of Covid-19 whilst tackling the wider impact the pandemic had on residents and businesses.

The Council worked with partners and with residents to prevent and limit the spread of Covid-19; support the most vulnerable through the pandemic; support children and families through lockdown and school closure; support businesses and residents through economic hardship; help make Tower Hamlets as safe a place as possible and work closely with communities.

## Monitoring Performance

The year had been extraordinary in many ways for everyone. Together with all councils, the primary focus in the year had to be on supporting our residents through the pandemic. While many sectors were impacted, uniquely, councils also had a legal duty, like the NHS, to deliver large parts of the pandemic response. To do this, we redeployed many of our staff from their normal roles to support our Covid-19 response. Our performance in 2020/21 needs to be viewed in the context of the pandemic.

Covid-19 restrictions had a significant impact on our ability to deliver many of our normal services and this in turn impacted on strategic plan delivery and performance. Where possible we kept services running in line with government guidance and Covid-19 regulations. Some services remained open remotely only, others had reduced capacity while some remained closed through much of the year. The restrictions in place and the consequences of the pandemic have impacted on several performance indicators.

We had 56 performance indicators in our Strategic Plan. At the end of 2020/21, 16 performance indicators met or exceeded their target and 7 were between the target and the minimum expectation, while 11 were falling short. 16 indicators would normally have been derived from our annual residents' survey which we had to cancel. One indicator did not have a target and there were five indicators for which data collection was suspended or delayed due to Covid-19.

**3,009**

volunteers recruited through Covid-19 hub



**6,000**

food parcels directly delivered



**£227m+**

in grants and rate relief for businesses



Over **75,944**

children received support with food



**21,920**

residents supported through council's Covid-19 helpline



**2,084**

self-isolation grants paid totalling £187,000



**35,837**

books and resources sent to children and schools to support learning



Over **650 tonnes** of food distributed



**422**

Covid-19 champions recruited



**£98,210**

in rent relief for community organisations



Over **10,000**

laptops handed out to support remote learning



Over **19,000**

clinically extremely vulnerable residents supported



Over **1.4m**

items of PPE distributed



Over **13,000**

callers helped to book a vaccine



**260**

people given emergency accommodation when the pandemic hit



**£769,000**

paid through council resident support scheme



## Key Achievements

Over the year our collective efforts were focused on responding to the pandemic, supporting residents and businesses through three lockdowns and phases of some opening up of society and the economy. We prioritised protecting the most vulnerable and those most at risk during the pandemic, providing support to more than 19,000 shielding residents. Since the start of the pandemic, our dedicated Covid-19 helpline had taken more than 21,900 calls. More than 5,000 households had contacted us through our dedicated Covid-19 support line or online form, and we provided advice and support to more than 15,000 individuals.

We worked closely with our health and social care partners in the borough, in Tower Hamlets Together, in response to the pandemic. Since the start of the pandemic we distributed over 1.4m pieces of PPE. We published our outbreak control plan which sets out how we will work with our partners to prevent and manage coronavirus outbreaks that may occur in the population, including in care homes, schools, workplaces and faith settings. We regularly published Covid-19 data so that residents and businesses are kept up to date and understand the information we are using to guide our plans and decision making.

We put in place the infrastructure needed to support the test and trace programme, opening test centres in key locations across the borough. We supported NHS colleagues in the NHS to roll out vaccination centres and vaccinations campaign to encourage all of our eligible residents to take up the vaccine offer.

We put children and young people at the heart of what we do so that they have the best possible life chances. For most of the first half of the year schools were closed following the government lockdown announcement. We made sure children of critical key workers, children with special educational needs, and vulnerable children still attending school were able to access a safe educational environment. Following the easing of lockdown restrictions, we supported schools to transition back to receiving children back into the classroom environment.

Our arts, music and sports activities for young people provides an essential outlet for many of our more vulnerable young people. At the time, as a result of moving delivery online we had been able to reach a larger and more diverse cohort of young people. We delivered over 1,000 sessions to 200 plus young people. We provided activities such as a virtual music showcase during Black History Month and a performing arts programme

Our enterprise and growth services shifted their focus from employment support to business support. During the last year, recruitment of new staff stagnated in many sectors with limited vacancies being available. By focusing on business support, we were able to assist businesses to adapt their business models to continue trading.

We started to deliver the local Kickstart programme for young people who lost their jobs through the pandemic and we secured employment opportunities as lockdowns started to ease.

We are committed to creating cohesive communities that are strong, fair, and equal. The Tower Hamlets Black, Asian and Minority Ethnic (BAME) Inequalities Commission heard from expert witnesses and members of various professions, young people and community groups. We heard from residents about their lived experiences of inequalities. The Commission identified tangible and practical actions to deliver real changes in the areas of education, employment, health inequalities and community leadership and challenged us to take radical steps to dismantle long-standing structural racism and give a clear commitment to become an anti-racist borough by 2025.

Tower Hamlets faces enormous environmental challenges. The borough produces the fourth highest levels of total carbon emissions in London. We held our first ever climate engagement online conference as part of our commitment to becoming a net zero carbon council by 2025 and a net zero carbon borough by 2050 or sooner.

Tower Hamlets has ambitious housing targets but with a limited amount of land available for new development. We received c£22m New Homes Bonus grant from the government for delivering our commitment to create new homes, including much needed affordable homes for residents.

We strived to make Tower Hamlets safer by working with our public sector partners and our communities. We renewed the borough-wide responsible drinking Public Spaces Protection Order (PSPO). We consulted on proposals to introduce a PSPO in the borough, to tackle the issue of anti-social behaviour linked to the recreational use of the psychoactive substance, nitrous oxide.

In the year, we published Our Tower Hamlets: A plan for a more cohesive community. The plan set out our approach, focusing on three key priorities: Connected People: Cultivating and strengthening positive relationships; Involved and empowered community: Greater engagement and participation in public life; and Equality: Valuing diversity and advancing equality of opportunity. Despite the challenge that Covid-19 had presented, we had continued to celebrate diversity by moving many community celebrations online.

## Key Strategic Risks

It is essential to the good governance of the Council that risks are managed thoroughly and appropriately. The Council has in place a formally approved risk management strategy, which is reviewed annually. The strategy clarifies the corporate risk appetite, which seeks to support decision making that considers threats and identifies mitigating actions. This allows the Council to ensure opportunities are seized and delivered.

In the year, the Council used a corporate risk management system to identify all relevant corporate risks. Through this system, the Council had identified a number of significant governance challenges. These included:

- Risk to essential service delivery including the protection of staff, stakeholders and continued service delivery (critical) as a result of the coronavirus pandemic and variants of concern.
- Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency. There is an on-going need to ensure that services to all vulnerable children and young people have focus on safeguarding and a prevention of harm.
- Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.
- The Council may significantly overspend its budget, fail to deliver savings and continue to rely on dwindling reserves.
- Following the Grenfell Fire tragedy residents of tower blocks in the borough are not safe or do not feel safe from fire following reassurance, advice, interim measures and completed, in progress or scheduled remedial actions to improve fire safety.
- Whilst an EU-UK Trade and Cooperation Agreement was reached and ratified by the UK in December 2020, considerable uncertainty remained about the medium to long term impact leaving the EU will have on the Council and its residents.
- There is a risk that the Council will fail to comply with its obligations in relation to the Protection of Freedoms Act 2012 and may also fail to meet the requirements of the Data Protection Act 2018 related to the use and management of video surveillance systems.
- The Council may fail to deliver the strategic plan's priorities and outcomes, unable to deliver critical and essential services and/or meet its responsibilities, generally to the community because of a significant business continuity risk materialising such as a cyber-attack and pandemic flu.
- There are significant risks associated with the proposed Building Safety Bill if the Council fails to properly prepare and act.
- There is a risk of deteriorating health and wellbeing in the Council's workforce including the potential prolonged impacts of the pandemic.



## Financial Overview and Annual Governance Statement

Despite the Chancellor previously announcing departmental spending limits for Government departments for three years, 2022/23 to 2024/25, the Local Government Finance Settlement (LGFS) has only been announced on a one-year-at-a-time basis since then. Another single year finance settlement was announced in the latest year's provisional LGFS, published 18 December 2023, covering the 2024/25 financial year. The funding landscape for Local Government over the medium term remains highly uncertain.

On 17 November 2022 the Government announced that the implementation of Adult Social Care Reforms would be delayed from October 2023 to October 2025, however the funding for these reforms would still be provided to Local Government. The Council has therefore received additional Social Care Grant for 2023/24 with indications for further additional funding to be provided in 2024/25.

One reason councils have been provided with single year settlements was due to funding reforms that have been delayed, annually, for several years. The distribution formula utilised for allocating resources across Local Authorities dates to 2013/14 and the Government has committed to take forward a 'Fair Funding Review' to ensure a more up to date assessment of need. Although the Government had intended to introduce the new formula from April 2021, it now looks unlikely that any reforms will now come in before 2026/27.

In early 2021 the Government consulted on ending New Homes Bonus (NHB), a targeted incentive providing funding based on housing growth within the Council area, and the Government has not yet announced the outcome of its consultation although they have advised that the outcome will be announced before the 2024/25 settlement. The impact of these funding reforms will be particularly acute for Tower Hamlets when implemented and represent a significant risk going forward. Funding retained from Business Rates growth is significant and therefore the impact of resetting the Business Rates baseline would result in a substantial funding reduction for the Council when, or indeed if, this occurs.

The Council is making a significant new and additional investment in services and is drawing down £22.1m from reserves to balance the 2023/24 budget. It will be important to continue work to balance the budget over the medium term, ensuring alignment with the refreshed strategic plan. The budget build for 2024/25 is currently being worked on, and will be presented to Council in February 2024.

The impact of inflation has significantly increased in recent months with high fuel and energy costs and food prices; high inflation has a direct impact on the costs of the council's contracts, and fuel and energy. The societal impacts of rising prices will also mean more individuals will require council support going forward. The latest Bank of England forecasts show high inflation for the next two years but reducing back to normal levels by the end of 2025.

## Revenue Outturn for the Year

### General Fund

The General Fund is the primary revenue fund through which the Council pays for its services.

Ongoing reductions in mainstream government grant funding over the last decade and a long-term continuing upward trend in the demand for key front line services, only exacerbated by the Covid-19 pandemic, in adult social care, children's services and for housing services, particularly homelessness, have collectively created a challenging financial environment for the Council.

The overall outturn position for General Fund services, excluding the Dedicated Schools Budget, after the application of Covid grants, and contributions to/from reserves, is a net underspend of £1.5m, this is a relatively small variance and a relatively good outcome for the Council in a very unpredictable year. The underspend at the year-end will be transferred to General Fund reserves, which will stand at £24.4m as at 31st March 2021. This position has been managed by the utilisation of New Homes Bonus grant, as reported to Cabinet, and use of reserves. There have also been one-off corporate movements, which have arisen as part of the process of improving the financial management and accounting of the organisation. The revenue outturn position is summarised below:

	Annual Budget and Reserve Transfers	Outturn	Outturn Variance
	£m	£m	£m
	A	B	= B - A
Children's and Culture	94.2	95.5	1.3
Health, Adults and Communities	148.6	149.1	0.5
Place	79.5	79.6	0.1
Governance	20.1	17.0	(3.1)
Resources	48.2	48.5	0.3
Corporate Costs and Central Items (including Core Funding)	(390.6)	(391.2)	(0.6)
<b>Total</b>	<b>0.0</b>	<b>(1.5)</b>	<b>(1.5)</b>
<b>Outturn Variance Transfer to GF Reserves</b>			<b>1.5</b>
<b>Council Outturn</b>			<b>0.0</b>

## **Revenue Reserves**

The table below presents the movement on the Councils revenue reserves for the last year:

	31 March 2020	31 March 2021
	£m	£m
General Fund balances	(24.6)	(24.4)
HRA balances	(48.2)	(50.8)
Dedicated Schools Grant (surplus)/deficit	11.1	0.0*
Schools balances	(25.9)	(36.0)
GF earmarked reserves (Reserves without Restrictions)	(70.1)	(73.5)
GF earmarked reserves (Restricted Reserves)	(73.0)	(105.4)
<b>Total</b>	<b>(230.7)</b>	<b>(290.1)</b>

\*In accordance with regulations, the 2020/21 closing deficit on the schools DSG reserve (£11.2m) has been transferred to the dedicated schools grant adjustment account, an unusable reserve.

The significant increase in earmarked reserves at 31 March 2021 is mainly contained within GF earmarked reserves (Restricted Reserves) and is largely attributable to the requirement to carry forward Covid-19 funding to meet liabilities and Collection Fund deficits that have arisen in 2020-21 for future years.

We are in a hugely unpredictable environment and we are facing significant challenges over the medium-term including potential changes to local government funding and service demand. Thus, it is important to maintain reserves at an adequate level to help mitigate and manage these significant risks and ensure the Council remains on a sustainable footing.

### **Housing Revenue Account**

The Housing Revenue Account (HRA) records expenditure and income on running the Council's own housing stock and closely related services or facilities. The HRA is ring-fenced within the General Fund and primarily supports management and maintenance costs. The HRA outturn finalised at a £2.6m underspend.

### **Dedicated Schools Budget**

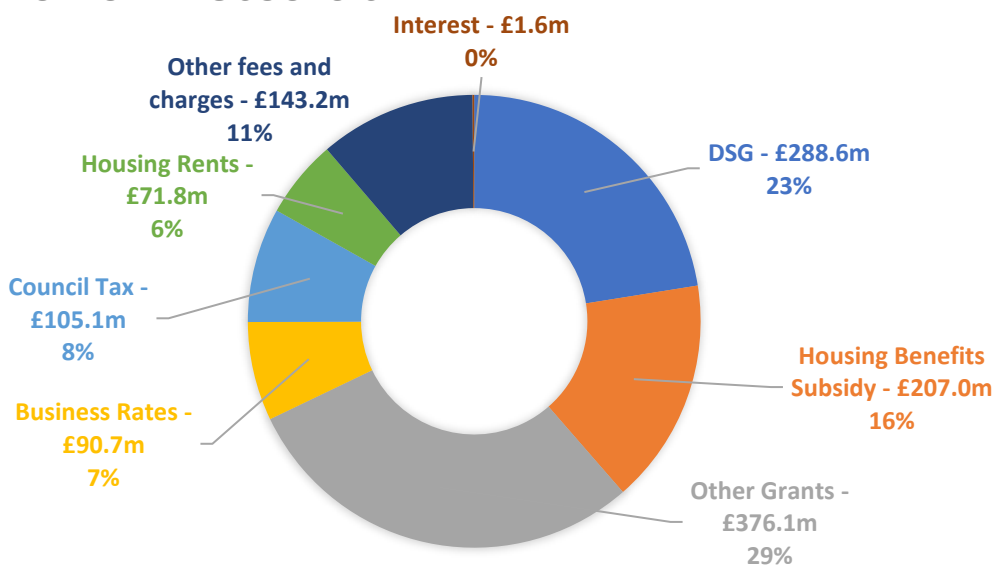
This budget records the expenditure and income on the ring-fenced schools' budgets and related services. The outturn finalised at an in-year overspend on Dedicated Schools Grant of £0.1m, and the main reason for this is the overspend within the High Needs Funding Block, in very similar fashion to the previous year. The Dedicated Schools Grant now has a cumulative deficit of £11.2m.

## Revenue Income

Government grants and subsidies continue to be the main sources of revenue funding, although with not inconsiderable revenues from fees and charges, business rates, council tax and housing rents.

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

### REVENUE FUNDING SOURCES

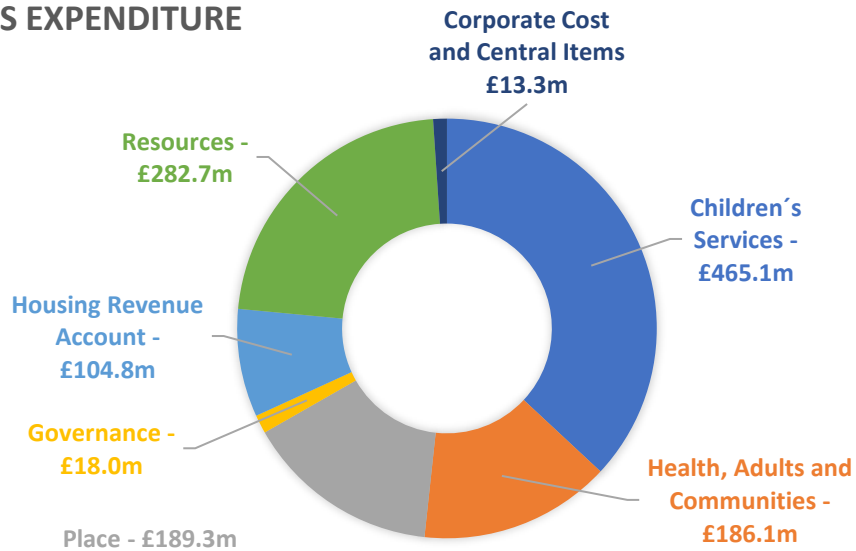


The diagram shows where the Council's expenditure is funded from. Government grants and subsidies are the main source of the £1.284bn revenue funding at £0.872bn, along with revenues from fees and charges, business rates, council tax and housing rents. The largest service grant is the Dedicated Schools Grant of £0.289bn which can only be used to fund education services and is largely 'passported' directly to schools.

## Expenditure on Services

The service with the largest gross expenditure is Children's and Culture, which includes schools and social care for children.

### GROSS EXPENDITURE



The diagram shows where the Council's gross expenditure of £1.259bn is spent by services area. The largest gross expenditure of £0.465bn is spent on the Children's and Culture service, which includes schools and social care for children.

## Capital Investment and Funding

### *Capital Investment*

The Council has continued to invest in its infrastructure with over £164.9 million spent on its capital programme. The main area of investment was in housing, with £60.7 million spent through the HRA capital programme and £10.6m million spent on the temporary accommodation programme, £35.2 million was spent on the New Town Hall. Furthermore, £16.9m was invested in improving schools, £21.5m on investment works on LBTH assets including bridges, smarter working, public health and parks and £20.0m was spent on upgrading liveable streets, street lighting, highways, roads and paths.

### *Capital Funding*

A significant part of the capital programme was financed by borrowing of £65.7m. This was “internal borrowing” against the Council’s own internal resources.

Capital grants and contributions financed £67.9m of expenditure with capital receipts of £31.3m being another significant source of funding

Capital spending and financing for 2020-21 is shown in the following table:

	31 March 2020	31 March 2021
	£m	£m
<b><i>Capital Investment</i></b>		
Children and Culture	18.7	20.3
Health, Adults and Communities	3.7	3.9
Place	92.2	73.2
Resources	8.6	6.8
Local Authority Housing (Housing Revenue Account)	57.0	60.7
<b>Total</b>	<b>180.2</b>	<b>164.9</b>
<b><i>Capital Funding</i></b>		
Borrowing	67.5	65.7
Capital Grants and Contributions	49.2	42.6
Capital Receipts	45.0	31.3
Major Repairs Reserve	16.3	17.5
Direct Revenue / Reserves Funding	2.2	7.8
<b>Total</b>	<b>180.2</b>	<b>164.9</b>

## **Borrowing and Investments**

Long-term borrowing for the Council remained steady throughout the year, falling slightly from £71.5m to £69.9m. Short-term borrowing arising from repayment liabilities associated with loans increased from £1.2m to £2.1m during the year.

Long-term Investments for the Council also largely remained steady, falling from £64.7m to £60.9m. Short-term Investments increased from £100.9m to £117.4m during the year.

## **Pensions**

The Council's Pension Fund's income originates from employee contributions and existing assets (investments). This income is compared with the estimated cost of pensions payable in the future to determine the Council's Pension Liability. The net amount is included in the accounts as the Council's pension net surplus or liability.

The net liability increased from £473.4 million in 2019/20 to £614.3 million in 2020/21. The increased deficit is attributable in large part to changing assumptions used by the actuary; of particular note, that the rate of increase for pensions for the council (taken to be the same as the Consumer Price Index) will be 2.8% rather than the previous 1.9% assumed.

Although this sum has a significant impact on the net worth of the Council (as shown in its Balance Sheet) contributions to the Pension Fund are set by the actuary's triennial valuation, which concluded in March 2020, and provides for stable trends in contributions.

## **Statement of Responsibilities for the Statement of Accounts**

### **The Council's responsibilities**

The Council is required:

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

### **The responsibilities of the Corporate Director of Resources**

The Corporate Director of Resources (Section 151 Officer) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice").

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

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

The Corporate Director of Resources has also:

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

### **Certificate of the Corporate Director of Resources**

I certify that the Statement of Accounts 2020/21 presents a true and fair view of the financial position of the Council in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice") as at 31<sup>st</sup> March 2021 and its income and expenditure for the year ended 31<sup>st</sup> March 2021 except for:

- The possible effect of issues relating to the quality of pension scheme membership data including prior year comparator data (as described under Note 4 to the main accounts – Assumptions Made About the Future and Other Sources of Estimation Uncertainty) on the pension liability at 31 March 2021 and related entries;



- The possible effect of issues relating to the lack of group accounts including prior year comparator data (as described under Note 44 to the main accounts – Group Accounts);
- Not having fully complied with the disclosure requirements in relation to officers' remuneration including prior year comparator data (as presented in Note 33 to the main accounts – Officers' Remuneration);
- Not having complied with the disclosure requirements in relation to revenue from contracts with customers.

**Julie Lorraine**

Corporate Director of Resources

Date:

### **Approval of the accounts**

I certify that the audited Statement of Accounts has been approved by resolution of the Audit Committee of the London Borough of Tower Hamlets in accordance with the Accounts and Audit Regulations 2015.

**Councillor Harun Miah**

Chair of the Audit Committee

Date:

## Auditor's Reports

This section is left intentionally blank subject to the completion of the audit.

## 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											
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Balance as at 1 April 2019</b>		(17,478)	(152,116)	(44,640)	-	(190,700)	(158,453)	<b>(563,387)</b>	(584,891)	(1,421,970)	571,278	11,198	17,417	538	2,969	-	<b>(1,403,461)</b>	<b>(1,966,848)</b>	
<b>Movement in reserves during 2019/20</b>																			
Surplus or (Deficit) on the Provision of Services		21,886	-	(39,310)	-	-	-	<b>(17,424)</b>	-	-	-	-	-	-	-	-	-	-	(17,424)
Other comprehensive expenditure/(income)		-	-	-	-	-	-	-	(214,033)	-	(133,476)	-	-	-	-	-	-	-	(347,509)
<b>Total Comprehensive Expenditure/(Income)</b>		<b>21,886</b>	<b>-</b>	<b>(39,310)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,424)</b>	<b>(214,033)</b>	<b>-</b>	<b>(133,476)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(347,509)</b>
Adjustments between accounting basis and funding basis under regulations	8	(34,770)	-	35,740	-	56,544	(35,710)	<b>21,804</b>	5,550	(81,428)	35,577	13,136	(435)	5,796	-	-	-	-	<b>(21,804)</b>
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>		<b>(12,884)</b>	<b>-</b>	<b>(3,570)</b>	<b>-</b>	<b>56,544</b>	<b>(35,710)</b>	<b>4,380</b>	<b>(208,483)</b>	<b>(81,428)</b>	<b>(97,899)</b>	<b>13,136</b>	<b>(435)</b>	<b>5,796</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(369,313)</b>
Transfers to earmarked reserves	9	5,506	(5,506)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to school reserves	9	244	(244)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(Increase)/Decrease in 2019/20</b>		<b>(7,134)</b>	<b>(5,750)</b>	<b>(3,570)</b>	<b>-</b>	<b>56,544</b>	<b>(35,710)</b>	<b>4,380</b>	<b>(208,483)</b>	<b>(81,428)</b>	<b>(97,899)</b>	<b>13,136</b>	<b>(435)</b>	<b>5,796</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(369,313)</b>
<b>Balance as at 31 March 2020 carried forward</b>		<b>(24,612)</b>	<b>(157,866)</b>	<b>(48,210)</b>	<b>-</b>	<b>(134,156)</b>	<b>(194,163)</b>	<b>(559,007)</b>	<b>(793,374)</b>	<b>(1,503,398)</b>	<b>473,379</b>	<b>24,334</b>	<b>16,982</b>	<b>6,334</b>	<b>2,969</b>	<b>-</b>	<b>(1,772,774)</b>	<b>(2,331,781)</b>	
<b>Movement in reserves during 2020/21</b>																			
Surplus or (Deficit) on the Provision of Services		(10,085)	-	(15,614)	-	-	-	<b>(25,699)</b>	-	-	-	-	-	-	-	-	-	-	(25,699)
Other comprehensive expenditure/(income)		-	-	-	-	-	-	-	67,631	-	121,696	-	-	-	-	-	-	-	189,327
<b>Total Comprehensive Expenditure/(Income)</b>		<b>(10,085)</b>	<b>-</b>	<b>(15,614)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25,699)</b>	<b>67,631</b>	<b>-</b>	<b>121,696</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>189,327</b>
Adjustments between accounting basis and funding basis under regulations	8	(46,722)	-	13,059	(74)	(4,803)	(5,611)	<b>(44,151)</b>	22,433	(32,235)	19,249	25,282	(435)	(6,232)	4,915	11,174	-	-	<b>44,151</b>
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>		<b>(56,807)</b>	<b>-</b>	<b>(2,555)</b>	<b>(74)</b>	<b>(4,803)</b>	<b>(5,611)</b>	<b>(69,850)</b>	<b>90,064</b>	<b>(32,235)</b>	<b>140,945</b>	<b>25,282</b>	<b>(435)</b>	<b>(6,232)</b>	<b>4,915</b>	<b>11,174</b>	<b>-</b>	<b>-</b>	<b>233,478</b>
Transfers to earmarked reserves	9	46,891	(46,891)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to school reserves	9	10,153	(10,153)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(Increase)/Decrease in Year</b>		<b>237</b>	<b>(57,044)</b>	<b>(2,555)</b>	<b>(74)</b>	<b>(4,803)</b>	<b>(5,611)</b>	<b>(69,850)</b>	<b>90,064</b>	<b>(32,235)</b>	<b>140,945</b>	<b>25,282</b>	<b>(435)</b>	<b>(6,232)</b>	<b>4,915</b>	<b>11,174</b>	<b>-</b>	<b>-</b>	<b>233,478</b>
<b>Balance as at 31 March 2021</b>		<b>(24,375)</b>	<b>(214,910)</b>	<b>(50,765)</b>	<b>(74)</b>	<b>(138,959)</b>	<b>(199,774)</b>	<b>(628,857)</b>	<b>(703,310)</b>	<b>(1,535,633)</b>	<b>614,324</b>	<b>49,616</b>	<b>16,547</b>	<b>102</b>	<b>7,884</b>	<b>11,174</b>	<b>(1,539,296)</b>	<b>(2,168,153)</b>	

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

Gross Expenditure	2019/20 Gross Income	Net Expenditure	Note	Gross Expenditure	2020/21 Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
<b>Continuing Operations</b>						
466,844	(360,947)	105,897	Children's and Culture	465,097	(374,491)	90,606
182,527	(82,605)	99,922	Health, Adults and Communities	186,102	(94,669)	91,433
184,422	(105,441)	78,981	Place	189,343	(102,047)	87,296
23,648	(4,421)	19,227	Governance	18,002	(2,815)	15,187
71,315	(97,576)	(26,261)	Local Authority Housing (Housing Revenue Account)	104,770	(97,655)	7,115
263,409	(228,261)	35,148	Resources	282,670	(232,711)	49,959
10,245	(5,312)	4,933	Corporate Cost and Central Items	13,349	(1,241)	12,108
<b>1,202,410</b>	<b>(884,563)</b>	<b>317,847</b>	<b>NET COST OF SERVICES</b>	<b>1,259,333</b>	<b>(905,629)</b>	<b>353,704</b>
		17,350	Other Operating Expenditure			(15,012)
		24,052	Financing and Investment Income and Expenditure			12,680
		(376,673)	Taxation and Non-Specific Grant Income			(377,071)
		<b>(17,424)</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>(25,699)</b>
<b>Other Comprehensive Income and Expenditure</b>						
		(214,033)	(Surplus)/Deficit on revaluation of non-current assets			67,631
		(133,476)	Remeasurement of the net defined benefit pensions liability			121,696
		<b>(347,509)</b>	<b>OTHER COMPREHENSIVE EXPENDITURE/(INCOME)</b>			<b>189,327</b>
						<b>(364,933)</b>
<b>(364,933) TOTAL COMPREHENSIVE EXPENDITURE/(INCOME)</b>						<b>163,628</b>

# BALANCE SHEET

31 March 2020 £'000		Notes	31 March 2021 £'000
<b>Long-term Assets</b>			
2,704,496	Property, plant and equipment	14	2,698,548
18,835	Heritage Assets	16	18,860
684	Intangible Assets	15	2,259
64,666	Long-term investments	17	60,897
1,616	Long Term Debtors	18	2,159
<b>2,790,297</b>	<b>Total Long-term assets</b>		<b>2,782,723</b>
<b>Current Assets</b>			
100,880	Short-term investments	17	117,415
-	Assets held for sale	22	979
204,522	Short-term debtors	20	272,767
186,725	Cash and cash equivalents	21	199,269
<b>492,127</b>	<b>Total Current Assets</b>		<b>590,430</b>
<b>Current liabilities</b>			
(53,159)	Cash and cash equivalents	21	(65,006)
(1,162)	Short-term borrowing	17	(2,064)
(177,110)	Short-term creditors	23	(269,447)
(9,198)	Provisions	24	(5,078)
<b>(240,629)</b>	<b>Total Current liabilities</b>		<b>(341,595)</b>
<b>Long Term Liabilities</b>			
(13,368)	Provisions	24	(13,083)
(71,534)	Long-term borrowing	17	(69,872)
(473,379)	Liability related to defined benefit pension schemes	41	(614,324)
(96,094)	Capital grants receipts in advance	37	(112,642)
(55,639)	Deferred liabilities	39,40	(53,484)
<b>(710,014)</b>	<b>Total Long-Term Liabilities</b>		<b>(863,405)</b>
<b>2,331,781</b>	<b>NET ASSETS</b>		<b>2,168,153</b>
<b>Reserves</b>			
(559,007)	Usable Reserves	25	(628,857)
(1,772,774)	Unusable Reserves	26	(1,539,296)
<b>(2,331,781)</b>	<b>TOTAL RESERVES</b>		<b>(2,168,153)</b>

*I certify that the statement of accounts presents a true and fair view of the financial position of the Council as at 31 March 2021 and its income and expenditure for the year then ended.*

Date

Julie Lorraine - Corporate Director of Resources

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## 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.

2019/20 £'000		Notes	2020/21 £'000
17,424	Net surplus or (deficit) on the provision of services		25,699
68,348	Adjustments to net surplus or deficit on the provision of services for non cash movements	27	138,899
(97,837)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	27	(87,222)
<b>(12,065)</b>	<b>Net cash flows from Operating Activities</b>		<b>77,376</b>
78,433	Investing Activities	28	(23,295)
(17,194)	Financing Activities	29	(53,384)
<b>49,174</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>697</b>
84,392	Cash and cash equivalents at the beginning of the reporting period		133,566
<b>133,566</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>134,263</b>

## 1 Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31st March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003

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

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 going concern concept assumes that the Council will continue in operational existence for the foreseeable future.

### 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 contracts with service recipients, whether for services or the provision of goods, is recognised as the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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.
- The Council operates a de minimis of £10,000 for revenue and £50,000 for capital below which items of income and expenditure are not required to be accrued.

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

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

### **4. Exceptional items**

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

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

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparatives amounts for the prior period.

### **6. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service

- revaluation and impairment losses on 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 assets attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the general fund, Minimum Revenue Provision (MRP), by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

The Council has also decided to make a voluntary MRP contribution for HRA properties equal to 100% over the life of the asset as recommended in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

## **7. Council Tax and Non-domestic Rates (England)**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

## **8. Accounting for Council Tax and NDR**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income 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 as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

## 9. Employee Benefits

### ***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.

### ***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 in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. 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.

### ***Post-Employment Benefits***

Employees of the Council are members of four 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).
- The NHS Pension Scheme, administered by NHS Business Services Authority on behalf of the Department of Health and Social Care

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' and NHS schemes mean that liabilities for these benefits cannot be identified to the Council. The schemes are therefore accounted for as if they were defined contributions schemes – no liability for future payments of benefits is recognised in the Balance Sheet. The Children's Services line in the Comprehensive Income

and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year, and Health, Adults and Communities charged for the contributions to the NHS Pension Scheme.

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

The Local Government scheme is a defined benefits scheme.

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

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (based on the constituents of the iBoxx AA corporate bond) as at 31st March 2022.

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 the following 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 a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services.
- net 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. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as Other Comprehensive Income and Expenditure.
- 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 or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in 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.

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 not incorporated THH's pension liabilities and assets that have arisen into its pension obligations into the net pension liability as presented within the single entity balance sheet; this is due to the Council not indemnifying THH for all pension costs.

### ***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.

## **10. Financial Instruments**

### ***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.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance or the Housing Revenue Account 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.

## ***Financial Assets***

Financial assets are classified based on a consideration of the business model for holding the asset, along with analysis of their cashflow characteristics. There are three main classes, measured at:

- Amortised Cost
- Fair Value through Profit or Loss
- Fair Value through other Comprehensive Income and Expenditure (none currently held by the Council)

### *Financial Assets Measured at Amortised Costs*

Financial assets measured at amortised cost 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 subsequently 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 financial assets held by the Council, 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.

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.

### *Expected Credit Loss Model*

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has calculated the expected credit loss on non-housing trade debtors and housing related rent arrears. The expected lifetime credit loss is calculated in the first instance upon historic payment information.

Further consideration has been given to macro-economic factors, in particular that the effects of COVID-19 might render collection of outstanding debts more difficult. However, since this is the first national experience of pandemic, identifying and quantifying impacts in any robust manner has not been possible.

The Council's treasury advisors provide details of potential 12-month credit losses on treasury deposits, with deposits to other Councils having no default risk, the remaining deposits to banks had no known credit losses. This is borne out by the Council not having a treasury

counterparty default on a deposit in recent years. The Council has not purchased any credit impaired investments.

#### *Financial Assets Measured at Fair Value through Profit or Loss*

Financial Assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

### **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 is transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **12. Heritage assets**

The Council does not actively acquire or dispose of heritage assets as part of its normal day to day business and where the Council holds heritage assets, these have usually been donated. The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £19.1 million at 31 March 2022. This valuation is based on valuations for Works of Art and Civic Regalia. The local history collection is not included on the balance sheet as valuations are not available due to the unique nature of the assets. Valuations are made by what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous.

Most heritage assets owned by the council have an historical interest to the Borough but would not have material market value.

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. 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. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

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

##### *Finance Leases*

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

- 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).

##### *Operating Leases*

Leases that do not meet the definition of finance leases as described above are accounted for as operating leases. Rentals payables 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:



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.

#### **14. 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 Council's arrangements for accountability and financial performance. 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.

#### **15. 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 accrual's 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.

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

- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).

- Other Land and Buildings – current value, determined as the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value – this is the case in particular for the valuation of schools.
- Vehicles, Plant, Furniture and Equipment, and Infrastructure – depreciated historical cost.
- Community Assets, and Assets Under Construction – historical cost.
- Surplus Assets – fair value, estimated at highest and best use from a market perspective.

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

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

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

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

### ***Impairment***

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

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

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

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

### ***Depreciation***

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

- dwellings - straight-line allocation over the useful life of the property as estimated by the valuer
- other buildings – straight-line allocation over the useful life of the property as estimate by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over varying useful asset lives depending on the detailed nature of the asset
- infrastructure – straight-line allocation over varying useful asset lives depending on the detailed nature of the asset.

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.

### ***Disposals (other than Infrastructure Assets) 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.

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

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

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

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. 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.

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

### ***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 the authority has an 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.

### ***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.

### ***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.

## **18. Reserves**

The Council sets aside specific amounts as revenue reserves for future policy purposes or to cover contingencies; these are earmarked reserves. In addition, there are some capital reserves which are used to hold the capital resources of the Council separately from revenue reserves. Collectively, these are all presented on the Balance Sheet, together with General Fund Balances and HRA Balances, as Usable Reserves.

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. Collectively, these are presented as Unusable Reserves on the Balance Sheet.

## **19. 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.

## **20. Fair value measurement**

The Council measures some of its non-financial assets such as surplus assets and assets held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

## **21. Value added Tax (VAT)**

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

## **22. Community Infrastructure Levy**

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure.

## **23. Schools**

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority-maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

## 2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

At the balance sheet date the following new standards and amendments to existing standards have been published, but will only be adopted by the Code of Practice of Local Authority Accounting in the United Kingdom in future years.

### **Definition of a Business: Amendments to IFRS 3 Business Combinations**

IFRS 3 has been amended to clarify the definition of a business, with the intention of making it easier to determine whether an acquisition should be accounted for as a business combination or as an acquisition of miscellaneous assets. A business will now be defined as an integrated set of activities and assets that must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create output. As the amendment is wholly prospective from the date of application, it will not entail any restatement of 2020-21 transactions.

### **Interest Rate Benchmark Reform – Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7**

Pre-IBOR replacement issues. These amendments are intended to ensure that hedge accounting will not be impacted unduly by the replacement of Inter-Bank Offer Rates (IBORs). Only relevant where hedge accounting is being applied and IBORs are currently part of a forecast transaction that is currently being treated as highly probable.

### **Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**

Issues arising when an IBOR benchmark is actually replaced. The amendments introduce a practical expedient for modifications of financial assets and liabilities that would arise from IBOR reform, allowing the updating of the effective interest rate. Hedge accounting will not be discontinued solely because of the IBOR reform. Hedging relationships must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk and the amended relationships tested against the qualifying criteria for hedge accounting.

### **IFRS 16 Leases (deferral to 1 April 2024)**

IFRS 16 Leases will require local authorities to review all their lessor and lessee accounting arrangements to comply with the new financial reporting standard, with potential balance sheet implications. The key aspect is for lessees to recognise appropriate leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition of de minimis thresholds for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2024, with early adoption permitted. As IFRS16 is effective on or after 1 April 2024, there will be no impact on 2021-22 comparatives.

There are no changes in accounting requirements for 2021-22 that are anticipated to have a material impact on the council's financial performance or financial position.

## 3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies laid out in Note 1, the Council has had to make certain critical judgements about complex and material transactions or those involving uncertainty about future events. In the accounts, these are as follows:

### **Material Change in Circumstances - Business Rates Appeals Provision**

During 2020/21, a large number of appeals have been made to the Valuation Office requesting amendments to rateable values of business premises to reflect material changes in circumstances resulting from the coronavirus pandemic. If successful, these appeals would require the Council to refund overpayments of rates. On 25 March 2021, the Valuation for Rating (Coronavirus)(England) Regulations 2021 were laid before Parliament. The regulations prescribed the assumptions to be made when determining the rateable value of hereditaments affected on or after 25 March 2021 by a material change of circumstances caused by the UK Government's coronavirus response, any requirements/guidance/advice from a public authority, or any measures taken to ensure compliance with health and safety legislation. The regulations were followed by the Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Act 2021, giving retrospective effect to the principle that when determining the rateable value of a hereditament no account is to be taken of any matter that is directly or indirectly attributable to coronavirus (whenever it might have arisen). The Act came into force on 15 December 2021. The council deems the Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Act 2021, an 'adjusting' subsequent event as appeals will not be considered by the Valuation Office.



## 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 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 the assumptions and estimates.

The items in the authority's Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

### **Pensions Liability**

Estimation of the net liability, of £614.3m, 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. Two firms of consulting actuaries (Hymans Robertson LLP) and Barnett Waddingham LLP are engaged to provide the Council with expert advice about the assumptions to be applied.

The actuaries provide the following sensitivity analysis: a 0.5% decrease in the real discount rate would lead to an increase of approximately £222.6m in the scheme liabilities; a 0.5% increase in the rate of pension increase (taken as CPI) would lead to an increase of £203.9m; and a 0.5% increase in the assumed rate of increase of salaries would result in £14.7m.

The valuation of the pension liability and related entries relies on information about scheme members, such as their age and current salary or annual pension. Errors were identified in the information provided by the council to the actuary for the purpose of the valuation of the liability at 31 March 2021 and 31 March 2020. It has not been practicable to check and correct all errors in view of the volume of records involved.

### **Property, Plant and Equipment Valuations**

Assets at carrying value of £2,392.7m are valued in accordance with the professional standards set by the Royal Institution of Chartered Surveyors and valuations are prepared by the Council's external specialists. Property, plant and equipment are subject to full valuation by a qualified valuer under a rolling programme at least once every five years. The valuation in 2020/21 was conducted by Wilks Head and Eve LLP.

The total gross book value of assets valued as part of the valuation process for 2020/21 amounted to £2,042.3m. A 0.1% increase in valuation would lead to an increase of approximately £20.4m in the total gross book value of assets. Conversely, a 0.1% decrease in valuation would lead to a decrease of approximately £20.4m in total gross book value.

The outbreak of COVID-19 continued to impact many aspects of daily life and the global economy as at the date of the closing balance sheet – with some real estate markets experiencing lower levels of transactional activity and liquidity. In respect of retail and specific trading related assets/sectors, valuation of assets are therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of these valuations less certainty – and a higher degree of caution – should be attached to valuations than would normally be the case.

The Housing Revenue Account (HRA) residential portfolio was valued utilising a beacon methodology. In order to value the whole portfolio, it was necessary to research a number of information sources. These include sales of directly comparable property, changes of income flow for non-residential HRA property, information available at a local level showing house price movement plus regional and national indices.

The valuation of schools in particular is subject to the application of estimates. Schools are classified as specialised assets because there are no ready made market transactions to validate their value, and they are therefore valued on a Depreciated Replacement Cost basis, with the two components of buildings, and land, valued separately, as explained below.

School buildings have been valued on a "modern equivalent asset" basis, whereby the cost of rebuilding each building in its current size has been calculated, and this Gross Replacement Cost has been adjusted to reflect obsolescence factors. As of 1st April 2020, the approach to obsolescence is based on an initial assumption of an asset life of 60 years, combined with a hybrid use of straight-line and reducing balance obsolescence factors, as follows: straight-line obsolescence is applied over the first 25 years of the asset life from construction date (with no deferral period), and then after the first 25 years the obsolescence factor is applied at a reducing balance rate. (The application of the 'soft' threshold is a result of public sector building assets generally lasting much longer than the 60-year target life so it would not be appropriate to continue applying obsolescence at the same rate resulting in 100% obsolescence for a building when it is 60 years old. This is evident within many Local Authority portfolios which include properties that are significantly older than 60 years and are still fully operational and providing the service they were initially constructed to do.) School buildings are valued at £431.3m as at 31 March 2021 (£445.4m at 31 March 2020).

## 4 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

The land valuation applied to schools' sites has been adjusted to reflect the principle market for the land type being residential, and that an element of any residential site would be adopted for social or affordable housing, which therefore gives rise to a significant discount on the raw land values; the net land value applied remains unchanged from an estimated £13.8m per hectare from 2019/20 as there is no market evidence or indices supporting a movement. The land the schools sit on is valued at £401.7m as at 31 March 2021 (£402.5m at 31st March 2020).

There has been a recent revision of guidance by government regarding the use of reinforced autoclaved aerated concrete (RAAC) to suggest that in some instances it may be unsafe and require remedial action. The Council has reviewed its portfolio of properties, performing both desktop evaluation based on age and style of build, and on-site inspection where there was uncertainty as to whether RAAC was present or not, and is satisfied that across the board there is no material impact arising from possible usage of RAAC.

## 5 MATERIAL ITEMS OF INCOME AND EXPENDITURE

A material item is an item of expenditure or income that is unusual in scale and non-recurring. For 2020/21, the items of this nature are listed below:

The revaluation movements applied to the Housing Revenue Account, which had been £25.3m reversal (ie gain) in 2019/20, changing to a £11.9m loss in the current year.

The sale proceeds generated from the disposal of assets amounted to £39.0m in 2020/21, the corresponding amount for 2019/20 was £12.9m.

The Reversal of items relating to retirement benefits debited or credited to the CIES amounted to £63.2m in 2020/21, the corresponding amount for 2019/20 was £84.9m.

The government has provided a total of £55.5m relief grants to the council in 2020/21 to support the council with the increased deficits incurred in the council's Collection Fund for 2020/21 as a consequence of the Covid-19 pandemic, the council received £9.3m relief grants in 2019/20.

In 2020/21 the Council received £33.8m in Revenue Support Grant, and £27.6m in Covid-19 support grants (the figures for the previous year were £0 and £10.4m respectively).

## 6 EVENTS AFTER THE BALANCE SHEET DATE

Since the Balance Sheet date of 31 March 2021, there have been no material events that would necessitate amendments to these accounts.

As detailed in note 3, Critical Judgements in applying Accounting Policies, the council deems the Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Act 2021, which came into force on 15 December 2021, a 'non-adjusting' subsequent event.

## 7 EXPENDITURE AND FUNDING ANALYSIS

This statement shows the reconciliation between the net expenditure in the Comprehensive Income and Expenditure Account and the expenditure chargeable to the General Fund and Housing Revenue Account balances.

Expenditure Chargeable to GF and HRA balances	2019/20			2020/21		
	Adjustments between funding and accounting basis	Net Expenditure/ (Income) in the CIES		Expenditure Chargeable to GF and HRA balances	Adjustments between funding and accounting basis	Net Expenditure/ (Income) in the CIES
£'000	£'000	£'000		£'000	£'000	
82,186	23,711	105,897	Children's and Culture	79,987	10,619	90,606
90,654	9,268	99,922	Health, Adults and Communities	91,471	(38)	91,433
50,732	28,249	78,981	Place	66,200	21,096	87,296
16,443	2,784	19,227	Governance	17,934	(2,747)	15,187
(3,580)	(22,681)	(26,261)	Local Authority Housing (Housing Revenue Account)	(2,554)	9,669	7,115
25,877	9,271	35,148	Resources	40,485	9,474	49,959
2,733	2,200	4,933	Corporate Cost and Central Items	19,614	(7,506)	12,108
<b>265,045</b>	<b>52,802</b>	<b>317,847</b>	<b>NET COST OF SERVICES</b>	<b>313,137</b>	<b>40,567</b>	<b>353,704</b>
(275,749)	(59,522)	(335,271)	Other Income and Expenditure	(315,455)	(63,948)	(379,403)
<b>(10,704)</b>	<b>(6,720)</b>	<b>(17,424)</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>(2,318)</b>	<b>(23,381)</b>	<b>(25,699)</b>
(62,118)			<b>Opening General Fund and HRA balances</b>	(72,822)		
(10,704)			Plus Deficit/(Surplus) on General Fund and HRA Balance in Year	(2,318)		
<b>(72,822)</b>			<b>CLOSING GENERAL FUND AND HRA BALANCES</b>	<b>(75,140)</b>		

## 7a NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

This statement shows the adjustments from the net chargeable amounts to the General Fund and Housing Revenue Account to arrive at the Comprehensive Income and Expenditure Statement amounts:

2019/20					2020/21					
Adjustments for Capital Purposes	Transfers (to)/from Earmarked Reserves	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments		Adjustments for Capital Purposes	Transfers (to)/from Earmarked Reserves	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
8,291	6,167	9,253	-	23,711	Children's and Culture	16,879	(19,165)	2,063	10,842	10,619
3,708	1,326	4,234	-	9,268	Health, Adults and Communities	327	(1,973)	1,009	599	(38)
31,252	(9,231)	6,676	(448)	28,249	Place	17,862	(656)	2,104	1,786	21,096
-	838	1,946	-	2,784	Governance	-	(1,016)	3,607	(5,338)	(2,747)
(19,469)	-	143	(3,355)	(22,681)	Local Authority Housing (Housing Revenue Account)	16,486	-	(1,886)	(4,931)	9,669
1,123	2,171	5,977	-	9,271	Resources	2,736	5,206	1,341	191	9,474
(11,350)	9,847	(6,225)	9,928	2,200	Corporate Cost and Central Items	(12,952)	6,541	-	(1,095)	(7,506)
<b>13,555</b>	<b>11,118</b>	<b>22,004</b>	<b>6,125</b>	<b>52,802</b>	<b>NET COST OF SERVICES</b>	<b>41,338</b>	<b>(11,063)</b>	<b>8,238</b>	<b>2,054</b>	<b>40,567</b>
(68,599)	(16,868)	13,573	12,372	(59,522)	Other income and expenditure from the Expenditure and Funding Analysis	(59,291)	(45,981)	11,011	30,313	(63,948)
<b>(55,044)</b>	<b>(5,750)</b>	<b>35,577</b>	<b>18,497</b>	<b>(6,720)</b>	<b>DIFFERENCE BETWEEN SURPLUS OR DEFICIT AND THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>(17,953)</b>	<b>(57,044)</b>	<b>19,249</b>	<b>32,367</b>	<b>(23,381)</b>

### Adjustments for Capital Purposes

This column includes the following adjustments:

- ☑ Services – depreciation and impairment and revaluation gains and losses are added back in as these are not in the net chargeable amounts but are chargeable under generally accepted accounting practices. Capital expenditure financed by revenue and statutory charges for capital financing (Minimum Revenue Provision) are removed as these is not chargeable to the Comprehensive Income and Expenditure Statement.
- ☑ Other income and expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets and also adjusts for the share of housing capital receipts paid to central government under a pooling arrangement. Capital grants are adjusted for income not chargeable under generally accepted accounting practices. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### Transfers (to)/from Earmarked Reserves

This column adjusts for the application of earmarked reserves against expenditure and the transfer of any balances to earmarked reserves which are not included in the Comprehensive Income and Expenditure Statement as they are not chargeable under generally accepted accounting practices.

### Net Change for Pensions Adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- ☑ Services - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- ☑ Other income and expenditure – the net interest on the defined benefit liability is charged to Financing and Investment Income and Expenditure.

### Other Adjustments

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- ☑ Services – adjustments in this column include the timing differences for premia and discounts; interest payable, interest receivable, levies and trading account surplus/deficit moved out of service expenditure to be recognised as part of Other Income and Expenditure within the Surplus or Deficit on the Provision of Services; recognising the accrual of employee annual leave in the Comprehensive Income and Expenditure Statement; also adjusting revenue grants to include those receivable without conditions or for which conditions were satisfied throughout the year.
- ☑ Other income and expenditure – this column represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

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

2020/21	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES £'000
<b>Adjustments involving the Capital Adjustment Account</b>							
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>							
Charges for depreciation and impairment of non current assets	(26,920)	-	(17,617)	-	-	(44,537)	44,537
Charges for amortisation of intangible non-current assets	(120)	-	-	-	-	(120)	120
Revaluation movements on PPE (charged to SDPS) reversed	(11,391)	(11,901)	-	-	-	(23,292)	23,292
Revaluation movements on AHFS (charged to SDPS) reversed	-	(30)	-	-	-	(30)	30
Capital grants and contributions applied	15,616	608	-	-	26,358	42,582	(42,582)
Revenue expenditure funded from capital under statute	(7,359)	(6,105)	-	-	-	(13,464)	13,464
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(610)	(18,537)	-	-	-	(19,147)	19,147
<u>Inclusion of items not debited or credited to the Comprehensive Income &amp;</u>							
Statutory provision for the financing of capital investment	9,523	1,634	-	-	-	11,157	(11,157)
Capital expenditure charged against the General Fund and HRA balances	7,818	-	-	-	-	7,818	(7,818)
<b>Adjustments involving the Capital Receipts Reserve</b>							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	524	38,505	-	(39,029)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	31,292	-	31,292	(31,292)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(2,934)	-	-	2,934	-	-	-
Unattached capital receipts	-	-	-	-	-	-	-
<b>Adjustment involving the Major Repairs Reserve</b>							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	17,543	-	-	17,543	(17,543)
<b>Adjustments involving the Financial Instruments Adjustment Account</b>							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	435	-	-	-	435	(435)
<b>Adjustment involving the Pensions Reserve</b>							
Reversal of items relating to retirement benefits debited or credited to the CIES	(63,250)	-	-	-	-	(63,250)	63,250
Employer's pensions contributions and direct payments to pensioners payable for the year	42,115	1,886	-	-	-	44,001	(44,001)
<b>Adjustments involving the Collection Fund Adjustment Account</b>							
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	(25,282)	-	-	-	-	(25,282)	25,282
<b>Adjustments involving the Pooled Investments Adjustment Account</b>							
Amount by which changes in the value of pooled investments charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	6,232	-	-	-	-	6,232	(6,232)
<u>Other adjustments include</u>							
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Capital grants and contributions unapplied credited to CIES when receivable	25,405	6,564	-	-	(31,969)	-	-
<b>Adjustments involving the Accumulated Absences Account</b>							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(4,915)	-	-	-	-	(4,915)	4,915
<b>Adjustments primarily involving the Dedicated Schools Adjustment Account:</b>							
Movement of negative Dedicated schools grant reserve to the DSG adjustment account	(11,174)	-	-	-	-	(11,174)	11,174
<b>Total Adjustments</b>	(46,722)	13,059	(74)	(4,803)	(5,611)	(44,151)	44,151

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

2019/20	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments involving the Capital Adjustment Account</b>							
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>							
Charges for depreciation and impairment of non current assets	(22,311)	-	(16,295)	-	-	(38,606)	38,606
Charges for amortisation of intangible non-current assets	-	-	-	-	-	-	-
Revaluation movements on PPE (charged to SDPS) reversed	(11,730)	25,349	-	-	-	13,619	(13,619)
Revaluation movements on AHFS (charged to SDPS) reversed	-	-	-	-	-	-	-
Capital grants and contributions applied	17,726	1,527	-	-	29,979	49,232	(49,232)
Revenue expenditure funded from capital under statute	(11,174)	(8,073)	-	-	-	(19,247)	19,247
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(436)	(3,502)	-	-	-	(3,938)	3,938
<u>Inclusion of items not debited or credited to the Comprehensive</u>							
Statutory provision for the financing of capital investment	9,247	2,059	-	-	-	11,306	(11,306)
Capital expenditure charged against the General Fund and HRA balances	2,193	-	-	-	-	2,193	(2,193)
<b>Adjustments involving the Capital Receipts Reserve</b>							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	2,089	10,806	-	(12,895)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	45,024	-	45,024	(45,024)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(24,415)	-	-	24,415	-	-	-
<b>Adjustment involving the Major Repairs Reserve</b>							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	16,295	-	-	16,295	(16,295)
<b>Adjustments involving the Financial Instruments Adjustment Account</b>							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	435	-	-	-	435	(435)
<b>Adjustment involving the Pensions Reserve</b>							
Reversal of items relating to retirement benefits debited or credited to the CIES	(79,140)	(5,771)	-	-	-	(84,911)	84,911
Employer's pensions contributions and direct payments to pensioners payable in the year	43,950	5,384	-	-	-	49,334	(49,334)
<b>Adjustments involving the Collection Fund Adjustment Account</b>							
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	(13,136)	-	-	-	-	(13,136)	13,136
<b>Adjustments involving the Pooled Investments Adjustment Account</b>							
Amount by which changes in the value of pooled investments charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	(5,796)	-	-	-	-	(5,796)	5,796
<u>Other adjustments include</u>							
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Capital grants and contributions unapplied credited to CIES when receivable	58,163	7,526	-	-	(65,689)	-	-
<b>Adjustments involving the Accumulated Absences Account</b>							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-
<b>Total Adjustments</b>	(34,770)	35,740	-	56,544	(35,710)	21,804	(21,804)

## 9 TRANSFERS TO / FROM EARMARKED RESERVES

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

	BALANCE AT 31 MARCH 2019	TRANSFERS OUT 2019/20	TRANSFERS IN 2019/20	BALANCE AT 31 MARCH 2020	TRANSFERS OUT 2020/21	TRANSFERS IN 2020/21	BALANCE AT 31 MARCH 2021	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
1	Schools Balances	(25,638)	1,417	(1,661)	(25,882)	750	(10,903)	(36,035)
2	DSG	4,572	6,508	-	11,080	(11,080)	-	-
3	Insurance	(17,666)	9,000	-	(8,666)	-	(1,300)	(9,966)
4	New Civic Centre	(17,247)	254	-	(16,993)	16,993	-	-
5	Parking Control	(3,295)	-	-	(3,295)	-	-	(3,295)
6	Transformation	(9,198)	3,855	-	(5,343)	1,730	-	(3,613)
7	Collection Fund Smoothing Reserve	(6,515)	-	(4,930)	(11,445)	-	(47,900)	(59,345)
8	ICT / Finance Systems	(16,103)	1,555	-	(14,548)	5,225	(300)	(9,623)
9	Mayor's Tackling Poverty Reserve	(3,366)	-	-	(3,366)	-	-	(3,366)
10	Free School Meals	(4,000)	2,000	-	(2,000)	2,000	(6,000)	(6,000)
11	Mayor's Investment Priorities	(4,640)	-	(784)	(5,424)	452	-	(4,972)
12	Risk Reserve	(4,535)	-	(2,883)	(7,418)	5,249	(750)	(2,919)
13	MTFS Smoothing Reserve	(28,939)	-	(1,620)	(30,559)	6,000	(16,000)	(40,559)
14	Adults, Health & Wellbeing (including Public Health)	(1,717)	704	-	(1,013)	-	(2,308)	(3,321)
15	Services Reserve	(1,895)	-	(1,296)	(3,191)	449	(2,620)	(5,363)
16	Revenue Grants	(9,470)	992	-	(8,478)	25	(390)	(8,843)
17	Covid-19 Grant	-	-	(10,318)	(10,318)	6,839	-	(3,479)
18	Ringfenced Developers' Contribution:	(2,464)	-	(703)	(3,167)	43	-	(3,124)
19	CIL	-	-	(7,840)	(7,840)	-	-	(7,840)
20	Council Tax Hardship	-	-	-	-	-	(2,448)	(2,448)
21	Local Elections Reserve	-	-	-	-	-	(800)	(800)
<b>Earmarked Reserve Total</b>		<b>(152,116)</b>	<b>26,285</b>	<b>(32,035)</b>	<b>(157,866)</b>	<b>34,674</b>	<b>(91,718)</b>	<b>(214,910)</b>

### Corporate Reserves

- 1 Reserves held by schools under the scheme of delegation. This balance can only be used by the Schools and is not available to the Council for general use.
- 2 In accordance with regulations, the deficit on the schools DSG reserve has been transferred to the dedicated schools grant adjustment account, an unusable reserve.
- 3 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.
- 4 Reserve to contribute towards funding of the new Civic Centre in Whitechapel.
- 5 Parking control reserve.
- 6 Reserve created to support the delivery of the Council's transformation programme.
- 7 Collection Fund Smoothing Reserve - used to manage fluctuations in Business Rates income
- 8 Reserve to support the planned investment in Council's finance systems.
- 9 Contribution toward funding of welfare reform programme.
- 10 Reserve to fund free school meals programme.
- 11 Reserve to fund Mayor's Investment Priority schemes.
- 12 Risk Reserve to manage funding of risks arising.
- 13 Unspent element of the New Homes Bonus Grant which will be used to fund housing schemes.
- 14 Reserves held for Adults, Health and Wellbeing and Public Health services.
- 15 Includes Building Control, Land Charges, and Planning reserves.
- 16 Unspent revenue grants without repayment conditions.
- 17 Grant received to fund Covid-19 related expenditure.
- 18 This balance consists of developers' contributions which are ringfenced for specific purposes.
- 19 Community Infrastructure Levy.
- 20 Council Tax Hardship Relief.
- 21 Contribution for future Local Election Costs.

## 10 OTHER OPERATING EXPENDITURE

2019/20 £'000		2020/21 £'000
1,892	Levies	1,936
24,415	Payments to Housing Capital Receipts Pool	2,934
(8,957)	Net (gain) / loss on disposal of non-current assets	(19,882)
<b>17,350</b>	<b>Total</b>	<b>(15,012)</b>

## 11 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2019/20 £'000		Note	2020/21 £'000
9,159	Interest payable and similar charges		9,765
13,573	Net interest on the net defined benefit liability/(asset)		11,011
(4,035)	Interest receivable and similar income	17	(1,591)
4,907	Net (gains)/losses on financial assets at fair value through profit and loss		(6,632)
448	(Surplus) or deficit of trading operations		127
<b>24,052</b>	<b>Total</b>		<b>12,680</b>

## 12 TAXATION AND NON SPECIFIC GRANT INCOME

2019/20 £'000		Note	2020/21 £'000
(98,831)	Council Tax income		(105,059)
(162,353)	Non domestic rates		(90,751)
(38,959)	Non-ringfenced Government grants	37	(138,917)
(76,530)	Capital grants and contributions	37	(42,344)
<b>(376,673)</b>	<b>Total</b>		<b>(377,071)</b>

## 13 INCOME AND EXPENDITURE ANALYSED BY NATURE

2019/20 £'000		2020/21 £'000
487,453	Employee benefits expenses	489,446
689,749	Other service expenses	701,850
24,987	Depreciation, amortisation and impairment	67,979
13,573	Interest payments	9,765
9,159	Net interest on the net defined benefit liability/(asset)	11,011
4,907	Net (gains)/losses on financial assets at fair value through profit and loss	(6,632)
1,892	Precepts and levies	1,936
24,415	Payments to housing capital receipts pool	2,934
(8,957)	Gains and losses on disposal of non-current assets	(19,882)
<b>1,247,178</b>	<b>TOTAL EXPENDITURE</b>	<b>1,258,407</b>
(227,806)	Fees, charges and other service income	(214,959)
(4,035)	Interest and investment income	(1,591)
(261,183)	Income from council tax and non-domestic rates	(195,810)
(771,578)	Government grants and contributions	(871,746)
<b>(1,264,602)</b>	<b>TOTAL INCOME</b>	<b>(1,284,106)</b>
<b>(17,424)</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>(25,699)</b>



## 14 PROPERTY, PLANT AND EQUIPMENT

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The authority has determined in accordance with Regulation 30M England of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

The totality of Property, Plant and Equipment is provided in the first table below, with details of in-year movements within each sub-section provided in the tables thereafter.

2019/20 £'000	TOTAL PPE	2020/21 £'000
125,292	Infrastructure assets (net book value) - 31 March	133,010
2,579,204	Other PPE - 31 March	2,565,538
<b>2,704,496</b>	<b>TOTAL PPE - 31 March</b>	<b>2,698,548</b>

2019/20 £'000	Infrastructure Assets	2020/21 £'000
111,491	Infrastructure assets (net book value) - 1 April	125,292
22,692	Additions in-year	17,733
(8,891)	Depreciation charge in-year	(10,015)
-	Reclassifications	-
<b>125,292</b>	<b>Infrastructure assets (net book value) - 31 March</b>	<b>133,010</b>

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

MOVEMENTS IN 2020/21	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	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
<b>Cost or Valuation</b>								
<b>At 1 April 2020</b>	<b>1,136,458</b>	<b>1,286,895</b>	<b>39,331</b>	<b>33,740</b>	<b>26,371</b>	<b>90,419</b>	<b>2,613,214</b>	<b>230,218</b>
Additions	33,724	26,471	9,750	2,534	7	59,451	131,937	8,989
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(93,446)	(10,206)	-	-	5,486	-	(98,166)	(4,537)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(7,608)	(15,287)	-	-	(397)	-	(23,292)	(2,732)
Derecognition - Disposals	(3,654)	-	-	-	(14,500)	-	(18,154)	-
Derecognition - Other	-	(1,164)	-	-	-	-	(1,164)	-
Assets Reclassified (to)/from Held for Sale	(219)	(156)	-	-	-	-	(375)	-
Other Reclassification of Assets	32,161	(5,720)	-	-	9,440	(35,881)	-	-
<b>At 31 March 2021</b>	<b>1,097,416</b>	<b>1,280,833</b>	<b>49,081</b>	<b>36,274</b>	<b>26,407</b>	<b>113,989</b>	<b>2,604,000</b>	<b>231,938</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2020</b>	<b>-</b>	<b>10,431</b>	<b>23,568</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>34,010</b>	<b>3,235</b>
Depreciation charge	16,607	14,708	3,178	-	29	-	34,522	2,242
Depreciation written out to the Revaluation Reserve	(16,631)	(13,009)	-	-	(243)	-	(29,883)	(2,067)
Derecognition - Disposals	(53)	-	-	-	-	-	(53)	-
Derecognition - Other	-	(118)	-	-	-	-	(118)	-
Assets reclassified (to)/from Held for Sale	(3)	(13)	-	-	-	-	(16)	-
Other Reclassification of Assets	80	(365)	-	-	203	82	-	-
<b>At 31 March 2021</b>	<b>-</b>	<b>11,634</b>	<b>26,746</b>	<b>-</b>	<b>-</b>	<b>82</b>	<b>38,462</b>	<b>3,410</b>
<b>Net Book Value</b>								
<b>At 31 March 2021</b>	<b>1,097,416</b>	<b>1,269,199</b>	<b>22,335</b>	<b>36,274</b>	<b>26,407</b>	<b>113,907</b>	<b>2,565,538</b>	<b>228,528</b>
<b>At 31 March 2020</b>	<b>1,136,458</b>	<b>1,276,464</b>	<b>15,763</b>	<b>33,740</b>	<b>26,360</b>	<b>90,419</b>	<b>2,579,204</b>	<b>226,983</b>

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

MOVEMENTS IN 2019/20	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	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
<b>Cost or Valuation</b>								
<b>At 1 April 2019</b>	<b>1,030,754</b>	<b>1,103,665</b>	<b>26,008</b>	<b>31,406</b>	<b>25,159</b>	<b>66,976</b>	<b>2,283,968</b>	<b>198,258</b>
Additions	29,011	44,948	13,323	2,459	-	47,884	137,625	7,439
Revaluation increases/(decreases) recognised in the Revaluation Reserve	54,736	126,451	-	-	974	-	182,161	27,988
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	25,349	(11,967)	-	-	238	-	13,620	(3,467)
Derecognition - Disposals	(3,392)	-	-	-	-	-	(3,392)	-
Derecognition - Other	-	(666)	-	(108)	-	-	(774)	-
Assets Reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Other Reclassification of Assets	-	24,464	-	(17)	-	(24,441)	6	-
<b>At 31 March 2020</b>	<b>1,136,458</b>	<b>1,286,895</b>	<b>39,331</b>	<b>33,740</b>	<b>26,371</b>	<b>90,419</b>	<b>2,613,214</b>	<b>230,218</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2019</b>	<b>-</b>	<b>13,648</b>	<b>22,887</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>36,542</b>	<b>3,035</b>
Depreciation charge	15,382	13,572	681	-	80	-	29,715	2,075
Depreciation written out to the Revaluation Reserve	(15,331)	(16,465)	-	-	(76)	-	(31,872)	(1,875)
Derecognition - Disposals	(51)	-	-	-	-	-	(51)	-
Derecognition - Other	-	(336)	-	-	-	-	(336)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Other Reclassification of Assets	-	12	-	-	-	-	12	-
<b>At 31 March 2020</b>	<b>-</b>	<b>10,431</b>	<b>23,568</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>34,010</b>	<b>3,235</b>
<b>Net Book Value</b>								
<b>At 31 March 2020</b>	<b>1,136,458</b>	<b>1,276,464</b>	<b>15,763</b>	<b>33,740</b>	<b>26,360</b>	<b>90,419</b>	<b>2,579,204</b>	<b>226,983</b>
<b>At 31 March 2019</b>	<b>1,030,754</b>	<b>1,090,017</b>	<b>3,121</b>	<b>31,406</b>	<b>25,152</b>	<b>66,976</b>	<b>2,247,426</b>	<b>195,223</b>

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Depreciation

The following useful lives have been used in the calculation of depreciation, applied on a straight line basis:

- Council Dwellings – 50 years
- Other Land and Buildings – 50 years for schools, libraries and offices; 54 years for temporary accommodation; 53 years for garages; 41 years for community buildings
- Vehicles, Plant & Equipment - 5 years on a straight line basis, or as advised by the service
- Infrastructure assets - 25 years for roads, footways, street furniture, traffic management systems and other highway-related assets, and street lighting installed before 2018/19; 12 years for new LED lanterns, and 50 years for columns, for streetlighting installed from 2018/19 onwards, 100 years for tunnels, and 120 years for bridges

### Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million at 31st March 2021 as below:

	Committed sum 31/03/2021 £'000	Costs to 31/3/2021 £'000	2021/22 onwards £'000
Whitechapel Civic Centre	116,047	62,025	54,022
New Housing - Infill sites	36,931	27,637	9,294
Barnsley Street (Formerly Ashington East)	18,097	3,082	15,015
St Pauls Way	7,793	3,998	3,795
Mellish Street	7,168	1,967	5,201
Lowder House Garage site	5,261	2,246	3,015
Keats House	3,034	589	2,445
Strahan Road	2,535	324	2,211
Hanbury St Garage site	2,305	1,111	1,194
Sidney Street	1,748	764	984
London Dock School	11,085	1,004	10,081
<b>TOTAL</b>	<b>212,004</b>	<b>104,747</b>	<b>107,257</b>

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million at 31st March 2020 as below:

	Committed sum 31/03/2020 £'000	Costs to 31/3/2020 £'000	2020/21 onwards £'000
Whitechapel Civic Centre	110,204	27,769	82,435
New Housing - Infill sites	28,500	25,130	3,370
Barnsley Street (Formerly Ashington East)	18,097	-	18,097
Bow Site - Phoenix SEN	14,569	4,788	9,781
St Pauls Way	7,793	-	7,793
Mellish Street	7,168	-	7,168
Lowder House Garage site	5,261	-	5,261
Bartlett Park	3,512	2,604	908
Keats House	3,034	-	3,034
Strahan Road	2,535	-	2,535
Hanbury St Garage site	2,305	-	2,305
Sidney Street	1,748	-	1,748
<b>TOTAL</b>	<b>204,726</b>	<b>60,291</b>	<b>144,435</b>

### Revaluations

In 2020/21, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2016'.

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 31st March in the year of valuation. In 2020/21, school assets held at depreciated replacement cost (DRC) were also subject to a desktop valuation as at 31st March 2021. A summary of total valuation per asset category is shown below.

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	-	352	22,335	133,010	36,274	-	113,907	305,878
Valued at current value in:								
2020/21	1,097,416	918,524	-	-	-	26,407	-	2,042,347
2019/20	-	186,584	-	-	-	-	-	186,584
2018/19	-	101,595	-	-	-	-	-	101,595
2017/18	-	35,818	-	-	-	-	-	35,818
2016/17	-	26,326	-	-	-	-	-	26,326
<b>31 March 2021</b>	<b>1,097,416</b>	<b>1,269,199</b>	<b>22,335</b>	<b>133,010</b>	<b>36,274</b>	<b>26,407</b>	<b>113,907</b>	<b>2,698,548</b>

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### 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 above reconciling the movement over the year in the Property, Plant and Equipment balances. An impairment review was carried out by qualified valuers at 31st March 2021 and Hadleigh House under Council Dwellings damaged by fire was impaired resulting in impairment loss of £1.467 million.

### Fair Value Measurement – Surplus Assets

Surplus assets have been valued using the Fair Value approach, and the Valuer has advised that Level 2 inputs have been employed (and the definition of this is explained below). The objective of this measurement approach is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under the current market conditions.

- Level 2 inputs are quoted prices other than quoted prices in Level 1 that are observable for the asset.
- Significant Observable Inputs as used for the valuation of Surplus Assets are such things as current market conditions (based on recent sales prices), and size, location and condition of property, along with other relevant factors.
- The level of inputs has not changed from the previous balance sheet date.

## 15 INTANGIBLE ASSETS

Movement on Intangible Assets	Total £'000
<b>Asset value at 31 March 2019</b>	-
Additions	684
Amortisation	-
<b>Asset value at 31 March 2020</b>	<b>684</b>
Additions	1,695
Amortisation	(120)
<b>Asset value at 31 March 2021</b>	<b>2,259</b>

All intangible assets are given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful life assigned to intangible assets used by the Council is between four and six years.

The carrying amount of intangible assets is amortised on a straight-line basis.

## 16 HERITAGE ASSETS

The Council holds a number of heritage assets. These include civic regalia, works of art across the borough (one of which is a sculpture valued at £18m which was relocated to the borough during 2017/18) 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.

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 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.

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.

## 17 FINANCIAL INSTRUMENTS

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are classified into one of three categories based on the business model for holding the instruments and their expected cashflow characteristics as follows:

**Amortised Cost** - where cash flows are solely for payments of principal and interest and the Council's business model is to collect those cash flows. For borrowing, this means that the amount in the balance sheet is the remaining principal and the accrued interest. Financial assets include cash in hand, bank current and deposit accounts, fixed term deposits.

**Fair Value Through Other Comprehensive Income (FVOCI)** - Fair value is defined as the amount for which an asset or a liability could be exchanged between market participants in an arm's length transaction. Where held as fair value through other comprehensive income, the cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows and sell the instruments, including equity investments that the Council has elected into this category).

**Fair Value Through Profit and Loss (FVTPL)** - These assets are measured and carried at fair value and all gains and losses due to changes in fair value (both realised and unrealised) are recognised in the Comprehensive Income & Expenditure Statement as they occur.

The Council holds some assets at fair value through profit or loss - the Council's investments in pooled funds have been classified as such, as well as holdings in money market funds. The former are long-term strategic holdings whose changes in fair value are not considered to be part of the Council's annual financial performance. The fair values for these investments have been mostly derived from "Level 1 inputs" (where the fair values are only derived from quoted prices in active markets for identical assets or liabilities). However, in 2019/20 property funds totalling a nominal value of £5m had their fair values assessments moved from Level 1 to Level 2 inputs (where the fair values are derived from inputs that are observable, other than quoted prices) as there was no longer deemed to be an active market in these instruments. Fund managers had suspended redemptions reflecting market conditions for underlying properties caused by the economic consequences of the coronavirus pandemic.

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet.

Financial Instrument Categories	Non-Current		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2020	2021	2020	2021	2020	2021
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Assets</b>						
<b>Financial Assets - Fair Value through profit and loss*</b>						
Investments	49,666	55,897	20,000	20,000	69,666	75,897
Cash Equivalents	-	-	57,750	70,900	57,750	70,900
<b>Financial Assets at Amortised Cost</b>						
Investments	15,000	5,000	80,880	97,415	95,880	102,415
Trade Debtors	1,616	2,159	71,036	85,976	72,652	88,135
Cash and Cash Equivalents	-	-	128,975	128,369	128,975	128,369
<b>Total Financial Assets</b>	<b>66,282</b>	<b>63,056</b>	<b>358,641</b>	<b>402,660</b>	<b>424,923</b>	<b>465,716</b>
<b>Financial Liabilities</b>						
<b>Financial Liabilities at Amortised Cost</b>						
Cash and Cash Equivalents	-	-	(53,159)	(65,006)	(53,159)	(65,006)
Borrowing	(71,534)	(69,872)	(1,162)	(2,064)	(72,696)	(71,936)
Trade Creditors	-	-	(92,841)	(81,503)	(92,841)	(81,503)
Service Concessions and Finance Leases	(55,639)	(53,484)	(3,011)	(2,874)	(58,650)	(56,358)
<b>Total Financial Liabilities</b>	<b>(127,173)</b>	<b>(123,356)</b>	<b>(150,173)</b>	<b>(151,447)</b>	<b>(277,346)</b>	<b>(274,803)</b>

\*The valuation basis is Level 1 classification, where fair value is determined by unadjusted quoted prices in active markets, but subject to the further detail provided in the text above the table.

## 17 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:

	2019/20			2020/21		
	Financial Liabilities measured at amortised cost £'000	Financial Assets measured at amortised cost £'000	Financial Assets measured at FVPL* £'000	Financial Liabilities measured at amortised £'000	Financial Assets measured at amortised cost £'000	Financial Assets measured at FVPL* £'000
Interest expense	9,159	-	-	9,765	-	-
Loan repayment penalty	-	-	-	-	-	-
Interest income	-	(4,035)	-	-	(1,591)	-
Money Market Funds (Cash Equivalents)	-	-	(650)	-	-	(96)
Pooled Funds	-	-	5,557	-	-	(6,536)
<b>Net Gain/(Loss) for the year</b>	<b>9,159</b>	<b>(4,035)</b>	<b>4,907</b>	<b>9,765</b>	<b>(1,591)</b>	<b>(6,632)</b>

\*Fair Value through Profit and Loss

### Fair Values of Financial Instruments carried at Amortised Cost

The fair value of each class of financial instruments which are carried in the balance sheet at amortised cost is disclosed in the table below. Some classes of instrument (namely cash and cash equivalents, trade debtors and creditors, and investments which are predominantly fixed-term deposits of maturity under 12 months, and in any case no longer than 3 years) have been assessed as having carrying values which are not materially different from fair values, and so are not disclosed in the table below.

	Fair Value Valuation Basis	31 March 2020	31 March 2020	31 March 2021	31 March 2021
		Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Borrowing held at amortised cost					
Public Works Loans Board	Level 2	(55,121)	(61,964)	(54,362)	(61,966)
Market Loans - Fixed Interest	Level 2	(17,575)	(30,565)	(17,574)	(31,160)
Service Concessions	Level 2	(31,486)	(49,216)	(29,348)	(46,446)
Finance Leases	Level 2	(27,166)	(58,301)	(27,009)	(59,864)
<b>Financial Liabilities</b>		<b>(131,348)</b>	<b>(200,046)</b>	<b>(128,293)</b>	<b>(199,436)</b>

The fair value valuation bases are as follows:

Level 1 - unadjusted quoted prices in active markets for identical instruments that the Council can access at the balance sheet date.

Level 2 - using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - using unobservable inputs for the asset or liability.

The fair value of borrowings is higher 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.

The fair values of borrowings are estimated as the price the lender would receive to sell the loans to another market participant on 31st March, based on observable market rates for similar transactions, including local authority bonds in issue. Where there is no directly comparable bond in issue, the market rate is derived from observed interest rate swap rates plus an interpolated credit spread. Ultimately, if prevailing interest rates were lower, then the fair values of the Council's borrowings would increase. The fair values quoted for borrowings include accrued interest as at 31st March in order to enable direct comparison with the carrying amounts (which, being valued at amortised cost, also include accrued interest).

The fair values of service concessions and finance leases are estimated as the price the Council would pay to transfer the liability to another market participant on 31st March, and the underlying methodology is a discounted cash flow analysis. The key input involved is the discount factor, and that has been assessed as the yields on AA corporate bonds. Ultimately, if prevailing bond yields were lower, then the fair values would increase, all other factors being equal.

## 17 FINANCIAL INSTRUMENTS (CONTINUED)

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

The council is exposed to a variety of risks in providing its services and as such, seeks to minimise the potential adverse effects on the resources available to fund services. These risks include:

- Credit risk - the possibility that counterparties might fail to pay amounts due to the council
- Liquidity risk - the possibility that the Council might not have access to cash to meet its liabilities as they fall due.
- Market risk - the possibility that financial loss may arise as a result of changes in values such measures as interest rates

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.

### 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 financial institutions as shown below which is further detailed in the Treasury Management Strategy.

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£30 20 years	£30m 50 years	£15m 20 years	£15m 20 years
AA+	£15m 5 years	£30m 10 years	£30m 25 years	£15m 10 years	£15m 10 years
AA	£15m 4 years	£30m 5 years	£30m 15 years	£15m 5 years	£15m 10 years
AA-	£15m 3 years	£30m 4 years	£30m 10 years	£15m 4 years	£15m 10 years
A+	£15m 2 years	£30m 3 years	£15m 5 years	£15m 3 years	£15m 5 years
A	£15m 13 months	£30m 2 years	£15m 5 years	£15m 2 years	£15m 5 years
A-	£15m 6 months	£30m 13 months	£15m 5 years	£15m 13 months	£15m 5 years
None	£1m 6 months	n/a	£30m 25 years	£1m 5 years	£15m 5 years
Pooled funds and real estate investment trusts			£30m per fund or trust		

### Credit Risk Exposure on Treasury Management Activities

As at the balance sheet date investments of principal are analysed as follows, and the credit-worthiness of the investment portfolio is rated at A+ (rated AA- in 2019/20).

Financial Asset Class	31 March 2020 £'000	31 March 2021 £'000
<b>Long-term Investments</b>		
Fixed-term deposits with other local authorities	15,000	5,000
Fixed-term deposits with financial institutions	-	-
Pooled investment funds with financial institutions	49,666	55,897
<b>Short-term investments</b>		
Fixed-term deposits with other local authorities	40,000	97,000
Fixed-term/call account deposits with financial institutions	40,000	-
Pooled investment funds with financial institutions	20,000	20,000
<b>Cash Equivalents</b>		
Fixed-term deposits with other local authorities	29,000	10,000
Fixed-term/call account deposits with financial institutions	-	15,000
MMFs with financial institutions	57,750	70,900
<b>TOTAL</b>	<b>251,416</b>	<b>273,797</b>

The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits, and has no historical experience of defaults on any of its investments.



## 17 FINANCIAL INSTRUMENTS (CONTINUED)

### Credit Risk Exposure on Trade Debtors

Where the Council provides services to customers or has contractual arrangements in place with other organisations, there is the possibility that outstanding monies will not be repaid. The table below shows the gross amounts outstanding and the expected lifetime credit loss (using the simplified approach).

	31 March 2020		31 March 2021	
	Gross debtors £'000	Loss allowance £'000	Gross debtors £'000	Loss allowance £'000
Long-term trade debtors	1,616	-	2,159	-
NHS	8,679	-	7,879	-
Tower Hamlets Homes	1,165	-	2,410	-
Leaseholders	34,642	(2,665)	39,952	(2,402)
Tenants (HRA and temporary accommodation)	16,556	(15,938)	20,217	(18,205)
Other	31,843	(3,246)	41,963	(5,838)
<b>TOTAL</b>	<b>94,501</b>	<b>(21,849)</b>	<b>114,580</b>	<b>(26,445)</b>

For Leaseholders, the loss allowance is a reflection of the time-value of money, being calculated by means of a discounted cash flow of the expected collection time profile.

For Tenants, the loss allowance is calculated at nearly full coverage of the gross receivable, reflecting the difficulties of collection, especially from those housed in temporary accommodation. In 2020/21, £0.997m was written off (£3.143m in 2019/20).

For others, the loss allowance is calculated by means of mostly reviewing outstanding debts and assessing on an individual basis, but using collective assessment in the segment of adult social care customers; no component element of the loss allowance is significant. In the year, £0.192m was written off (£0.405m in 2019/20).

With the exception of leaseholders, who are permitted to pay for the costs of major works incurred on their accommodation blocks by means of payment plans over a number of years, the Council does not provide credit to customers.

### Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council has ready 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 maturity structure of financial liabilities is as follows (at nominal value):

Loans outstanding	31 March 2020 £'000	31 March 2021 £'000
Public Works Loans Board	117,688	115,765
Market debt	61,085	60,403
PFI / Finance Leases	141,076	126,693
<b>TOTAL</b>	<b>319,849</b>	<b>302,861</b>
Less than 1 year	12,445	13,378
Between 1 and 2 years	13,541	12,914
Between 2 and 5 years	37,363	36,053
Between 5 and 10 years	43,639	35,358
More than 10 years	212,861	205,158
<b>TOTAL</b>	<b>319,849</b>	<b>302,861</b>

The Council uses money market funds to provide liquidity.

### Market Risk - Interest rate:

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates - the interest expense charged to the surplus or deficit on the provision of services will rise
- borrowings at fixed rates - the fair value of the liabilities will fall
- investments at variable rates - the interest income credited to the surplus or deficit on the provision of services will rise
- investments at fixed rates - the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 75% of its net debt in variable rate loans and to prioritise use of cash balances and temporary borrowing over new variable rate loans. The Council's Strategy is that new variable rate loans from the Public Works Loans Board are to be for periods up to ten years.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

## 17 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 2021, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as follows:

Interest Rate Risk	2019/20 £'000	2020/21 £'000
Increase in interest payable on variable rate borrowings	-	-
Increase in interest receivable on variable rate investments	(840)	(760)
<b>Impact on Income and Expenditure Account</b>	<b>(840)</b>	<b>(760)</b>

Fair Value Movements	2019/20 £'000	2020/21 £'000
Decrease in fair value of fixed rate investments	477	542
Decrease in fair value of fixed rate borrowing liabilities	21,214	21,446
<b>Impact on Income and Expenditure Account</b>	<b>21,691</b>	<b>21,988</b>

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

### Market Risk - Price

The market prices of the Council's pooled funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices and its investments in pooled equity funds is also subject to the risk of falling share prices. This price risk is minimised by limiting the Council's maximum exposure to property and equity investments.

### Foreign Exchange Risk

The council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

## 18 LONG TERM DEBTORS

	Balance at 1st April 2019 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2020 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2021 £'000
Mortgages on Right to Buy properties	27	-	-	27	-	(27)	-
Sundry Loans	1,181	408	-	1,589	613	(43)	2,159
	1,208	408	-	1,616	613	(70)	2,159

## 19 NON-FINANCIAL ASSETS

Where monies are collectible due to statutory powers rather than contractual arrangements, these are classified as non-financial assets. Receivables past due and not impaired as at the balance sheet date are as per the table below.

Balances at 31 March 2021	0-1 year old £'000	1-2 years old £'000	2+ years old £'000
Council Tax and Court Costs	8,322	1,761	1,337
National Non Domestic Rates	5,051	1,209	359
Housing Benefits Overpayments	2,017	1,689	8,295
Community Infrastructure Levy	9,081	-	-
Parking	804	-	-
<b>Total</b>	<b>25,275</b>	<b>4,659</b>	<b>9,991</b>

Balances at 31 March 2020	0-1 year old £'000	1-2 years old £'000	2+ years old £'000
Council Tax and Court Costs	3,730	927	637
National Non Domestic Rates	6,060	598	236
Housing Benefits Overpayments	2,736	1,839	7,248
Community Infrastructure Levy	9,079	-	-
Parking	451	-	-
<b>Total</b>	<b>22,056</b>	<b>3,364</b>	<b>8,121</b>

## 20 SHORT TERM DEBTORS

	31 March 2020 £'000	31 March 2021 £'000
National Health Service	8,679	7,879
HM Revenue & Customs	21,657	34,576
Other Central Government Bodies	16,521	67,207
Other Local Authorities	15,319	47,566
Tower Hamlets Homes	1,165	2,410
Council Tax	2,175	10,066
National Non Domestic Rates	6,894	6,619
Housing and Tenants Rents	44,399	51,738
Other Entities & Individuals	77,632	37,406
Payments in Advance	10,081	7,300
<b>Total</b>	<b>204,522</b>	<b>272,767</b>

## 21 CASH AND CASH EQUIVALENTS

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

	31 March 2020 £'000	31 March 2021 £'000
Cash held by the Council	99,975	103,369
Short-term deposits with banks, building societies and local authorities	29,000	25,000
Money Market Funds	57,750	70,900
Cash overdraft	(53,159)	(65,006)
<b>Total Cash and Cash Equivalents</b>	<b>133,566</b>	<b>134,263</b>

## 22 ASSETS HELD FOR SALE

As at the 31st March 2021, the Council has 4 properties which are classified as Assets Held for Sale.

	31 March 2020	31 March 2021
	£'000	£'000
<b>Value at 1st April</b>	160	-
Assets newly classified as held for sale:		
Property, Plant and Equipment transfer	-	359
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	650
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	-	(30)
Assets declassified as held for sale:		
Assets sold	(160)	-
<b>Value at 31st March</b>	<b>-</b>	<b>979</b>

### Assets Held for Sale – basis of valuation

In line with IFRS 5, Assets Held for Sale have been valued at the lower of carrying value and Fair Value as appropriate to the measurement requirements of the code. The approach to Fair Value valuation would be as described under Fair Value Measurement – Surplus Assets (within Note 14).

## 23 SHORT TERM CREDITORS

	31 March 2020	31 March 2021
	£'000	£'000
National Health Service	-	(3,241)
HM Revenue & Customs	(5,790)	(7,818)
Other Central Government Bodies	(6,582)	(102,654)
Other Local Authorities	(6,249)	(14,656)
Council Tax	(7,105)	(8,823)
National Non Domestic Rates	(13,459)	(9,474)
Housing and Tenants Rents	(2,179)	(2,120)
Other Entities & Individuals	(93,673)	(76,142)
Receipts in advance	(42,073)	(44,519)
<b>Total</b>	<b>(177,110)</b>	<b>(269,447)</b>

## 24 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 31 March 2019 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2020 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2021 £'000
(a) Business rates appeals	(7,045)	12,594	(11,787)	(6,238)	2,323	(149)	(4,064)
(b) Insurance Fund	(1,000)	991	(991)	(1,000)	801	(815)	(1,014)
(c) Other corporate provisions	(560)	560	(1,960)	(1,960)	1,960	-	-
<b>TOTAL</b>	<b>(8,605)</b>	<b>14,145</b>	<b>(14,738)</b>	<b>(9,198)</b>	<b>5,084</b>	<b>(964)</b>	<b>(5,078)</b>

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

LONG-TERM PROVISIONS	Balance at 31 March 2019 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2020 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2021 £'000
(a) Business rates appeals	(7,045)	-	6,545	(500)	-	500	-
(b) Insurance Fund	(4,390)	589	991	(2,810)	-	(273)	(3,083)
(d) Repayment of deposits	(58)	-	-	(58)	58	-	-
(e) Water Charges	(9,000)	-	-	(9,000)	-	-	(9,000)
(f) Disrepairs	(200)	-	-	(200)	-	-	(200)
(g) Employment Disputes	(800)	-	-	(800)	-	-	(800)
<b>TOTAL</b>	<b>(21,493)</b>	<b>589</b>	<b>7,536</b>	<b>(13,368)</b>	<b>58</b>	<b>227</b>	<b>(13,083)</b>

- (a) Council share of provision for business rates appeals has significantly increased due to the material change in circumstance appeals provision increase.
- (b) 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.
- (c) A previous provision made to meet anticipated liabilities in relation to the fatal incident involving a child in Mile End Park in 2015 is no longer required.
- (d) Reclassification of provision as a short term creditor.
- (e) A High Court ruling in 2016 established that another London Borough had not passed on discounts from a water supplier to its tenants. The discounts were given as part of the agreement with the water company as an administration fee for collection of charges from tenants. As a result of this ruling the Council may receive claims from tenants for overpaid water charges as a similar agreement was in place with the water company.
- (f) Provision for legal costs relating to the disrepair of Council properties
- (g) Provision for settlements or costs incurred in employment disputes

## 25 USABLE RESERVES

31 March 2020 £'000	31 March 2021 £'000
(24,612) General Fund	(24,375)
(48,210) Housing Revenue Account	(50,765)
(157,866) Earmarked Reserves	(214,910)
(134,156) Capital Receipts Reserve	(138,959)
(194,163) Capital Grants Reserve	(199,774)
- Major Repairs Reserve	(74)
<b>(559,007) Total Usable Reserves</b>	<b>(628,857)</b>

More details regarding the movements in the Council's General Fund and Housing Revenue Account are detailed in the Movement in Reserves Statement and in Note 9.

### Capital Receipts Reserve

31 March 2020 £'000	31 March 2021 £'000
(190,700) Balance at 1 April	(134,156)
(12,895) Capital Receipts in year	(39,029)
24,415 Capital Receipts Pooled	2,934
45,024 Capital Receipts used for financing	31,292
<b>(134,156) Balance at 31 March</b>	<b>(138,959)</b>

### Capital Grants Reserve

31 March 2020 £'000	31 March 2021 £'000
(158,453) Balance at 1 April	(194,163)
(39,463) Community Infrastructure Levy (CIL) recognised in year	(12,830)
(26,226) Other Capital grants recognised in year	(19,139)
11,466 Community Infrastructure Levy (CIL) applied	5,467
18,513 Other Capital grants and contributions applied	20,891
<b>(194,163) Balance at 31 March</b>	<b>(199,774)</b>

Of the Capital Grants Reserve balance above, CIL balances as at 31st March 2020 and 2021 are £92.868m and £100.231m respectively.

### Major Repairs Reserve

31 March 2020 £'000	31 March 2021 £'000
- Balance at 1 April	-
(16,295) Transfer from Capital Adjustment Account - depreciation	(17,617)
16,295 Financing of capital expenditure	17,543
<b>- Balance at 31 March</b>	<b>(74)</b>

## 26 UNUSABLE RESERVES

31 March 2020 £'000		31 March 2021 £'000
(793,374)	Revaluation Reserve	(703,310)
(1,503,398)	Capital Adjustment Account	(1,535,633)
16,982	Financial Instruments Adjustment Account	16,547
473,379	Pensions Reserve	614,324
24,334	Collection Fund Adjustment Account	49,616
2,969	Accumulating Compensated Absences Adjustment Account	7,884
6,334	Pooled Investment Fund Adjustment Account	102
	- Dedicated Schools Adjustment Account	11,174
<b>(1,772,774)</b>	<b>Total Unusable Reserves</b>	<b>(1,539,296)</b>

### Revaluation Reserve

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

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

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

2019/20 £'000		2020/21 £'000
(584,891)	<b>Balance at 1 April</b>	(793,374)
(223,532)	Upward revaluation of assets	(39,825)
9,499	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	107,456
(214,033)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	67,631
5,253	Difference between current value depreciation and historical cost depreciation	6,985
297	Accumulated gains on assets sold or scrapped	15,448
5,550	Amount written off to the Capital Adjustment Account	22,433
<b>(793,374)</b>	<b>Balance at 31 March</b>	<b>(703,310)</b>

## 26 UNUSABLE RESERVES (CONTINUED)

### Capital Adjustment Account

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

The Account 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 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2019/20 £'000		2020/21 £'000
<b>(1,421,970)</b>	<b>Balance at 1 April</b>	<b>(1,503,398)</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
38,606	Charges for depreciation and impairment of non current assets	44,537
-	Charges for amortisation of intangible non-current assets	120
(13,619)	Revaluation losses and reversals on Property, Plant and Equipment	23,292
-	Revaluation losses and reversals on Assets Held for Sale	30
19,247	Revenue expenditure funded from capital under statute	13,464
3,938	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	19,147
<hr/> 48,172		<hr/> 100,590
(5,550)	Adjusting amounts written out of the Revaluation Reserve	(22,433)
<hr/> 42,622	Net written out amount of the cost of non current assets consumed in the year	<hr/> 78,157
	<b>Capital financing applied in the year:</b>	
(45,024)	Use of the Capital Receipts Reserve to finance new capital expenditure	(31,292)
(16,295)	Use of the Major Repairs Reserve to finance new capital expenditure	(17,543)
(49,232)	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	(42,582)
(11,306)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(11,157)
(2,193)	Capital expenditure charged against the General Fund and HRA balances	(7,818)
<hr/> (124,050)		<hr/> (110,392)
<b>(1,503,398)</b>	<b>Balance at 31 March</b>	<b>(1,535,633)</b>



## 26 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 HRA Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the HRA 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.

A £60m LOBO loan was repaid prematurely in November 2018. The premium is being charged to revenue over the remaining life of the loan.

2019/20 £'000		2020/21 £'000
17,417	<b>Balance at 1 April</b>	16,982
(435)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(435)
<b>16,982</b>	<b>Balance at 31 March</b>	<b>16,547</b>

### Pensions Reserve

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

2019/20 £'000		2020/21 £'000
571,278	<b>Balance at 1 April</b>	473,379
(133,476)	Actuarial gains or losses on pensions assets and liabilities	116,499
84,911	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	63,250
(49,334)	Employer's pensions contributions and direct payments to pensioners payable in the year *	(44,001)
-	Derecognition of Tower Hamlet Homes pension scheme asset	5,197
<b>473,379</b>	<b>Balance at 31 March</b>	<b>614,324</b>

\*In 2017/18, the council paid £43.4m to the London Borough of Tower Hamlets Pension Scheme in respect of deficit funding contributions which, under the rates and adjustments certificate, were for the years 2017/18 to 2019/20, in equal annual amounts. Under statutory provisions, this payment is being charged to the General Fund and Housing Revenue Account in the years the contribution is for, in accordance with the rates and adjustments certificate. As a result, employer's pensions contributions payable for 2019/20 include £14.5m which was paid as part of the earlier payment in 2017/18 (2018/19 includes £14.5m).

## 26 UNUSABLE RESERVES (CONTINUED)

### 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.

2019/20 £'000		2020/21 £'000
11,198	<b>Balance at 1 April</b>	24,334
13,136	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 accordance with statutory requirements	25,282
<b>24,334</b>	<b>Balance at 31 March</b>	<b>49,616</b>

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2019/20 £'000		2020/21 £'000
2,969	<b>Balance at 1 April</b>	2,969
(2,969)	Settlement or cancellation of accrual made at the end of the preceding year	(2,969)
2,969	Amounts accrued at the end of the current year	7,884
-	and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4,915
<b>2,969</b>	<b>Balance at 31 March</b>	<b>7,884</b>

### Pooled Investment Fund Adjustment Account

The Pooled Investment Fund Adjustment Account contains the gains/losses made by the authority arising from increases/decreases in the value of its investments that are measured at fair value through profit and loss. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

2019/20 £'000		2020/21 £'000
538	<b>Balance at 1 April</b>	6,334
-	Upward revaluation of investments	(6,232)
5,796	Downward revaluation of investments	-
<b>6,334</b>		<b>(6,232)</b>
<b>6,334</b>	<b>Balance at 31 March</b>	<b>102</b>

### Dedicated Schools Adjustment Account

The Local Authorities (Capital Finance and Accounting) regulations were amended on 29 November 2020. New accounting treatment is required for local authorities' schools budget deficits relating to its accounts for a financial year beginning 1 April 2020, 1 April 2021 and 1 April 2022. Local authorities are not permitted to charge the value of the deficit to the general fund. Any historical deficit and in year deficit is to be recorded in a dedicated schools grant adjustment account, a newly created unusable reserve.

2019/20 £'000		2020/21 £'000
-	<b>Balance at 1 April</b>	-
-	Transfer of the opening dedicated schools grant deficit from the DSG reserve (earmarked usable reserve) to the DSG adjustment account.	11,080
-	In year dedicated schools grant deficit	94
-		11,174
-	<b>Balance at 31 March</b>	<b>11,174</b>

## 27 NOTE TO THE CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2019/20 £'000		2020/21 £'000
5,092	Interest received	2,056
(9,159)	Interest paid	(9,770)
<b>(4,067)</b>		<b>(7,714)</b>

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2019/20 £'000		2020/21 £'000
38,606	Depreciation	44,537
-	Amortisation	120
(13,619)	Impairment and Downward valuations	23,322
12,331	Increase/(Decrease) in Creditors	63,661
(20,753)	(Increase)/Decrease in Debtors	(20,048)
50,039	Movement in Pension Liability	19,249
(2,194)	Other non-cash items charged to the net surplus or deficit on the provision of services	(11,089)
3,938	Carrying amount of non-current assets sold (property, plant and equipment and intangible assets)	19,147
<b>68,348</b>		<b>138,899</b>

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2019/20 £'000		2020/21 £'000
(12,895)	Proceeds from the sale of property plant and equipment and intangible assets	(39,029)
(84,942)	Any other items for which the cash effects are investing or financing cash flows	(48,193)
<b>(97,837)</b>		<b>(87,222)</b>

## 28 NOTE TO THE CASH FLOW STATEMENT - INVESTING ACTIVITIES

2019/20 £'000		2020/21 £'000
(150,880)	Purchase of property, plant and equipment and intangible assets	(151,930)
(100,000)	Purchase of short-term and long-term investments	(117,000)
(373)	Other payments for investing activities	(602)
12,895	Proceeds from the sale of property, plant and equipment and intangible assets	39,029
258,000	Proceeds from short-term and long-term investments	110,000
58,791	Other receipts from investing activities	97,208
<b>78,433</b>	<b>Net cash flows from investing activities</b>	<b>(23,295)</b>

## 29 NOTE TO THE CASH FLOW STATEMENT - FINANCING ACTIVITIES

2019/20 £'000		2020/21 £'000
-	Other receipts from financing activities	32,246
(2,806)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,293)
(2,006)	Repayments of short- and long-term borrowing	(755)
(12,382)	Other payments for financing activities	(82,582)
<b>(17,194)</b>	<b>Net cash flows from financing activities</b>	<b>(53,384)</b>

### 30 CASH FLOW- RECONCILIATION OF FINANCIAL LIABILITIES FROM FINANCING ACTIVITIES

2020/21	Balance at 1 April 2020	Cash Flows	Non Cash Changes	Balance at 31 March 2021
	£'000	£'000	£'000	£'000
Long Term Borrowings	(71,534)	-	1,660	(69,874)
Short Term Borrowings	(1,162)	756	(1,660)	(2,066)
Lease Liabilities	(27,166)	157	-	(27,009)
PFI Liabilities	(31,486)	2,138	-	(29,348)
<b>Net cash outflow from financing activities</b>	<b>(131,348)</b>	<b>3,051</b>	<b>-</b>	<b>(128,297)</b>

2019/20	Balance at 1 April 2019	Cash Flows	Non Cash Changes	Balance at 31 March 2020
	£'000	£'000	£'000	£'000
Long Term Borrowings	(72,289)	-	755	(71,534)
Short Term Borrowings	(2,413)	2,006	(755)	(1,162)
Lease Liabilities	(28,041)	875	-	(27,166)
PFI Liabilities	(33,415)	1,929	-	(31,486)
<b>Net cash outflow from financing activities</b>	<b>(136,158)</b>	<b>4,810</b>	<b>-</b>	<b>(131,348)</b>

## 31 POOLED BUDGETS

Under the terms of a Section 75 Agreement (National Health Service Act 2006), the Council has one Pooled Budget and Lead Commissioning agreement with the Tower Hamlets Clinical Commissioning Group for the Better Care Fund (BCF). This provides a single framework partnership agreement relating to the commissioning of health and social care services to deliver the Tower Hamlets BCF plan, incorporating the Integrated Community Equipment Service and the Improved Better Care Fund.

The Council manages and delivers statutory functions, alongside the Clinical Commissioning Group, to collaboratively deliver efficient, joined up health and social care services to residents.

A summary memorandum Income and Expenditure Account for the pooled budget is shown below. The Council's contribution to the pool is included in the Adult Social Care gross expenditure figure disclosed in the Comprehensive Income and Expenditure Statement. The Council received income of £8,627k in 2020/21 from the Minimum CCG Contribution to Adult Social Care.

2020/21	BCF £'000
<b>Income</b>	
The Council	(28,135)
Tower Hamlets Clinical Commissioning Group (CCG)	(27,066)
	<b>(55,201)</b>
<b>Expenditure</b>	<b>55,201</b>
<b>Surplus/(Deficit) for the year</b>	<b>-</b>
2019/20	BCF £'000
<b>Income</b>	
The Council	(27,086)
Tower Hamlets Clinical Commissioning Group (CCG)	(26,697)
	<b>(53,783)</b>
<b>Expenditure</b>	<b>53,783</b>
<b>Surplus/Deficit for the year</b>	<b>-</b>

## 32 MEMBERS' ALLOWANCES

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

	2019/20 £'000	2020/21 £'000
Allowances	978	990
<b>Total</b>	<b>978</b>	<b>990</b>

## 33 OFFICERS' REMUNERATION

### Senior Employees

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

2020/21	Salary, Fees and Allowances £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive	212,584	-	41,644	-	254,228
<b>Corporate Directors</b>					
Children's and Culture <sup>1</sup>	48,851	-	-	6,204	55,055
Children's and Culture <sup>2</sup>	114,898	-	22,376	-	137,274
Health, Adults & Communities	144,157	-	28,027	-	172,184
Governance & Monitoring Officer <sup>3</sup>	123,185	130,041	23,965	12,166	289,357
Place	145,453	-	28,285	-	173,738
Resources <sup>4</sup>	117,873	129,688	22,908	6,463	276,932
Resources <sup>5</sup>	66,311	-	-	-	66,311
<b>Other Directors</b>					
Monitoring Officer <sup>6</sup>	18,277	-	3,637	-	21,914
Public Health	109,662	-	15,769	-	125,431
Strategy, Transformation & Improvement	110,286	-	21,947	-	132,233
Communications & Marketing	109,662	-	21,823	-	131,485

1 Other payment relates to untaken annual leave. Left 31/07/20

2 Commenced employment on 06/07/20

3 Left 31/01/21 Other relates to untaken leave

4 Left 31/01/21 Other relates to untaken leave

5 Commenced 08/12/20

6 Commenced 01/02/20

2019/20	Salary, Fees and Allowances £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive	206,931	-	40,530	-	247,461
<b>Corporate Directors</b>					
Children's Services	146,553	-	-	-	146,553
Health, Adults & Communities	135,039	-	26,223	-	161,262
Governance & Monitoring Officer	128,619	-	24,946	-	153,565
Place	138,999	-	27,011	-	166,010
Public Health	106,725	-	15,347	-	122,072
Resources	129,996	-	25,220	-	155,216
<b>Other Directors</b>					
Strategy, Transformation & Improvement	106,101	-	21,114	-	127,215
Communications & Marketing	106,725	-	21,238	-	127,963

### 33 OFFICERS' REMUNERATION (CONTINUED)

#### Other Employees

Numbers of the Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contribution) are provided below. Please note that remuneration for the purposes of this note has been defined by statute (the Accounts and Audit Regulations 2015) and as such also includes payments arising from compensation for loss of office and wrongful dismissal.

Remuneration band (£)	2019/20**	2020/21
	Number of employees	Number of employees
50,000 - 54,999	296	459
55,000 - 59,999	171	265
60,000 - 64,999	92	136
65,000 - 69,999	57	91
70,000 - 74,999	39	49
75,000 - 79,999	49	52
80,000 - 84,999	21	48
85,000 - 89,999	8	15
90,000 - 94,999	10	13
95,000 - 99,999	6	12
100,000 - 104,999	5	11
105,000 - 109,999	9	6
110,000 - 114,999	4	4
115,000 - 119,999	2	4
120,000 - 124,999	2	2
125,000 - 129,999	2	2
130,000 - 134,999	-	2
135,000 - 139,999	-	-
140,000 - 144,999	1	-
145,000 - 149,999	1	-
	<b>775</b>	<b>1,171</b>

\*\*The figures as presented here are not complete due to there being 28 schools in 2019/20 which used an outsourced payroll provider for which the Council does not consider it has totally reliable figures returned. (In 2020/21 data from those schools has been included in the table, which accounts for some of the increase in these figures.)

#### 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)	
	2019/20*	2020/21	2019/20*	2020/21	2019/20*	2020/21	2019/20*	2020/21
0 - 20,000	6	87	97	69	103	156	953	1,233
20,001 - 40,000	3	8	38	44	41	52	1,200	1,492
40,001 - 60,000	3	1	17	22	20	23	980	1,108
60,001 - 80,000	2	1	6	19	8	20	551	1,361
80,001 - 100,000	2	1	4	5	6	6	553	526
100,001 - 150,000	-	4	13	4	13	8	1,599	962
150,001 - 200,000	-	-	-	1	-	1	-	181
200,001 - 250,000	1	-	-	-	1	-	230	-
250,001 - 300,000	-	-	1	-	1	-	254	-
<b>Total</b>	<b>17</b>	<b>102</b>	<b>176</b>	<b>164</b>	<b>193</b>	<b>266</b>	<b>6,320</b>	<b>6,862</b>

The above table includes any compensation for loss of office payments included within the senior officer remuneration note on a previous page.

\*The figures as presented here are not complete due to there being 33 schools (this includes a further 5 voluntary aided/controlled schools not included in the previous table's explanatory text at \*\*) in 2019/20 which used an outsourced payroll provider for which the Council does not consider it has totally reliable figures returned and, as a result, has excluded information relating to the staff of these schools from the disclosure for that year.

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

	2019/20 £'000	2020/21 £'000
<b>Expenditure</b>		
Property, Plant and Equipment	160,317	149,670
Heritage Assets	-	25
Intangible Assets	684	1,695
Revenue Expenditure Funded from Capital Under Statute	19,247	13,464
<b>TOTAL</b>	<b>180,248</b>	<b>164,854</b>
<b>Sources of Finance</b>		
Borrowing	67,504	65,619
Capital Grants and Contributions	49,232	42,582
Capital Receipts	45,024	31,292
Major Repairs Reserve	16,295	17,543
Direct Revenue Funding	2,193	7,818
<b>TOTAL</b>	<b>180,248</b>	<b>164,854</b>

	2019/20 £'000	2020/21 £'000
<b>Opening Capital Financing Requirement</b>	<b>371,045</b>	<b>427,243</b>
<b>Capital investment</b>		
Property, Plant and Equipment	160,317	149,670
Heritage Assets	-	25
Intangible Assets	684	1,695
Revenue Expenditure Funded from Capital under Statute	19,247	13,464
<b>Sources of finance</b>		
Capital Grants and Contributions	(49,232)	(42,582)
Capital Receipts	(45,024)	(31,292)
Major Repairs Reserve	(16,295)	(17,543)
Sums set aside from revenue:		
· Direct Revenue Funding	(2,193)	(7,818)
· Minimum Revenue Provision	(9,247)	(9,524)
· HRA Revenue Provision for Debt Repayment on Finance Lease Principal	(2,059)	(1,634)
<b>Closing Capital Financing Requirement</b>	<b>427,243</b>	<b>481,704</b>

## 35 EXTERNAL AUDIT COSTS

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

	2019/20 £'000	2020/21 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year*	368	162
Fees payable in respect of other services provided by external auditors during the year	12	-
<b>Total</b>	<b>380</b>	<b>162</b>

\* These figures will be updated after the auditors, Public Sector Audit Appointments, and the Council agree additional fees based on the standard scale rate and the additional time spent.



## 36 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by grant monies provided by the Department for Education - 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 (ISB), 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 2020/21	Central Expenditure £'000	ISB £'000	Total £'000
A	DSG for 2020/21 before Academy Recoupment			359,788
	Academy figure Recouped 2020/21			70,175
	Total DSG after Academy Recoupment 2020/21			289,613
	Brought forward from 2019/20			(11,080)
B	Carry forward to 2020/21 agreed in advance			-
C	Agreed initial budgeted distribution in 2020/21	45,346	233,187	278,533
D	In-year adjustments	(987)		(987)
E	Final budget distribution for 2020/21	44,359	233,187	277,546
F	Less actual central expenditure	(54,863)		(54,863)
G	Less actual ISB deployed to schools		(233,857)	(233,857)
H	Council contribution for 2020/21	-	-	-
I	<b>Carry forward to 2021/22</b>	<b>(10,504)</b>	<b>(670)</b>	<b>(11,174)</b>

- A DSG figure as issued by DfE in March 2021.  
 B The amount which the Council decided after consultation with the schools forum to carry forward to 2020/21.  
 C Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.  
 D Changes to Initial distribution in 2020/21.  
 E Budgeted distribution of DSG at year end.  
 F Actual amount of central expenditure items in 2020/21.  
 G Amount of ISB distributed to schools.  
 H Contribution from the Council in 2020/21 which substituted for DSG in funding the Schools Budget.  
 I Difference between budgeted distributions and actuals plus carry forward agreed in advance.

Notes	DSG Receivable for 2019/20	Central Expenditure £'000	ISB £'000	Total £'000
A	DSG for 2019/20 before Academy Recoupment			345,851
	Academy figure Recouped 2019/20			(66,886)
	Total DSG after Academy Recoupment 2019/20			278,965
	Brought forward from 2018/19			(4,572)
B	Carry forward to 2020/21 agreed in advance			-
C	Agreed initial budgeted distribution in 2019/20	80,701	193,692	274,393
D	In-year adjustments	757	-	757
E	Final budget distribution for 2019/20	81,458	193,692	275,150
F	Less actual central expenditure	(92,538)		(92,538)
G	Less actual ISB deployed to schools		(193,692)	(193,692)
H	Council contribution for 2019/20	-	-	-
I	<b>Carry forward to 2020/21</b>	<b>(11,080)</b>	<b>-</b>	<b>(11,080)</b>

- A DSG figure as issued by DfE in March 2020.  
 B The amount which the Council decided after consultation with the schools forum to carry forward to 2020/21.  
 C Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.  
 D Changes to Initial distribution in 2019/20.  
 E Budgeted distribution of DSG at year end.  
 F Actual amount of central expenditure items in 2019/20.  
 G Amount of ISB distributed to schools.  
 H Contribution from the Council in 2019/20 which substituted for DSG in funding the Schools Budget.  
 I 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:

	2019/20 £'000	2020/21 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b><i>Non-Ringfenced Government Grants</i></b>		
Business Rate Related Grants	(9,272)	(55,495)
Revenue Support Grant (Formula Grant)	-	(33,823)
Local Service Support Grant	(36)	-
New Homes Bonus	(19,202)	(21,980)
Covid-19 Grant	(10,449)	(27,619)
<b>Total Non-Ringfenced Government Grants</b>	<b>(38,959)</b>	<b>(138,917)</b>
<b><i>Capital Grants and Contributions</i></b>		
Schools-funded Capital Programme	(722)	(382)
Special Provision Capital Fund	(4,834)	(1,181)
Transport for London Funding	(3,008)	(2,551)
Major Works Contributions	(7,156)	(6,564)
Capital Maintenance Grant	(2,704)	(3,382)
Community Infrastructure Levy (CIL)	(39,463)	(12,830)
GLA Building Council Homes for Londoners	(1,527)	(608)
Developers' Contributions (capital)	(15,982)	(12,410)
Other Capital Grants	(1,134)	(2,436)
<b>Total Capital Grants and Contributions</b>	<b>(76,530)</b>	<b>(42,344)</b>
<b>Credited to Services</b>		
Capital Grants funding REFCUS	(2,085)	(1,186)
Developers' Contributions (capital) funding REFCUS	(6,325)	(4,619)
Developers' Contributions (revenue)	(2,478)	(403)
Community Infrastructure Levy (CIL)	(7,840)	-
Dedicated Schools Grant	(279,722)	(288,627)
PFI Credits	(9,380)	(9,380)
School Sixth Form Grant	(12,702)	(12,457)
Pupil Premium Grant	(17,557)	(16,795)
Public Health Grant	(34,124)	(35,195)
Housing Benefit Subsidy	(215,320)	(207,008)
Improved Better Care Fund	(14,851)	(16,317)
NHS Contributions	(16,851)	(16,744)
Business Support Grants		(11,224)
Community Infrastructure Levy (revenue)	(2,472)	(2,131)
Teachers' Pensions Grant	(4,103)	(7,241)
Flexible Homelessness Support	(3,885)	(3,885)
Universal Infant Free School Meals	(2,723)	(2,934)
Community Learning	(2,568)	(2,556)
Social Care Grant	(2,503)	(9,367)
Teachers' Pay Grant	(2,101)	(2,427)
Unaccompanied Asylum Seeker Grant	(2,040)	(1,211)
Adult Social Care Winter Pressures	(1,465)	-
Physical Education and Sport	(1,197)	(1,177)
Tackling Troubled Families	(1,028)	(1,559)
London Enterprise Panel Programme	(287)	-
Council Tax Hardship Fund	-	(4,382)
Sales, Fees and Charges Re-imburement Grant (Covid Grant)	-	(7,235)
Infection Control	-	(1,851)
Contain Outbreak Management	-	(2,194)
Covid-Catchup Premium	-	(1,486)
Test and Trace Support Payment	-	(1,427)
Next Steps Accom Prog-Rough Sleepers (Short Term)	-	(1,265)
Winter Grant Scheme (Family Support)	-	(1,276)
Other Revenue Grants	(10,482)	(14,926)
<b>Total Credited to Services</b>	<b>(656,089)</b>	<b>(690,485)</b>
<b>Total Grant Income in Comprehensive Income &amp; Expenditure Account</b>	<b>(771,578)</b>	<b>(871,746)</b>

## 37 GRANT INCOME (CONTINUED)

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

Receipt in Advance Grant Balances	31st March 2020 £'000	31st March 2021 £'000
<b>Capital Grants Receipts in Advance</b>		
Developers' Contributions (capital)	(92,330)	(105,326)
South Dock Bridge	(1,750)	(1,750)
Building Council Homes for Londoners	(1,773)	(5,315)
Other conditional capital grants and contributions	(241)	(251)
<b>Total Capital Grants Receipts in Advance</b>	<b>(96,094)</b>	<b>(112,642)</b>
<b>Revenue Grants Receipts in Advance</b>		
Developers' Contributions (revenue)	(9,939)	(11,716)
Business Rate Related Grants	(10,419)	-
Covid Grants	-	(9,846)
Other conditional revenue grants	(158)	(53)
<b>Total Revenue Grants Receipts in Advance</b>	<b>(20,516)</b>	<b>(21,615)</b>
<b>Total Grant Receipt in Advance Balances</b>	<b>(116,610)</b>	<b>(134,257)</b>

## 38 RELATED PARTIES

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

### **Central Government**

The UK Central government has significant influence 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). Details of grants received from UK central government departments and other grant making bodies are set out in the Grant Income note. Grant receipts outstanding at 31 March 2021 are within the Creditors note.

### **Other public bodies (subject to common control by central government)**

The Council works closely with a number of NHS bodies. This includes a pooled budget that it operates with the Tower Hamlets Clinical Commissioning Group, details of which are set out in the Pooled Budget note. It also has significant transactions with the East London NHS Trust. The total amounts due from NHS bodies in total at the year end are shown in the Creditors note.

The Council works closely with many other Local Authorities and related bodies. The Grant Income note contains details of grants received by the Council, including those from other Local Authorities and the Debtors and Creditors notes detail amounts due to or from other Local Authorities at the year end.

The Council works closely with many schools, not only those maintained by itself, including Academies and those managed by other Local Authorities. Whilst independent of Local Authorities Academies are ultimately controlled by Central Government. Transactions between the Council and these organisations, and amounts outstanding at the end of the year are included in the relevant parts of the Statement of Accounts.

### **Pension Fund**

The Council oversees the administration of the Pension Fund. The Pension Fund accounts are presented on later pages to this Statement.

### **Entities controlled or significantly influenced by the Council**

#### **Tower Hamlet Homes**

Tower Hamlets Homes is a wholly owned subsidiary of London Borough of Tower Hamlets and the Council has representation on the Board of the Company.

It is an arms length management organisation responsible for management of the Council's housing stock.

During the year the Council paid a management fee of £37.098m (19/20 £35.536m) and received income of £4.856m (19/20 £5.721m) for the provision of services. At the 31 March 2021 £2.410m was due from Tower Hamlet Homes (19/20 £1.165m).

#### **King George's Field, Mile End**

The Council is the sole trustee of the King George's Field, Mile End charity and members of the Cabinet of the Council are also Members of the charity's Board

The charity is responsible for maintaining the area of Mile End Park, and the other open spaces within King George's Field, Mile End. The land is managed by the Council on behalf of the charity.

During the year the charity received funding of £0.636m (19/20 £0.250m) from the Council, of which £0.390m related to Covid-19 Relief contribution, and paid £0.479m (19/20 £0.449m) for services provided. At the 31 March 2021 £0.370m cash was owed to the Council as an overdraft held on behalf of the charity (19/20 £0.020m cash was held on behalf of the charity).

#### **Sea Horse Homes**

Seahorse Homes Ltd is a wholly owned subsidiary of the London Borough of Tower Hamlets. £0.030m was due from the subsidiary at 31 March 2021 (19/20 £0.030m).

#### **Mulberry Housing Society**

Mulberry Housing is a Community Benefit Society which hadn't commenced trading by the 31 March 2021.

£0.010m was due from the Society at 31 March 2021 (19/20 £0.010m).

The Council has the right to appoint two out of five Board Members.

#### **Ocean Regeneration Trust**

The Ocean Regeneration Trust is a charity which has the aim of supporting residents on the Ocean Estate.

During the year the Trust received £0.199m funding and rental income from the Council (19/20 £0.118m) and paid £nil (19/20 £0.035m) for services provided.

The Council has representation on the Board of the Charity, with the right to appoint two out of twelve directors.

## 38 RELATED PARTIES (CONTINUED)

### **Capital Letters (London)**

Capital Letters is a pan-London accommodation and procurement company with membership drawn from a number of London Boroughs including Tower Hamlets. Members of the company have representation on the Board of the Company.

During the year the company received £0.263m from the Council (19/20 £0.084m) and paid £nil (19/20 £0.300m) for services provided.

### **Norton Folgate Almshouse**

Norton Folgate Almshouse is a charity which has the aim of providing affordable housing in Spitalfields.

The Council has representation on the Board of the Charity with the right to appoint three out of the seven trustees.

### **PLACE Ltd**

Pan-London Accommodation Collaborative Enterprise Ltd (PLACE Ltd) is intended to provide modular temporary accommodation. Tower Hamlets is one of four London Boroughs who are key stakeholders and members of the company, and is deemed the lead borough for the programme. Members have representation on the Board of the Company.

### **Rich Mix Cultural Foundation**

Rich Mix Cultural Foundation is a charity which has the aim of advancing education of the public in arts and culture and the elimination of racial discrimination. Tower Hamlets has the right to appoint two Trustees to the Board of the Charity but a third Trustee was a Councillor during the year. During the year the Council paid £0.001m (19/20 £0.011m) to the charity and subsidiary company and received £0.002m (19/20 £nil)

### **Blackwall Reach Trust**

Blackwall Reach Trust is a charity incorporated in August 2019 with the aim of providing open space for the Blackwall Reach Community and members of the public for recreation and social welfare purposes. It was dormant until September 2021. The Council can appoint two Trustees to the Board.

### **Tower Hamlets Community Housing**

Tower Hamlets Community Housing was a company limited by guarantee that converted to a registered society in 2018. It aims to provide good quality affordable housing to those on low incomes in housing need. As a registered society the Council has the power to appoint two Trustees to the Board. The Council received services to the value of £0.117m (19/20 £0.101m) from the organisation in 20/21 and charged £0.030m (19/20 £0.235m), of which £nil related to Community Infrastructure Levy (19/20 £0.230m). £0.006m was due from the organisation (19/20 £0.004m) and £nil (19/20 £0.001m) due to the organisation at the year end.

### **Tower Hamlets LEP Limited**

Tower Hamlets LEP Limited is involved in schools projects within Tower Hamlets under the Building Schools for the Future programme. The Council is a shareholder and has representative on the board of the company.

### **Tower Hamlets Education Partnership**

Tower Hamlets Education Partnership is a registered charity and a company limited by guarantee, with three out of four members being LBTH maintained schools. The purpose of the charity is the advancement of education through member schools and other educational settings, with an initial focus on the London Borough of Tower Hamlets. The administrative centre of the Council (ie excluding schools) provided funding of £0.715m in 20/21 (19/20 £0.892m) in pursuit of these aims and charged the charity £0.065m (19/20 £0.030m) for the provision of services and premises. The Council also recovered the cost of staff seconded to the charity during the year, amounting to £0.749m (19/20 £0.635m). At the end of 19/20, the charity owed £0.258m (19/20 £0.636m) to the Council and the Council owed £nil (19/20 £0.690m) to the charity. The charity also receives a significant proportion of its remaining income from maintained schools within the borough.

### **The Davenant Centre**

The Davenant Centre is a registered charity which provides two community centres for educational and social benefit within Tower Hamlets. The council has provided a loan facility (secured on the properties) to the charity with £0.601m (19/20 £0.595m) outstanding. £0.006m (19/20 £0.009m) interest accrued on the loan during the year. The council has voting rights of 26% to amend certain specific clauses of the memorandum and articles of association at meetings of the charity.

### **Membership of and relationship with other organisations**

Members and Senior Officers of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2020/21 is shown in the Members Allowances Note and Senior Officers remuneration in the Officers Remuneration Note. During the year there were ten external organisations (2019/20 ten) where Members or Senior Officers or their close personal family had an interest outside of those listed above, which undertook financial transactions with the Council. Total expenditure of £1.299m (19/20 £0.435m) was incurred with these organisations for goods and services, and £0.541m (19/20 £0.165m) income was recorded from them for goods and services provided. In addition a payroll service was provided for one organisation with payroll costs of £4.423m (19/20 £4.710m) being recovered from them. At the end of the year £1.110m was due from these organisations (19/20 £1.131m) and £0.005m was due to them (19/20 £0.021m).

## 39 LEASES

### Authority as Lessee

#### Finance Leases

As a Lessee the Council has acquired a residential development under finance leases. The assets acquired under the leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts.

Depreciation policy on leased assets is consistent with the policy on owned assets and subject to revaluation in the same way as any other asset.

#### Leased In Assets

	Buildings 31 March 2020 £'000	Buildings 31 March 2021 £'000
Poplar Baths Leisure Centre	20,596	20,529
Poplar Baths Housing	4,998	4,724
Dame Colet Residential Development	3,712	3,508
<b>Total</b>	<b>29,306</b>	<b>28,761</b>

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	Buildings 31 March 2020 £'000	Buildings 31 March 2021 £'000
Finance lease liabilities (net present value of minimum lease payments)	27,166	27,009
Finance costs payable in future years	59,323	52,356
<b>Minimum lease payments</b>	<b>86,489</b>	<b>79,365</b>

#### The minimum lease payments will be payable over the following periods:

	Minimum Lease payments		Finance Lease Liabilities	
	31 March 2020 £'000	31 March 2021 £'000	31 March 2020 £'000	31 March 2021 £'000
Not later than one year	2,785	2,644	875	181
Later than one year and not later than five years	11,139	10,577	3,498	911
Later than five years	72,565	66,144	22,793	25,917
	<b>86,489</b>	<b>79,365</b>	<b>27,166</b>	<b>27,009</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

## 39 LEASES (CONTINUED)

### Authority as Lessee

#### **Operating Leases**

The Council leases in some properties (including office accommodation, car parks and business units), as well as a number of vehicles (including minibuses and vans), and 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 2020 £'000	Vehicles Plant & Equipment 31 March 2020 £'000	Land & Buildings 31 March 2021 £'000	Vehicles Plant & Equipment 31 March 2021 £'000
<b>Health, Adults and Communities</b>				
Not later than one year	-	-	50	-
<b>Children's and Culture</b>				
Not later than one year	-	67	-	176
Later than one year and not later than five years	-	80	-	212
<b>Place</b>				
Not later than one year	4,110	218	4,111	1,220
Later than one year and not later than five years	8,365	138	4,365	1,926
Later than five years	2,122	-	2,011	-
<b>Total</b>				
<b>Not later than one year</b>	4,110	285	4,161	1,396
<b>Later than one year and not later than five years</b>	8,365	218	4,365	2,138
<b>Later than five years</b>	2,122	-	2,011	-
	<b>14,597</b>	<b>503</b>	<b>10,537</b>	<b>3,534</b>



## 39 LEASES (CONTINUED)

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

	Land & Buildings 31 March 2020 £'000	Vehicles Plant & Equipment 31 March 2020 £'000	Land & Buildings 31 March 2021 £'000	Vehicles Plant & Equipment 31 March 2021 £'000
<b>Health, Adults and Communities</b>				
Minimum Lease Payments	37	-	50	-
<b>Governance</b>				
Minimum Lease Payments	-	20	-	-
<b>Children's and Culture</b>				
Minimum Lease Payments	-	104	-	160
<b>Place</b>				
Minimum Lease Payments	4,018	491	4,111	739
<b>Total</b>				
<b>Minimum Lease Payments</b>	<b>4,055</b>	<b>615</b>	<b>4,161</b>	<b>899</b>

### Authority as Lessor

#### Finance Leases

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

#### Operating Leases

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

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

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

	31 March 2020 £'000	31 March 2021 £'000
Not later than one year	(4,283)	(4,423)
Later than one year and not later than five years	(12,200)	(11,341)
Later than five years	(20,842)	(18,853)
	<b>(37,325)</b>	<b>(34,617)</b>



## 40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

The Council is party to two Private Finance Initiative (PFI) schemes in respect of the design, construction, maintenance and servicing of 28 schools - the Mulberry and Grouped Schools schemes - until the years 2029 and 2028 respectively. The contracts specify minimum standards for the services to be provided by the contractors, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractors took on the obligation to construct or refurbish schools and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the schools. The buildings and any plant and equipment installed in them at the end of the contracts will be transferred to the authority for nil consideration, other than those that relate to academies, being Mulberry, Clara Grant, Stepney Green and Old Ford schools. The authority only has rights to terminate the contracts if it compensates the contractors in full for costs incurred and future profits that would have been generated over the remaining term of the contract.

The Council entered into a third PFI contract, with an energy services company, to provide heating and hot water to around 500 homes in the Barkantine district in March 2000 and this contract will continue until October 2025. No re-negotiation of the contract terms are expected, and the Council is working with the Department of Levelling Up, Housing and Communities in preparation for arrangements after contract expiry. It is classed as a user pay arrangement (with the consequence that payments to contractors do not meet the definition of "unitary payments").

The authority makes an agreed payment each year to each of the contractors which is increased annually by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Unitary payments remaining to be made under the PFI contracts at 31 March 2021 (excluding any estimation of inflation and availability/performance deductions) are as follows:

Payments due under PFI schemes	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	(349)	(2,146)	(198)	(2,693)
Within 2 - 5 years	(2,189)	(13,804)	(790)	(16,783)
Within 6 - 10 years	(2,044)	(7,630)	(198)	(9,872)
	<b>(4,582)</b>	<b>(23,580)</b>	<b>(1,186)</b>	<b>(29,348)</b>
<b>Interest</b>				
Within 1 year	514	3,710	-	4,224
Within 2 - 5 years	1,579	10,698	-	12,277
Within 6 - 10 years	473	1,613	-	2,086
	<b>2,566</b>	<b>16,021</b>	<b>-</b>	<b>18,587</b>
<b>Service Charges</b>				
Within 1 year	673	1,593	-	2,266
Within 2 - 5 years	2,694	11,063	-	13,757
Within 6 - 10 years	2,020	3,742	-	5,762
	<b>5,387</b>	<b>16,398</b>	<b>-</b>	<b>21,785</b>

The payments made to the contractors have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable while the capital expenditure remains to be reimbursed. The liability outstanding to be paid to the contractor for capital expenditure incurred (or simply the amortisation of the liability recognised in the case of the Energy PFI) is as follows:

Movement on PFI Liabilities	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2020</b>	<b>(4,896)</b>	<b>(25,206)</b>	<b>(1,384)</b>	<b>(31,486)</b>
Repayments/Amortisation of deferred liability	314	1,626	198	2,138
<b>Liabilities at 31 March 2021</b>	<b>(4,582)</b>	<b>(23,580)</b>	<b>(1,186)</b>	<b>(29,348)</b>
<b>Consisting of:</b>				
Long term liability	(4,233)	(21,434)	(988)	(26,655)
Short-term liability	(349)	(2,146)	(198)	(2,693)
<b>Liability value at 31 March 2021</b>	<b>(4,582)</b>	<b>(23,580)</b>	<b>(1,186)</b>	<b>(29,348)</b>

## 40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS (CONTINUED)

The assets associated with the PFI contracts have been recognised on the Council's balance sheet, with movements in valuation as per below.

Movement on PFI Assets	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Asset value at 31 March 2019</b>	<b>193,175</b>	<b>2,048</b>	<b>195,223</b>
Depreciation	(1,894)	(181)	(2,075)
Revaluations	26,396	-	26,396
Enhancements	7,439	-	7,439
<b>Asset value at 31 March 2020</b>	<b>225,116</b>	<b>1,867</b>	<b>226,983</b>
Depreciation	(2,061)	(181)	(2,242)
Revaluations	(5,202)	-	(5,202)
Enhancements	8,989	-	8,989
<b>Asset value at 31 March 2021</b>	<b>226,842</b>	<b>1,686</b>	<b>228,528</b>

Comparatives for the 2019/20 year are presented below.

Payments due under PFI schemes, as at 31st March 2020	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	(314)	(1,626)	(198)	(2,138)
Within 2 - 5 years	(1,871)	(11,577)	(791)	(14,239)
Within 6 - 10 years	(2,711)	(12,003)	(395)	(15,109)
	<b>(4,896)</b>	<b>(25,206)</b>	<b>(1,384)</b>	<b>(31,486)</b>
<b>Interest</b>				
Within 1 year	549	3,966	-	4,515
Within 2 - 5 years	1,789	12,519	-	14,308
Within 6 - 10 years	777	3,501	-	4,278
	<b>3,115</b>	<b>19,986</b>	<b>-</b>	<b>23,101</b>
<b>Service Charges</b>				
Within 1 year	673	4,216	-	4,889
Within 2 - 5 years	2,694	9,198	-	11,892
Within 6 - 10 years	2,694	7,200	-	9,894
	<b>6,061</b>	<b>20,614</b>	<b>-</b>	<b>26,675</b>

Movement on PFI Liabilities, as at 31st March 2020	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2019</b>	<b>(5,265)</b>	<b>(26,569)</b>	<b>(1,581)</b>	<b>(33,415)</b>
Repayments/Amortisation of deferred liability	369	1,363	197	1,929
<b>Liabilities at 31 March 2020</b>	<b>(4,896)</b>	<b>(25,206)</b>	<b>(1,384)</b>	<b>(31,486)</b>
<b>Consisting of:</b>				
Long term liability	(4,582)	(23,580)	(1,186)	(29,348)
Short-term liability	(314)	(1,626)	(198)	(2,138)
<b>Liability value at 31 March 2020</b>	<b>(4,896)</b>	<b>(25,206)</b>	<b>(1,384)</b>	<b>(31,486)</b>

## 41 PENSIONS SCHEMES - DEFINED BENEFIT SCHEMES

### 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 four pensions schemes:

- The Local Government Pension Scheme (LGPS) administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority (LPFA)
- The Teachers' Pension Scheme (TPS), administered by Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Business Services Authority on behalf of the Department of Health and Social Care

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 London Borough of Tower Hamlets pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of the Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Corporate Director of Resources of the Council and Investment Fund managers.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the general fund and HRA the amounts required by statute as described in the accounting policies note.

The TPS and NHS schemes are explained further in the next note (Pension Schemes Accounted for as Defined Contribution Schemes), since they are accounted for on a different basis.

### Transactions Relating to Retirement Benefits

The cost of LGPS retirement benefits is recognised in the Comprehensive Income and Expenditure Statement 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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000	£'000
<b>COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b>						
<i>Cost of Services</i>						
Current service costs	65,817	48,840	211	248	66,028	49,088
Past service costs	5,234	627	76	-	5,310	627
Impact of settlements	-	-	-	2,524	-	2,524
<i>Finance and Investment Income and Expenditure</i>						
Interest cost on defined benefit obligation	48,604	41,257	1,435	1,170	50,039	42,427
Interest income on plan assets	(35,083)	(30,411)	(1,383)	(1,005)	(36,466)	(31,416)
<b>Net charge to the Surplus or Deficit on Provision of Services</b>	<b>84,572</b>	<b>60,313</b>	<b>339</b>	<b>2,937</b>	<b>84,911</b>	<b>63,250</b>
<i>Other Comprehensive Income and Expenditure</i>						
Changes in demographic assumptions	(3,977)	27,873	920	(695)	(3,057)	27,178
Changes in financial assumptions	(158,457)	454,571	(4,519)	8,533	(162,976)	463,104
Other experience	(16,138)	(20,933)	282	(958)	(15,856)	(21,891)
Return on plan assets excluding amounts included in net interest	47,842	(343,193)	1,706	(8,699)	49,548	(351,892)
Actuarial (gains)/losses**	-	-	(1,135)	-	(1,135)	-
Derecognition of Tower Hamlet Homes pension scheme asset*	-	5,197	-	-	-	5,197
<b>Total charge in Comprehensive Income and Expenditure Statement</b>	<b>(46,158)</b>	<b>183,828</b>	<b>(2,407)</b>	<b>1,118</b>	<b>(48,565)</b>	<b>184,946</b>
<b>MOVEMENT IN RESERVES STATEMENT</b>						
Reversal of net charges made for retirement benefits	(84,572)	(60,313)	(339)	(2,937)	(84,911)	(63,250)
Actual amount charged against the General Fund/HRA balances	48,879	43,623	455	378	49,334	44,001

\*Note this line incorporates adjustments due to not recognising the net pension asset sitting with THH

\*\* Note this line also incorporates adjustments due to an asset ceiling

In addition to the figures presented above, the Council is also responsible for all payments in respect of discretionary awards made to teachers upon retirement. In 2020/21 there were such payments of £0.808m (£0.802m in 2019/20).

## 41 PENSIONS SCHEMES - DEFINED BENEFIT SCHEMES (CONTINUED)

### Assets and Liabilities in Relation to Retirement Benefits

#### Reconciliation of present value of scheme liabilities:

	The Council*		LPFA		Total	
	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000
Opening balance at 1st April	(2,024,558)	(1,914,245)	(64,283)	(58,820)	(2,088,841)	(1,973,065)
Removal of liability of Tower Hamlet Homes*		110,453	-	-	-	110,453
Current service cost	(65,817)	(48,840)	(211)	(248)	(66,028)	(49,088)
Past service costs	(5,234)	(627)	(76)	-	(5,310)	(627)
Effect of settlements	-	-	-	(6,513)	-	(6,513)
Interest cost	(48,604)	(41,257)	(1,435)	(1,170)	(50,039)	(42,427)
Contributions	(10,391)	(10,206)	(38)	(42)	(10,429)	(10,248)
Benefits paid	61,787	56,830	3,906	3,424	65,693	60,254
Remeasurement gains / (losses):	-	-	-	-	-	-
Changes in demographic assumptions	3,977	(27,873)	(920)	695	3,057	(27,178)
Changes in financial assumptions	158,457	(454,571)	4,519	(8,533)	162,976	(463,104)
Other experience	16,138	20,933	(282)	958	15,856	21,891
<b>31st March</b>	<b>(1,914,245)</b>	<b>(2,309,403)</b>	<b>(58,820)</b>	<b>(70,249)</b>	<b>(1,973,065)</b>	<b>(2,379,652)</b>

\* Within 2020/21 the Council entered into a new management agreement with Tower Hamlet Homes and as a consequence no longer includes their pension liability within the accounts.

#### Reconciliation of fair value of the scheme assets:

	The Council*		LPFA		Total	
	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000
Opening fair value of scheme assets	1,470,003	1,440,265	62,022	59,421	1,532,025	1,499,686
Removal of asset of Tower Hamlet Homes*	-	(115,650)	-	-	-	(115,650)
Interest income	35,083	30,411	1,383	1,005	36,466	31,416
Effect of settlements	-	-	-	3,989	-	3,989
Contributions	-	-	-	-	-	-
Employees into the scheme	10,391	10,206	38	42	10,429	10,248
Employer	34,417	43,623	455	378	34,872	44,001
Benefits paid	(61,787)	(56,830)	(3,906)	(3,424)	(65,693)	(60,254)
Remeasurement gains / (losses):	-	-	-	-	-	-
Return on plan assets	(47,842)	343,193	(1,706)	8,699	(49,548)	351,892
Actuarial gains/(losses)	-	-	1,135	-	1,135	-
<b>31st March</b>	<b>1,440,265</b>	<b>1,695,218</b>	<b>59,421</b>	<b>70,110</b>	<b>1,499,686</b>	<b>1,765,328</b>

\* Within 2020/21 the Council entered into a new management agreement with Tower Hamlet Homes and as a consequence no longer includes their pension liability within the accounts.

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.

#### Pension assets and liabilities recognised in the Balance Sheet

	The Council*		LPFA		Total	
	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000
Present value of scheme liabilities	(1,914,245)	(2,309,403)	(58,820)	(70,249)	(1,973,065)	(2,379,652)
Fair value of plan assets	1,440,265	1,695,218	59,421	70,110	1,499,686	1,765,328
<b>Total deficit in the schemes</b>	<b>(473,980)</b>	<b>(614,185)</b>	<b>601</b>	<b>(139)</b>	<b>(473,379)</b>	<b>(614,324)</b>

\* Within 2020/21 the Council entered into a new management agreement with Tower Hamlet Homes and as a consequence no longer includes their pension liability within the accounts.

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 £614.3 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 further contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The Council expects to make total contributions of £45.7 million in the year to 31 March 2022.

## 41 PENSIONS SCHEMES - DEFINED BENEFIT SCHEMES (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	
	2019/20	2020/21	2019/20	2020/21
Long-term expected rate of return on assets in the scheme <sup>1</sup>				
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men (years)	21.5	21.7	20.4	21.0
Women (years)	23.5	23.9	23.3	23.7
Longevity at 65 for future pensioners:				
Men (years)	22.6	23.0	21.8	22.3
Women (years)	25.0	25.7	24.9	25.5
Rate of inflation	1.9%	2.9%	2.0%	2.9%
Rate of increase in salaries	2.1%	3.1%	2.5%	2.5%
Rate of increase in pensions	1.9%	2.9%	2.0%	2.9%
Rate for discounting scheme liabilities	2.3%	2.0%	2.3%	1.9%

<sup>1</sup> The expected rates of return are set equal to the discount rate.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses as presented in Note 4 have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

### Impact on the authority's cash flows

With regard to the Council-administered pension fund, the objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation was completed on 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

As at the relevant triennial valuation based on 31 March 2019, the weighted average duration of the defined benefit obligation for scheme members is 16.9 years (and this figure doesn't change until the next triennial valuation).

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

The categories of assets are as follows.

	The Council		LPFA	
	2019/20	2020/21	2019/20	2020/21
Equities	0%	0%	41%	42%
Private Equity	0%	0%	10%	9%
Bonds	0%	0%	5%	4%
Property	10%	8%	10%	9%
Investment/Hedge Funds and Unit Trusts:			13%*	11%*
<i>Equity-based</i>	51%	55%		
<i>Bond-based</i>	0%	25%		
<i>Hedge Funds</i>	29%	0%		
<i>Other</i>	9%	10%		
<i>* Detailed breakdown not included due to low overall percentage</i>				
Credit - unquoted	0%	0%	8%	8%
Infrastructure - unquoted	0%	0%	7%	8%
Cash	1%	2%	6%	9%

### Teachers' Pension Scheme

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes though it is approximately 0.4%. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2020/21, the council paid £21.964m to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.7% of pensionable pay. The figures for 2019/20 were £19.237m and 16.5%. There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £21.637m (23.7% of pensionable pay).

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These payments are accounted for as incurred and detailed in Note 41.

The authority is not liable to the scheme for any other entities' obligations under the plan.

### NHS Pension Scheme

In 2013/14, former NHS employees transferred to the Council. These employees have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and, as with the TPS, the Council is unable to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes, though it is much less than 0.1%. It is therefore accounted for on the same basis as a defined contribution scheme.

£0.114m million was payable into the scheme in 2020/21 by the Council (2019/20: £0.164m). This represents 20.7% of pensionable pay. The contributions due to be paid in the next financial year are estimated to be £0.100m. These amounts represent 20.7% of pensionable pay.

The authority is not liable to the scheme for any other entities' obligations under the plan.

## 43 TRUSTS

The Council serves as sole trustee of the King George's Field, Mile End charity. The charity is governed by a Trust Deed, and is unincorporated, being established by a Scheme of the Charity Commission dated 28th February 2000.

The King George's Field, Mile End Charity Board (which sits as a committee of the Council) is responsible for managing the Trust's affairs and discharging the Council's duties as trustee.

The Charity's objectives are set out in Trust Deeds, which are as follows "To preserve in perpetuity the covenanted land and to apply the land to such charitable purposes as are set out in the Recreational Charities Act 1958, including the construction of indoor recreational facilities, subject to the approval of the National Playing Fields Association and the Charity Commission in respect of any additional purposes".

The funds of the Trust do not represent income, expenditure, assets or liabilities of the Council. The value of income and expenditure, the underlying assets, extent of any liabilities are disclosed as follows:

2019/20 £'000		2020/21 £'000
(1,138)	Income	(1,183)
1,501	Expenditure	1,180
25	Net unrealised (gains)/losses on Investments	(8)
<b>388</b>	<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>	<b>(11)</b>
16,075	Fixed assets	16,023
161	Current assets	456
(228)	Creditors - amounts falling due within one year	(470)
<b>16,008</b>	<b>NET CURRENT ASSETS</b>	<b>16,009</b>
16,008	Endowment funds	15,932
-	Unrestricted reserves	77
<b>16,008</b>	<b>TOTAL CHARITY FUNDS</b>	<b>16,009</b>

The Council acts as trustee for a number of smaller trusts, which were disclosed in this note in previous years. However, since they are not material to the accounts, those detailed disclosures will no longer be provided here.

## 44 GROUP ACCOUNTS

The Council has control or significant influence over a number of entities which therefore fall within its group boundary for accounting purposes.

The Council has not previously prepared group accounts as the Council had originally concluded that group accounts would not be materially different to the Council's single entity accounts.

However in the light of more recent information, the Council has concluded that group accounts would be materially different to the Council's single entity accounts. In particular, the effect of consolidating the Council's two most financially significant subsidiaries, Tower Hamlets Homes Limited and King George's Field, Mile End charity, would result in group net assets at 31 March 2021 being materially higher than the net assets and subsidiary reserves in the single entity accounts.

As the preparation of group accounts would not result in expenditure, income or indebtedness being reported which was materially different to amounts in the single entity accounts and since the preparation of group accounts would necessitate further commitment of time and resources, the Council has decided not to prepare them. The overriding consideration for this decision is that completion of the audit for the current year in order to make more rapid progress on the backlog of audits and accounts for subsequent years would be of more material benefit to the users of accounts and also to management of the Council's finances.



## 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	2019/20 £'000	2020/21 £'000
<b>EXPENDITURE</b>			
Repairs and maintenance		20,963	18,938
Supervision and management		39,642	40,184
Rents, rates, taxes and other charges		11,575	9,278
Depreciation of non-current assets	<a href="#">6</a>	-	-
On dwellings		15,382	16,607
On other assets		913	1,010
Revaluation losses (and reversals)		(25,349)	11,931
Debt management costs		83	97
Movement in the allowance for bad debts		33	478
Sums directed by the Secretary of State that are expenditure in accordance with the Code		8,073	6,104
<b>TOTAL EXPENDITURE</b>		<b>71,315</b>	<b>104,627</b>
<b>INCOME</b>			
Gross rental income			
Dwelling rents		(63,357)	(67,526)
Non dwelling rents		(4,631)	(4,260)
Charges for services and facilities		(29,062)	(25,754)
Contributions towards expenditure		(526)	(115)
<b>TOTAL INCOME</b>		<b>(97,576)</b>	<b>(97,655)</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		<b>(26,261)</b>	<b>6,972</b>
HRA services share of Corporate and Democratic Core		143	143
<b>NET COST OF HRA SERVICES</b>		<b>(26,118)</b>	<b>7,115</b>
<b>HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account</b>			
(Gain)/loss on sale of HRA non-current assets		(7,304)	(19,968)
Interest payable and similar charges <sup>1</sup>		3,581	4,480
Interest and investment income		(661)	(69)
Net interest on the net defined benefit liability	<a href="#">7</a>	245	-
Capital grants and contributions receivable		(9,053)	(7,172)
<b>DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES</b>		<b>(39,310)</b>	<b>(15,614)</b>

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

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

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

	2019/20		2020/21	
	£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward		(44,640)		(48,210)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account	(39,310)		(15,614)	
Net additional amount required by statute to be debited to the HRA balance for the year	35,740		13,059	
Decrease (Increase) in the HRA Balance		<b>(3,570)</b>		<b>(2,555)</b>
<b>Balance on the Statutory HRA Carried Forward</b>		<b>(48,210)</b>		<b>(50,765)</b>

# NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2019/20		2020/21	
	£'000	£'000	£'000	£'000
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year</b>				
Revenue expenditure funded from capital under statute	(8,073)		(6,105)	
Capital grants and contributions	9,053		7,172	
Gain or loss on sale of HRA non-current assets	7,304		19,968	
Depreciation of non-current assets	(16,295)		(17,617)	
Reversal of revaluation (losses)/gains on non-current assets	25,349		(11,931)	
Net charges made for retirement benefits in accordance with IAS19	<u>(387)</u>		<u>1,886</u>	
		16,951		(6,627)
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year</b>				
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	435		435	
Transfer to / from Capital Adjustment Account	2,059		1,634	
Transfer to Major Repairs Reserve	<u>16,295</u>		<u>17,617</u>	
		18,789		19,686
<b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>		<b>35,740</b>		<b>13,059</b>

## 2 HOUSING STOCK

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

	2019/20	2020/21
Low-rise flats (1-2 storeys)	255	254
Medium-rise flats (3-5 storeys)	6,666	6,723
High-rise flats (6 or more storeys)	3,783	3,883
Houses and bungalows	773	771
<b>TOTAL AT 31<sup>st</sup> MARCH</b>	<b>11,477</b>	<b>11,631</b>

## 3 NON-CURRENT ASSETS

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

	2019/20 £'000	2020/21 £'000
Dwellings	1,136,458	1,097,416
Other Land and Buildings	60,608	58,901
Surplus Assets Not Held for Sale	14,770	5,949
Assets Under Construction	39,221	30,604
Assets Held for Sale	-	760
<b>TOTAL</b>	<b>1,251,057</b>	<b>1,193,630</b>

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	Assets Under Construction £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 31 <sup>st</sup> March 2019	1,030,754	58,294	13,724	17,706	160	1,120,638
Additions, disposals, transfers and revaluations	105,704	2,314	1,046	21,515	(160)	130,419
Total value at 31 <sup>st</sup> March 2020	1,136,458	60,608	14,770	39,221	-	1,251,057
Additions, disposals, transfers and revaluations	(39,042)	(1,707)	(8,821)	(8,617)	760	(57,427)
<b>TOTAL VALUE AT 31<sup>st</sup> MARCH 2021</b>	<b>1,097,416</b>	<b>58,901</b>	<b>5,949</b>	<b>30,604</b>	<b>760</b>	<b>1,193,630</b>

The vacant possession value of dwellings within the Council's HRA was £4,391 million in 2020/21 (£4,546 million in 2019/20). 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

	2019/20 £'000	2020/21 £'000
Balance at 1 <sup>st</sup> April	-	-
Transfer from Capital Adjustment Account - depreciation	(16,295)	(17,617)
Financing of capital expenditure	16,295	17,543
<b>Balance at 31<sup>st</sup> March 2021</b>	<b>-</b>	<b>(74)</b>

## 5 CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

	2019/20 Total £'000	2020/21 Total £'000
<b>Expenditure</b>	57,121	60,741
<b>Sources of finance</b>		
Borrowing	25,492	26,717
Capital Receipts	4,451	10,873
Capital Grants and Contributions	10,883	5,608
Major Repairs Reserve	16,295	17,543
<b>TOTAL CAPITAL FINANCING</b>	<b>57,121</b>	<b>60,741</b>

### (ii) Capital Receipts

Capital receipts (gross) in 2020/21 from the disposal of non-current assets within the HRA amounted to £38.733 million (£9.547 million in 2019/20) as follows:

	2019/20 £'000	2020/21 £'000
Dwellings	9,145	9,512
Other land and buildings	402	29,221
<b>TOTAL CAPITAL RECEIPTS</b>	<b>9,547</b>	<b>38,733</b>

## 6 DEPRECIATION

	2019/20 £'000	2020/21 £'000
Dwellings	15,382	16,607
Other Land and Buildings	913	1,010
<b>TOTAL DEPRECIATION</b>	<b>16,295</b>	<b>17,617</b>

## 7 PENSION COSTS

These figures should 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. Within 2020/21 the Council entered into a new management agreement with Tower Hamlets Homes and as a consequence no longer includes their pension liability within the accounts.

	Total	
	2019/20 £'000	2020/21 £'000
<b>HRA INCOME AND EXPENDITURE STATEMENT</b>		
<i>Cost of Services</i>		
Current service costs	5,414	-
Past service costs	112	-
Impact of settlements		
<i>Finance and Investment Income and Expenditure</i>		
Interest cost on defined benefit obligation	2,929	-
Interest income on plan assets	(2,684)	-
<b>Net charge to the HRA Surplus or Deficit on Provision of Services</b>	<b>5,771</b>	<b>-</b>
<b>STATEMENT OF MOVEMENT IN HRA RESERVES</b>		
Reversal of net charges made for retirement benefits	(5,771)	-
Employer's pensions contributions and direct payments to pensioners		1,886

## 8 RENT ARREARS

	2019/20 £'000	2020/21 £'000
Gross rent arrears at 31 <sup>st</sup> March	5,239	5,595
Arrears as % of rent receivable	8.1	8.3
Provision made for bad debts	4,168	4,437

# COLLECTION FUND

The Collection Fund Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the Council as billing authority in relation to the collection from tax payers and distribution to precepting bodies and the Government of Council Tax and Non-Domestic Rates.

2019/20				2020/21		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
<b>INCOME</b>						
-	(132,268)	(132,268)	Council Tax Receivable	-	(139,630)	(139,630)
(433,441)	-	(433,441)	Business Rates Receivable	(334,697)	-	(334,697)
(8,408)	-	(8,408)	Transitional Protection Payments Receivable	(3,569)	-	(3,569)
(14,498)	-	(14,498)	Business Rates Supplements Receivable	(11,553)	-	(11,553)
<b>(456,347)</b>	<b>(132,268)</b>	<b>(588,615)</b>	<b>Total amounts to be credited</b>	<b>(349,819)</b>	<b>(139,630)</b>	<b>(489,449)</b>
<b>EXPENDITURE</b>						
<b>Apportionment of Previous Year Surplus/(Deficit:)</b>						
271	-	271	Central Government	(3,335)	-	(3,335)
319	-	319	Tower Hamlets	(17,920)	(503)	(18,423)
345	-	345	Greater London Authority	(10,080)	(158)	(10,238)
<b>Precepts, demands and shares</b>						
117,036	-	117,036	Central Government	154,249	-	154,249
224,709	100,331	325,040	Tower Hamlets	140,227	108,438	248,664
126,399	31,537	157,936	Greater London Authority	172,946	33,959	206,906
<b>Business Rate Supplement</b>						
14,478	-	14,478	Payment to levying authority's BRS Revenue Account	11,534	-	11,534
20	-	20	Administrative Costs	19	-	19
<b>Charges to the Collection Fund</b>						
3,572	2,371	5,943	Increase/(decrease) in allowance for impairment	5,788	1,644	7,432
(7,977)	-	(7,977)	Increase/(decrease) in allowance for appeals	(492)	-	(492)
1,021	-	1,021	Charge to General Fund for allowable collection costs	1,031	-	1,031
<b>480,193</b>	<b>134,239</b>	<b>614,432</b>	<b>Total Amounts to be debited</b>	<b>453,968</b>	<b>143,380</b>	<b>597,348</b>
<b>23,846</b>	<b>1,971</b>	<b>25,817</b>	<b>(Surplus)/Deficit arising during the year</b>	<b>104,149</b>	<b>3,750</b>	<b>107,899</b>
17,060	-	17,060	<b>(Surplus)/Deficit b/f at 1 April</b>	40,906	1,971	42,877
<b>40,906</b>	<b>1,971</b>	<b>42,877</b>	<b>(Surplus)/Deficit c/f at 31 March</b>	<b>145,055</b>	<b>5,721</b>	<b>150,776</b>

## (Surplus)/Deficit on the Collection Fund

2019/20				2020/21		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
5,281	-	5,281	Central Government	46,656	-	46,656
22,514	1,501	24,015	Tower Hamlets	45,239	4,376	49,615
13,111	470	13,581	Greater London Authority	53,160	1,345	54,505
<b>40,906</b>	<b>1,971</b>	<b>42,877</b>	<b>(Surplus)/Deficit c/f at 31 March</b>	<b>145,055</b>	<b>5,721</b>	<b>150,776</b>

# NOTES TO THE COLLECTION FUND

## 1. COUNCIL TAX

Council Tax, introduced in 1993, is charged on residential properties depending on the nature and degree of occupation of the 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. The tax for each Band is set as a fraction of Band D. The number of properties in each band and calculation of the tax base (adjusted to reflect relevant discounts and exemptions) was approved by Cabinet in January 2020 and is summarised in the table below:

Band	Valuation Bands	Ratio to Band D	2019/20 Number of chargeable dwellings	2019/20 Equivalent number of band D dwellings	2020/21 Number of chargeable dwellings	2020/21 Equivalent number of band D dwellings
A	Up to £40,000	6/9	725	483	1,411	941
B	£40,001 and up to £52,000	7/9	22,171	17,244	22,057	17,156
C	£52,001 and up to £68,000	8/9	35,687	31,722	36,244	32,216
D	£68,001 and up to £88,000	9/9	26,123	26,123	27,237	27,237
E	£88,001 and up to £120,000	11/9	19,488	23,818	20,442	24,985
F	£120,001 and up to £160,000	13/9	9,234	13,338	9,780	14,126
G	£160,001 and up to £320,000	15/9	3,902	6,504	4,110	6,849
H	Over £320,001	18/9	654	1,308	635	1,270
			117,984	120,540	121,916	124,780
Adjustment for Reduction Scheme & Collection Rate				(22,144)		(22,514)
<b>Council Tax Base</b>				<b>98,396</b>		<b>102,266</b>

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

The Council collects business rates for its local area. The amount due to be paid by a business for their property is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The rateable value is determined by the Valuation Office Agency, a government executive agency. The national uniform rate in 2020/2021 was 51.2p (50.4p for 2019/20) and the rate for small businesses was set at 49.9p (49.1p for 2019/20). The total rateable value in the borough as at 31st March 2021 was £996 million (£1,022 million at 31 March 2020).

## 3. BUSINESS RATE SUPPLEMENT (BRS)

Under the Business Rate Supplement Act 2009, the Greater London Authority (GLA) has introduced a supplement to help towards the financing of the costs of the Crossrail project. The Council collects the supplement on behalf of the GLA.

The Crossrail BRS multiplier for 2020/21 is 2p per pound of rateable value (unchanged from previous years), it is only paid on properties with a rateable value in excess of £70,000.



## PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2019/20 £'000	2020/21 £'000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
Contributions	7	(48,675)	(66,681)
Transfers in	8	(7,608)	(6,512)
Benefits	9	60,418	60,989
Payments to and on account of leavers	10	6,835	3,925
<b>NET (ADDITIONS)/DEDUCTIONS FROM DEALINGS WITH MEMBERS</b>		<b>10,970</b>	<b>(8,279)</b>
Management expenses	11	11,317	12,812
<b>NET (ADDITIONS)/DEDUCTIONS INCLUDING FUND MANAGEMENT EXPENSES</b>		<b>22,287</b>	<b>4,533</b>
<b>RETURN ON INVESTMENTS</b>			
Investment Income	12	(20,580)	(21,013)
Taxes on Income		7	5
Change in market value of investments	14a	31,630	(420,070)
<b>NET RETURN ON INVESTMENTS</b>		<b>11,057</b>	<b>(441,078)</b>
Net increase in the Fund during the year		33,344	(436,545)
Add: Opening net assets of the scheme		(1,552,906)	(1,519,562)
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>(1,519,562)</b>	<b>(1,956,107)</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2019/20 £'000	2020/21 £'000
Long Term Investments	14	150	150
Investments Assets	14	1,520,894	1,957,072
Current Assets	21	1,171	2,407
Current Liabilities	22	(2,653)	(3,522)
<b>NET ASSETS</b>		<b>1,519,562</b>	<b>1,956,107</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE FUND

The London Borough of Tower Hamlets Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by London Borough of Tower Hamlets.

### a) General

The LGPS is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Fund is a contributory defined benefit pension scheme administered by London Borough of Tower Hamlets to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies.

Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the London Borough of Tower Hamlets Pension Committee which is a Committee of the London Borough of Tower Hamlets Pension Fund.

### b) Membership of the Fund

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the London Borough of Tower Hamlets Pension Fund include the following:

- „Scheduled bodies, which are automatically entitled to be members of the Fund.
- „Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table sets out the membership of the London Borough of Tower Hamlets Pension Fund as at 31st March 2021

	31st March 2020	31st March 2021
<b>Number of employees in the scheme</b>		
LBTH	6,602	6,256
Other employers	921	974
	<b>7,523</b>	<b>7,230</b>
<b>Number of pensioners</b>		
LBTH	6,108	6,242
Other employers	432	456
	<b>6,540</b>	<b>6,698</b>
<b>Number of deferred pensioners</b>		
LBTH	7,437	7,455
Other employers	523	538
	<b>7,960</b>	<b>7,993</b>
<b>Total number of members in pension scheme</b>	<b>22,023</b>	<b>21,921</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE FUND

### **c) Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employers' contributions are set based on triennial actuarial valuations. The last such valuation was at 31 March 2019 and these rates have been applied from 1 April 2020. Currently, employer contribution rates range from 15.8% to 41.4% of pensionable pay.

### **d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices. A range of other benefits are also provided including early retirement, disability pensions and death benefits are explained on the LGPS website.

## NOTE 2: BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2020/21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Appendix A.

The Pension Fund accounts have been prepared on a going concern basis.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund account – revenue recognition

#### a) Contribution income

Normal contributions from both the members and the employer are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all schemes which rise according to pensionable pay. They are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund's actuary in the rates and adjustment certificate issued to the relevant employing body.

Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Augmentations such as additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

#### b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund. Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

#### c) Investment income

Investment income arising from the underlying investments in pooled funds is either reinvested or taken as a cash dividend to support the Fund's cash requirements.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. The valuations of the Fund's property holdings as been particularly impacted by the on-going COVID pandemic.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Fund account – expense items**

#### **d) Benefits payable**

Pensions and lump-sum benefits 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, providing that payment has been approved.

#### **e) Taxation**

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

#### **f) Management expenses**

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis.

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Investment management expenses include transaction costs and custody fees.

Where an investment manager's fee has not been received by the year end date an estimate is used based upon the market value of the fund. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

#### **Administrative expenses**

All staff costs of the pensions administration team are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

#### **Oversight and governance**

All staff costs associated with governance and oversight are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

#### **Investment management expenses**

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments or to increase income if netted off from income received. Transaction costs met from the net asset value of the fund are also grossed up and reported in Note 11A.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Net assets statement**

#### **g) Financial assets**

Investment assets are included in the financial statements 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 asset are recognised in the fund account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16).

#### **h) Freehold and leasehold properties**

The Fund has no direct investment in property

#### **j) Derivatives**

The Fund uses derivative financial instruments as part of its equity protection portfolio managed by Schroders Investment Management to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

#### **k) Cash and cash equivalents**

Cash comprises cash in hand and internally managed cash and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### **l) Financial assets at amortised cost**

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e the outstanding principal receivable as at the year-end date plus accrued interest.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **m) Financial liabilities**

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

### **n) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS26) and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Appendix A).

The amount disclosed for the present value of promised retirement benefits relies on information about scheme members, such as their age and current salary or annual pension. Errors were identified in the information provided by the council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2021, some of which were also present at 31 March 2020. It has not been practicable to check and correct all errors in view of the volume of records involved.

### **o) Additional voluntary contributions**

The London Borough of Tower Hamlets Pension Fund provides an additional voluntary contribution AVC scheme for its members, the assets of which are invested separately from those of the Pension Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 23.

### **p) Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events. A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably. Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

### **q) Recharges from the General Fund**

The LGPS (Management and Investment of Funds) Regulations 2016 permit the council to charge administration costs to the Fund. A proportion of the relevant costs have been charged to the Fund on the basis of time spent on pension fund activity. Costs incurred are shown in Note 25.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

### **Pension Fund liability**

The net Pension Fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted actuarial guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

In response to the government's guidance and criteria on pooling investments issued in 2015, the London Borough of Tower Hamlets Pension Fund is a founding member of the London Collective Investment Vehicle (LCIV) established as a Collective Investment Vehicle for LGPS Funds. At the end of 31 March 2021, the Fund has £918m (46.9%) under LCIV management. A further £471m (24.1%) is invested in Legal and General Passive Pool.

## NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statements for which there is a significant risk of material adjustment the following year are as follows:

### **a) Actuarial present value of promised retirement benefits**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied

For example:

„a 0.5% decrease in the discount rate used would result in an increase in the pension liability of £247m.

„a 0.5% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £18m.

### **b) Valuation of Investments at Level 3**

The Pension Fund contains investments in unitised pooled property funds that are classified within the financial statements as level 3 investments. These funds are valued at £149m according to non-exchange based market valuations. As a result of this, the final realised value of the pooled units may differ from the valuations presented in the accounts.

## NOTE 6: EVENTS AFTER THE REPORTING DATE

The benefits payable under the LGPS are under review following legal challenges successfully brought against the Government's reform of public service pensions in 2014 (the McCloud / Sargeant cases). The Government will be bringing in revised LGPS regulations later this year to apply retrospectively from 1 April 2014. It is not possible at this time to assess the financial impact on the Fund.



# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 7: CONTRIBUTIONS RECEIVABLE

	2019/20 £'000	2020/21 £'000
<b>Employees</b>		
Council Employees' Normal Contributions	(9,491)	(11,460)
Admitted Bodies Employees' Normal Contributions	(119)	(147)
Scheduled Bodies Employees' Normal Contributions	(1,546)	(1,776)
<b>Total</b>	<b>(11,156)</b>	<b>(13,383)</b>
<b>Employers</b>		
Council Employers' Normal Contributions	(30,462)	(33,173)
Admitted Bodies Employers' Normal Contributions	(517)	(628)
Scheduled Bodies Employers' Normal Contributions	(4,166)	(4,839)
<b>Total</b>	<b>(35,145)</b>	<b>(38,640)</b>
Employers' Special Contributions	(2,321)	(980)
Deficit Funding	(53)	(13,678)
<b>Total</b>	<b>(2,374)</b>	<b>(14,658)</b>

## NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

	2019/20 £'000	2020/21 £'000
<b>Transfer Values</b>		
Transfer Values Received - Individual	(7,608)	(6,512)
<b>Total</b>	<b>(7,608)</b>	<b>(6,512)</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 9: BENEFITS PAYABLE

	2019/20 £'000	2020/21 £'000
Pensions	47,620	49,418
Lump Sums Retirement Benefits	11,486	9,016
Lump Sums Death Benefits	1,312	2,555
<b>Total</b>	<b>60,418</b>	<b>60,989</b>
By type of employer		
Administering authority	57,358	56,028
Scheduled bodies	1,983	2,628
Admitted bodies	1,077	2,333
<b>Total</b>	<b>60,418</b>	<b>60,989</b>

## NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2019/20 £'000	2020/21 £'000
Transfer values paid	6,079	3,712
Refunds to members leaving service	756	213
<b>Total</b>	<b>6,835</b>	<b>3,925</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 11: MANAGEMENT EXPENSES

	2019/20 £'000	2020/21 £'000
Administration	742	1,465
Investment management expenses	10,121	10,751
Oversight & Governance	454	596
<b>Total</b>	<b>11,317</b>	<b>12,812</b>

## NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

	Management Fees £'000	Transaction Costs £'000	2020/21 £'000
Pooled Investments	6,311	2,464	8,775
Pooled Property Investments	1,881	30	1,911
	<b>8,192</b>	<b>2,494</b>	<b>10,686</b>
Custody Fees			65
			<b>10,751</b>

	Management Fees £'000	Transaction Costs £'000	2019/20 £'000
Pooled Investments	4,504	3,367	7,871
Pooled Property Investments	1,601	599	2,200
	<b>6,105</b>	<b>3,966</b>	<b>10,071</b>
Custody Fees			50
			<b>10,121</b>

## NOTE 12: INVESTMENT INCOME

	2019/20 £'000	2020/21 £'000
Pooled property Investments	(6,425)	(4,906)
Pooled Investments -unit trusts and other managed fun	(14,094)	(15,574)
Interest on cash deposits	(61)	(533)
	<b>(20,580)</b>	<b>(21,013)</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 13: EXTERNAL AUDIT COSTS

	2019/20 £'000	2020/21 £'000
Audit Fees Payable in respect of external audit	21	21
<b>Total</b>	<b>21</b>	<b>21</b>

## NOTE 14: INVESTMENTS

	2019/20 £'000	2020/21 £'000
<b>Long Term Investments</b>		
UK unquoted Equities London CIV Ltd	150	150
<b>Total Long Term Investments</b>	<b>150</b>	<b>150</b>
<b>Investment assets</b>		
Pooled Funds		
Fixed Income	446,775	495,076
Global Equity	614,515	874,109
Diversified Growth	299,420	397,959
Property	147,556	149,166
Other	(33)	0
Sub-Total	<b>1,508,233</b>	<b>1,916,310</b>
<b>Other Investment Balances</b>		
Cash Deposits	11,927	37,283
Amounts Receivable for Sales of Investments	0	2,814
Investment Income Due	734	665
Sub-Total	<b>12,661</b>	<b>40,762</b>
<b>Total Investment Assets</b>	<b>1,520,894</b>	<b>1,957,072</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 31 Mar 2020 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2021 £'000
<b>Investment Assets</b>					
Pooled Investments	1,360,710	68,113	(80,826)	419,147	1,767,144
Pooled Property Investments	147,556	5,457	(4,759)	912	149,166
	<b>1,508,266</b>	<b>73,570</b>	<b>(85,585)</b>	<b>420,059</b>	<b>1,916,310</b>
<b>Other Investment Balances</b>					
Cash Deposits	11,927			11	37,283
Amounts Receivable for Sales of Investments	0			0	2,814
Investment Income Due	734			0	665
Other	(33)				0
<b>Net Investment Assets</b>	<b>1,520,894</b>			<b>420,070</b>	<b>1,957,072</b>

	Market Value 31 Mar 2019 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2020 £'000
<b>Investment Assets</b>					
Equities	4	0	0	(4)	0
Pooled Investments	1,390,480	53,362	(57,889)	(25,243)	1,360,710
Pooled Property Investments	157,351	4,896	(8,311)	(6,380)	147,556
	<b>1,547,835</b>	<b>58,258</b>	<b>(66,200)</b>	<b>(31,627)</b>	<b>1,508,266</b>
<b>Other Investment Balances</b>					
Cash Deposits	9,222			(3)	11,927
Amounts Receivable for Sales of Investments	99				0
Investment Income Due	832				734
Other	(38)				(33)
<b>Net Investment Assets</b>	<b>1,557,950</b>			<b>(31,630)</b>	<b>1,520,894</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

	2019/20 £'000		2020/21 £'000	
<b>Investments managed by regional asset pool (London CIV)</b>				
London LGPS CIV Lt Global Alpha Growth A	294,846	19.4%	403,177	20.6%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	155,916	10.3%	205,790	10.5%
London LGPS CIV Lt Diversified Growth A	143,505	9.4%	192,169	9.8%
LCIV CQS Credit Mult Asset-A	79,089	5.2%	117,231	6.0%
	<b>673,356</b>	<b>44.3%</b>	<b>918,367</b>	<b>46.9%</b>
<b>Investments managed outside of regional asset pool</b>				
Schroder	428,391	28.2%	435,766	22.3%
Legal & General	319,684	21.0%	470,932	24.1%
Goldman Sachs	50,806	3.3%	54,792	2.8%
Insight Investment	45,051	3.0%	48,635	2.5%
Legacy	87	0.0%	460	0.0%
Internally managed cash	3,033	0.2%	28,120	1.4%
	<b>847,052</b>	<b>55.7%</b>	<b>1,038,705</b>	<b>53.1%</b>
	<b>1,520,408</b>	<b>100.0%</b>	<b>1,957,072</b>	<b>100.0%</b>

The following investments represent over 5% of the net assets of the fund. All of these companies are registered in the UK Security

Security	Market value as at 31st March 2020 £'000	% total of fund	Market value as at 31st March 2021 £'000	% total of fund
London LGPS CIV Lt Global Alpha Growth A	294,846	19%	403,177	21%
Mfo GPCU - Msciworldlowcarbtargetindofc	241,537	16%	362,285	19%
Schroder Inv Mg E Bespoke Investment Fund 9 I	271,829	18%	274,417	14%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	155,916	10%	205,790	11%
London LGPS CIV Lt Diversified Growth A	143,505	9%	192,169	10%
LCIV CQS Credit Mult Asset-A	79,089	5%	117,231	6%
Gpcl - Msciworldlw Carbondtargetindofc	78,147	5%	108,646	6%
	<b>1,264,869</b>	<b>83%</b>	<b>1,663,715</b>	<b>85%</b>

### NOTE 14C: STOCK LENDING

The Fund does not participate in stock lending.

### NOTE 14D: PROPERTY HOLDINGS

The Fund's investment property portfolio does not comprise directly owned properties.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 15A: ANALYSIS OF DERIVATIVES

### Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

## NOTE 16: FAIR VALUE – BASIS OF VALUATION

Description of asset	Valuation hierarchy 19/20	Valuation hierarchy 20/21	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Quoted UK and Overseas Bonds	Level 2	Level 2	Fixed income securities are priced based on evaluated price provided by independent pricing services	Evaluated price feeds	Not required
Pooled Investments - Property Funds	Level 3	Level 3	Closing bid price where bid and offer prices are published	Adjusted for net capital current assets	Estimated acquisition and disposal costs
Pooled Investments - Multi Asset Credit	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	Evaluated price feeds	Not required

### Fair Value Hierarchy

	Market Value as at 31 Mar 2021		With significant observable inputs		Total
	Quoted market price	Using observable inputs	Level 3	Total	
	Level 1	Level 2	Level 3		£'000
	£'000	£'000	£'000	£'000	£'000
<b>Financial assets at fair value through profit and loss</b>					
Equities	150	0	150	0	150
Pooled investments	1,767,144	457,969	1,309,175	0	1,767,144
Pooled Property Investments	149,166	0	0	149,166	149,166
Cash deposits	37,283	37,283	0	0	37,283
Investment income due	665	625	0	40	665
Amounts Receivable for Sales	2,814	0	2,814	0	2,814
	<b>1,957,222</b>	<b>495,877</b>	<b>1,312,139</b>	<b>149,206</b>	<b>1,957,222</b>

	Market Value as at 31 Mar 2020		With significant observable inputs		Total
	Quoted	Using observable inputs	Level 3	Total	
	Level 1	Level 2	Level 3		£'000
	£'000	£'000	£'000	£'000	£'000
<b>Financial assets at fair value through profit and loss</b>					
Equities	150	0	150	0	150
Pooled investments	1,360,710	345,652	1,015,058	0	1,360,710
Pooled Property Investments	147,556	0	0	147,556	147,556
Cash deposits	11,927	11,927	0	0	11,927
Investment income due	734	705	0	29	734
Amounts Receivable for Sales	0	0	0	0	0
Other	(33)	(33)			(33)

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

There were no transfers in the year.

### NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 Apr 2020 £'000	Transfers in/out of level 3 £'000	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses) £'000	Market Value 31 Mar 2021 £'000
Pooled Property Funds	147,556	0	5,457	(4,759)	637	275	149,166
<b>Total</b>	<b>147,556</b>	<b>0</b>	<b>5,457</b>	<b>(4,759)</b>	<b>637</b>	<b>275</b>	<b>149,166</b>

	Assessed valuation range (+/-) %	Value 31 Mar 2021 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled Property Funds	10%	149,166	164,083	134,249
<b>Total</b>		<b>149,166</b>	<b>164,083</b>	<b>134,249</b>

	Market Value 1 Apr 2019 £'000	Transfers in/out of level 3 £'000	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses) £'000	Market Value 31 Mar 2020 £'000
Pooled Property Funds	157,351	0	4,896	(6,900)	(10,263)	2,472	147,556
<b>Total</b>	<b>157,351</b>	<b>0</b>	<b>4,896</b>	<b>(6,900)</b>	<b>(10,263)</b>	<b>2,472</b>	<b>147,556</b>



# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2020			Market Value as at 31 Mar 2021		
Designated as fair value through profit and loss £'000	Financial Assets at amortised cost £'000	Financial liabilities at amortised cost £'000	Designated as fair value through profit and loss £'000	Financial Assets at amortised cost £'000	Financial liabilities at amortised cost £'000
<b>Financial assets</b>					
150	0	0	150	0	0
1,360,710	0	0	1,767,144	0	0
147,556	0	0	149,166	0	0
0	8,894	0	0	9,163	0
0	3,033	0	0	28,120	0
0	734	0	0	3,479	0
0	1,171	0	0	2,407	0
<b>1,508,416</b>	<b>13,832</b>	<b>0</b>	<b>1,916,460</b>	<b>43,169</b>	<b>0</b>
<b>Financial liabilities</b>					
0	(33)	0	0	0	0
0		(2,653)	0	0	(3,522)
<b>0</b>	<b>(33)</b>	<b>(2,653)</b>	<b>0</b>	<b>0</b>	<b>(3,522)</b>
<b>1,508,416</b>	<b>13,799</b>	<b>(2,653)</b>	<b>1,916,460</b>	<b>43,169</b>	<b>(3,522)</b>
<b>1,519,562</b>			<b>1,956,107</b>		
<b>Grand Total</b>			<b>Grand Total</b>		

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

<b>Financial Assets</b>	<b>2019/20</b> <b>£'000</b>	<b>2020/21</b> <b>£'000</b>
Fair value through profit or loss	31,627	(420,059)
Amortised cost – realised gains on derecognition of assets	0	1
Amortised cost – unrealised gains	3	(12)
<b>Total Financial Assets</b>	<b>31,630</b>	<b>(420,070)</b>

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: 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. (i.e. promised benefits payable to members)

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole. Responsibility for the Fund's risk-management strategy rests with the Pensions Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed by the Pensions Committee and Pensions Board in the light of changing market and other

### **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 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 Fund employs a custodian to provide secure safe-keeping of the Fund's assets and to ensure that all trades are settled in a timely manner.

### **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 (Northern Trust 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. As at 31 March 2021, liquid assets were £1,956m representing 92.4% of total assets of the Fund assets (£1,371m as at 31 March 2020). The majority of these investments can be in fact liquidated within a matter of days.

### **Currency risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of hedging. The Pensions Committee recognises that a strengthening /weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS cont.

### **Currency risk cont.**

Overseas equities, fixed interest securities and equity protection swaps and some elements of the pooled investment vehicles are exposed to currency risk. The currency risk table demonstrates the change in value of these assets had there been a 10% change strengthening/weakening of the pound against foreign currencies.

### **Market risk**

This is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions.

### **Price risk**

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument or its issuer factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities regardless of bring in a pool represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments with the exception of derivatives.

The Fund manages price risk of its portfolio by diversifying its investments across different asset classes and fund managers as required by regulations. Further, the Fund has a long-term investment horizon and can accept the price risk in its portfolio. The Fund can mitigate the price risk by regular reviews of its investment strategy in consultation with its investment advisors.

The price risk table below demonstrates the change in the net assets available to pay benefits if the market price has increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward exchange as these financial instruments are not subject to price risk.

### **Interest rate risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates. The Pensions Committee and its advisors regularly monitor the Fund's interest rate risk exposure during the year.

Fixed interest securities, cash and cash equivalents are exposed to 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.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### OTHER PRICE RISK - sensitivity analysis

Asset type	Market Value as at 31/03/2021 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	37,283	0.8%	37,581	36,985
<b>Pooled Investments:</b>				
Fixed Income	495,076	6.8%	528,741	461,411
Global Equity	874,109	15.7%	1,011,344	736,874
Diversified Growth	397,959	6.5%	423,826	372,092
Property	149,166	2.1%	152,256	146,076
Investment income due	665	0.8%	670	660
Amounts receivable for sales	2,814	0.8%	2,837	2,791
<b>Total investment assets</b>	<b>1,957,072</b>		<b>2,157,255</b>	<b>1,756,889</b>

Asset type	Market Value as at 31/03/2020 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	11,927	0.6%	11,999	11,855
<b>Pooled Investments:</b>				
Fixed Income	446,775	5.6%	471,794	421,756
Global Equity	614,515	13.3%	696,245	532,785
Diversified Growth	299,420	5.8%	316,786	282,054
Property	147,556	2.3%	150,950	144,162
Other	(33)	0.6%	(33)	(33)
Investment income due	734	0.0%	734	734
<b>Total investment assets</b>	<b>1,520,894</b>		<b>1,648,475</b>	<b>1,393,313</b>

### CURRENCY EXPOSURE - asset type

Asset type	Market Value as at 31/03/2021 £'000	Change in year in the net assets available to pay benefits	
		7.7%	7.7%
<b>Overseas Equities</b>			
Overseas Fixed Income Funds	377,845	406,947	348,743
Overseas Equity Funds	765,463	824,420	706,506
<b>Total change in assets available</b>	<b>1,143,308</b>	<b>1,231,368</b>	<b>1,055,248</b>

Asset type	Market Value as at 31/03/2020 £'000	Change in year in the net assets available to pay benefits	
		7.4%	-7.4%
<b>Overseas Equities</b>			
Overseas Fixed Income Funds	367,686	394,895	340,477
Overseas Equity Funds	536,384	576,076	496,692
<b>Total change in assets available</b>	<b>904,070</b>	<b>970,971</b>	<b>837,169</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS cont.

### INTEREST RATE RISK

Asset type	Market Value as at 31/03/2021 £'000	Market Value as at 31/03/2020 £'000
<b>Cash and cash equivalents</b>		
Cash	37,283	11,927
<b>Total</b>	<b>37,283</b>	<b>11,927</b>

### Interest rate risk sensitivity analysis

Asset type	Market Value as at 31/03/2021 £'000	Change in year in the net assets available to pay benefits	
		+100 bps £'000	-100 bps £'000
<b>Cash and cash equivalents</b>			
Cash	37,283	373	-373
<b>Total change in assets available</b>	<b>37,283</b>	<b>373</b>	<b>-373</b>

Asset type	Market Value as at 31/03/2020 £'000	Change in year in the net assets available to pay benefits	
		+100 bps £'000	-100 bps £'000
<b>Cash and cash equivalents</b>			
Cash	11,927	119	-119
<b>Total change in assets available</b>	<b>11,927</b>	<b>119</b>	<b>-119</b>

### CREDIT RISK

Summary	Rating	Market Value as at 31/03/2021 £'000	Market Value as at 31/03/2020 £'000
<b>Money Market Funds</b>			
Schroder special situations sterling liquidity plus	A	8,922	0
<b>Bank current accounts</b>			
Northern Trust custody cash account	A	241	8,894
National Westminster Bank Plc	A	28,120	3,033
<b>Total</b>		<b>37,283</b>	<b>11,927</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 19: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation that took place as at 31 March 2019 covered the period up to 31 March 2023. This report details Fund assumptions and employer contributions for the three years covered by the 2019 valuation.

The key elements of the funding policy are:

- 1) to ensure the long-term solvency of the fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment
- 2) to ensure that employer contribution rates are as stable as possible
- 3) to minimise the long-term cost of the LGPS by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- 4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so and
- 5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The triennial valuation undertaken as at 31 March 2019 covers the financial assumptions for 2020/21. The actuary estimated the surplus of the Fund to be £27m and the funding level to be 102%. This compared to a deficit at the previous valuation in 2016 of £235m and a corresponding funding level of 82.8%. The triennial valuation also sets the individual contribution rate to be paid by each employer from 1 April 2020 to 31 March 2023.

The contribution rates are made of two values, the Primary and Secondary rate. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer Secondary rates (before applying any pre-payment or capitalisation of future contributions).

The table below summarises the whole Fund Primary and Secondary Contribution rates at the 2019 triennial valuation:

Primary Rate (% of pay)	2020-21 £'000	2021-22 £'000	2022-23 £'000
19.90%	15,019	15,137	15,103
	<b>15,019</b>	<b>15,137</b>	<b>15,103</b>

50:50 option

It is assumed that 0.5% of members opt into the 50:50 option in the LGPS 2014 scheme.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 20: CURRENT ASSETS

	2019/20 £'000	2020/21 £'000
<b>Short term debtors</b>		
Contributions due	950	1,209
Sundry debtors	221	869
Prepayments	0	329
<b>Total</b>	<b>1,171</b>	<b>2,407</b>

## NOTE 21: CURRENT LIABILITIES

	2019/20 £'000	2020/21 £'000
Sundry creditors	(1,756)	(1,645)
Transfer values payable (leavers)	(22)	0
Benefits payable	(875)	(1,877)
<b>Total</b>	<b>(2,653)</b>	<b>(3,522)</b>



# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 22: ADDITIONAL VOLUNTARY CONTRIBUTIONS

	2019/20		2020/21	
	Market Value* £'000	Contributions Paid £'000	Market Value* £'000	Contributions Paid £'000
Aviva	1,150	27	1,251	26
Equitable Life / Utmost Life	671	2	708	3
	<b>1,821</b>	<b>29</b>	<b>1,959</b>	<b>29</b>

Additional voluntary contributions (AVC's) were paid to Aviva and Equitable Life (taken over by Utmost Life on 1 January 2020 ) during the year.

\* The market value is as at 5/6 April for Utmost and 30 April for Aviva.

## NOTE 23: AGENCY SERVICES

The Fund is fully reimbursed of all agency services costs paid on behalf of the administering authority.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 24: RELATED PARTY TRANSACTIONS

The LBTH pension fund is administered by the LBTH.

The Council incurred costs of £1,227k (£669k 2019/20) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. 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 Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.9m (£3.3m 2019/20) from this company.

## NOTE 24A: KEY MANAGEMENT PERSONNEL

Key management personnel for the pension fund include pension fund committee members, the Corporate Director Resources and the Head of Pensions and Treasury. There were no permanent employees holding key positions in the financial management of the fund as at 31st March 2021.

(At 31 March 2020 there was one permanent employee, the Corporate Director Resources, with short term benefits valued at £8k and long term post retirement benefits valued at £11k).

## NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund may be required by government regulations to increase benefits paid on the guaranteed minimum pension (GMP) for new pensioners after 6 April 2021. This will increase the pension liability of the Fund as detailed in Appendix

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## APPENDIX A

### PENSION FUND ACCOUNTS REPORTING REQUIREMENT

#### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2020/21 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Tower Hamlets Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- Showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

#### Present value of promised retirement benefits

Year ended	31 Mar 2020	31 Mar 2021
	£m	£m
Active members	684	1,026
Deferred members	475	644
Pensioners	831	907
<b>Total</b>	<b>1,990</b>	<b>2,577</b>

The promised retirement benefits at 31 March 2021 have been projected using a roll forward approximation from the formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

#### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2021 and 31 March 2020. I estimate that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £484m. I estimate that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £30m.

#### Financial assumptions

Year ended	31 Mar 2020	31 Mar 2021
Pension Increase Rate	1.90%	2.85%
Salary Increase Rate	2.10%	3.05%
Discount Rate	2.30%	2.00%

#### Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 0.5%. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.7 years	23.9 years
Future pensioners (assumed to be 45 at the latest formal valuation)	23.0 years	25.7 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

#### Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

#### Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate increase to liabilities (%)	Approximate monetary amount (£m)
0.5%p.a. increase in the Pension Increase Rate	9%	221
0.5%p.a. increase in the Salary Increase Rate	1%	18
0.5%p.a. increase in the Real Discount Rate	10%	243

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

#### Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2021 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Barry Dodds FFA

31 October 2023

For and on behalf of Hymans Robertson LLP



## GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

### FINANCIAL TERMS

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

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

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

**Accrual** – The recognition of income and expenditure in the year that they occur and not when the 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 who provides advice 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 2019.

**Arms 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 (ie after amortisation).

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

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

**Better Care Fund (BCF)** – A pooled budget between the Council and the local Clinical Commissioning Group, supported by grants from Central Government.





**Billing Authority** – Refers to a local authority that is responsible for the collection of Council Tax and Non-Domestic Rates, both on behalf of itself, Central Government and the Greater London Authority.

**Budget** – A plan of expenditure for a financial year 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 (BRS)** – The Business Rate Supplements Act 2009 enables levying authorities - county councils, unitary 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 receipts that are currently unspent and 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** - This is a potential "one-off" future liability or loss, but the likelihood of the loss incurring is sufficiently low that the establishment of a provision is not appropriate.

**Contingent Asset** - This is a potential "one-off" future receipt or acquisition of an asset, but the likelihood of the gain incurring is sufficiently low that the recognition of it is not appropriate.

**Corporate and Democratic Core** - This is the cost of managing core functions of the Council and includes corporate policy making, activities that relate to the corporate management of the Council and all other member-based activities.

**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 Liabilities** - 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.

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

**Deferred Income - Receipt in Advance** - This represents a cash receipt received in advance of the period of time it relates to. For example a cash receipt may be received as part of entering into a building lease, with the credit then 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 may relate to Private Finance Initiative (PFI) schemes.

**Defined Benefit Scheme** - A pension scheme which pays out pensions or benefits based on final salary or other contractual terms irrespective of the contributions paid. Benefits are not directly related to the investments of the Pension Fund.





**Depreciated Replacement Cost (DRC)** – a valuation method that is based on the cost of recreating the asset in its current condition and use. This can be the cost of creating a modern equivalent asset where appropriate.

**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**– The use of revenue monies to pay for capital expenditure. Also referred to as Revenue Contributions to Capital Outlay.

**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.

**External Audit** – An independent examination by an appointed Auditor (currently Deloitte LLP) of the Council's activities and accounts to ensure that legal requirements have been met, proper practices followed and appropriate arrangements made to secure value for money.

**Fair Value** - It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**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 (FIAA)** - 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.

**Group Accounts** – Where a Council has a material interest in a separate entity, it may be required to combine the entities financial statements with its own to show the consolidated results of the Council and entity as a group.

**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 when purchased 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 the amounts 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 in more than one year.

**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 Strategy (MTFS)** – 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.

**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)** – Local Businesses contribute to Council expenditure based on a rate in the pound decided by Central Government, this is applied to the rateable value of their premises.

**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.

**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.

**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** - 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.

**Section 151 Officer** - The Responsible Finance Officer for the Council as required by Section 151 of the Local Government Act 1972.

**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)
- AVC** – Additional Voluntary Contribution
- BCF** – Better Care Fund
- BRS** – Business Rates Supplement
- BSF** - Building Schools for the Future
- BVIB** – Best Value Improvement Board
- CBS** – Community Benefit Society
- CCG** - Clinical Commissioning Group
- CFR** - Capital Financing Requirement
- CIES** - Comprehensive Income and Expenditure Statement
- CIL** - Community Infrastructure Levy
- CIPFA** - Chartered Institute of Public Finance and Accountancy
- CLG** – Company Limited by Guarantee
- CPB** – Corporate Parenting Board
- CPI** - Consumer Price Index
- DfE** - Department for Education
- DRC** – Depreciated Replacement Cost
- DSG** - Dedicated Schools Grant
- EIR** - Effective Interest Rate
- EUV** – Existing Use Value
- EUV-SH** – Existing Use Value-Social Housing
- FIAA** – Financial Instruments Adjustment Account
- GF** - General Fund
- GLA** - Greater London Authority
- HMT** – HM Treasury
- HRA** - Housing Revenue Account
- IAS** - International Accounting Standard
- IFRS** - International Financial Reporting Standards
- LASAAC** - Local Authority (Scotland) Accounts Advisory Committee
- LBTH** - London Borough of Tower Hamlets
- LGA** – Local Government Association





**LGPS** - Local Government Pension Scheme  
**LOBO** - Lender's Option – Borrower's option  
**LPFA** - London Pensions Fund Authority  
**MHCLG** – Ministry of Housing, Communities & Local Government  
**MRP** - Minimum Revenue Provision  
**MTFS** - Medium Term Financial Strategy  
**NDC** - New Deal for the Community  
**(N)NDR** - (National) Non-Domestic Rates  
**NPV** - Net Present Value  
**PFI** - Private Finance Initiative  
**PMAF** – Performance Management and Accountability Framework  
**PMO** – Project Management Office  
**PPE** - Property, Plant and Equipment  
**PSIAS** – Public Sector Internal Audit Standards  
**PWLB** - Public Works Loans Board  
**REFCUS** - Revenue Expenditure Funded by Capital Under Statute  
**RPI** - Retail Price Index  
**RSG** - Revenue Support Grant  
**SDPS** - Surplus or Deficit on the Provision of Services  
**SEN** – Special Educational Needs  
**SOLACE** – Society of Local Authority Chief Executives  
**TA** – Temporary Accommodation  
**TH** - Tower Hamlets  
**THH** - Tower Hamlets Homes  
**TIB** - Transformation & Improvement Board  
**VFM** - Value For Money



# Annual Governance Statement

**2020/2021**

## Our Annual Governance Statement

Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and responsible manner.

The Council has adopted a Code of Corporate Governance that is based on the recommended guidance: *Delivering Good Governance in Local Government*. In adopting this Code, we recognise the importance of having good governance, which includes effective leadership and management, policies and procedures, to ensure we have a well-run Council that delivers high quality, value for money services to the local community. We also acknowledge our responsibility for ensuring that the Council conducts its business in accordance with the law and proper standards and that public money is safeguarded.

The Council is committed to being efficient and effective in delivering improved outcomes for residents of Tower Hamlets. We are open and transparent about our continuous improvement journey and have been recognised for achievements so far. For example, Ofsted rated our Children's Services as 'Good' in 2019, just two years after it was given an 'Inadequate' rating. Inspectors said the achievement represented 'Remarkable progress'. In 2020 Investors in People (IiP) acknowledged almost a third of the indicators are at the higher-level gold standard, a solid foundation to be built on even further in the coming year. Alongside this we have won a number of national awards demonstrating our excellent services, but we are not complacent and recognise the need to have a continued focus on improvement.

We are required to report publicly about how the Council has complied with the governance arrangements. We have reviewed our governance processes and how they have operated over the course of the last year. This Annual Governance Statement reports the outcome of our assessment.

In conclusion, 2020-2021 has been a challenging year, the COVID-19 pandemic has had a profound impact on everyone. The pandemic has required us to govern differently to adapt and meet the needs of our community. Our governance arrangements during the pandemic have included instigating our borough emergency plans, preparing and delivering a local outbreak plan, operating clear and robust governance made up of Gold, Silver and Bronze commands, a Partnership Health Protection Board and Local Engagement Board, we have also ensured visible professional and political leadership and collaborated extensively with the London Coronavirus Response Cell and North East London Incident Management Team. Our work with partners focused on

mobilising and encouraging partners towards a place-based response. It also involved lobbying government on a range of policy areas, to 'on-the-ground' visits and assisting at food distribution hubs and PPE distribution, to targeted messaging to get pandemic-related information and guidance out to residents and many more activities. We have led in the work to understand the impact of the COVID-19 pandemic in Tower Hamlets and attempted to predict the impact going forward. The first impact assessment was carried out in summer 2020 analysing the initial impacts of the pandemic in the first few months and focused on 13 core topics. This has supported our recovery plans and ensure our collective partnership focus on the areas we need to support our residents with.

During this difficult time there have been governance and leadership opportunities which we are keen to hold onto, and we are committed to delivering better outcomes for residents by using the opportunities from new ways of working and the efficiency and effectiveness learnt through our emergency response. The pandemic has compounded our financial challenges. The economic impact has reduced the amount of income that the council receives from business rates and council tax in 2020-21 and the forecast income for following years. The council has also incurred significant costs for the pandemic response, a decrease in income from fees and charges and slippage in previously planned savings. In response, we have updated both our Strategic Plan and the Medium-Term Financial Strategy to ensure our budget can support delivery of our priorities and address the significant financial challenges facing the council.

Whilst we have been able to quickly adapt our governance arrangements, there remains significant challenges, in addition to the long-term impact of the pandemic, which has included closing our financial accounts, budget management and SEND performance. We recognise that good governance requires a culture of continuous improvement and challenge, we will continue to seek improvement and will be self-critical in doing so to ensure we uphold the highest possible standards of good governance. We have put action plans in place to address any issues and regularly report progress via the Corporate Leadership Team and relevant Committees.

Signed on behalf of the London Borough of Tower Hamlets

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Steve Halsey, Chief Executive

Date:

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I was elected the Mayor of Tower Hamlets in May 2022, and previous years' financial statements were prepared under the previous Administration. I am aware of the progress made by the Council's finance department and am content that it will continue in a positive manner in future years, with the controls that have now been put in place.

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Lutfur Rahman, Executive Mayor

Date:



## Introduction

All local authorities are required to report publicly about how they have complied with their governance arrangements and do so through an Annual Governance Statement (AGS). Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and responsible manner.

The Council has adopted a Code of Corporate Governance. The Code is based on the principles of good governance recommended by Chartered Institute of Public Finance and Accountancy (CIPFA) and SOLACE in a joint document entitled 'Delivering Good Governance in Local Government'.

The Code of Corporate Governance sets out the commitment of the London Borough of Tower Hamlets to work to uphold the highest possible standards of good governance. This is essential for ensuring we conduct our business in accordance with the law and proper standards and that public money is properly accounted for.

To assess the effectiveness of key elements of the governance framework, including partnership arrangements and alternative delivery models, we have reviewed our performance against each of the seven principles of good governance:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimize the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

When evaluating our performance, we have taken into consideration reviews and inspections of the Council by others, such as CIPFA, as well as the work of internal and external audit. We have also reviewed our progress against improvement actions that were identified as part of the 2019/20 Annual Governance Statement.

In addition, each Corporate Director is required to confirm that their directorates are run efficiently, effectively, and with proper risk management and governance arrangements, including a sound system of internal control. They are required to review internal controls to ensure they are adequate and effective, whilst considering the following:

- Outcomes from risk assessments and evaluations
- Self-assessment of key service areas within the directorate
- Internal audit reports and results of follow ups regarding implementation of recommendations
- Outcomes from reviews of services by other bodies, including inspectorates, external auditors, etc.
- Linkage between business planning and the management of risk

Where areas for improvement are required an action plan must be developed. We have used these returns to further enhance our review of the Council's governance framework.

To conclude the assessment, we have provided an overall view on our governance arrangements and included an action plan to record how we will address any areas requiring improvement.

## Our Assessment

To assess the effectiveness of key elements of the governance framework, including partnership arrangements and Council owned companies, we have reviewed our performance against each of the seven principles of good governance. When evaluating our performance, we have taken into consideration reviews and inspections of the Council by others such as CIPFA, as well as the work of internal and external audit.

Principal	Review of Governance Arrangements
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.</p>	<p>The Council's constitution records the rules and laws under which the Council operates, including the Financial Regulations. The constitution is published on the Council's website. The constitution was last updated and agreed at full Council in 2021. In addition, there are a range of policies and procedures to direct and guide Members and staff, as well as codes of conduct that set out standards of behaviour expected from Members and staff. We have noted that some of the Council's policies and procedures are overdue for a review. Given the global pandemic, all overdue policies and procedures will be reviewed as soon as practicable.</p> <p>The Council has appointed the required statutory officers which includes the Head of Paid Service (Chief Executive), the Monitoring Officer (Director of Legal Services) and the Chief Finance Officer, also referred to as the Section 151 Officer (Corporate Director, Resources). These three officers meet regularly to discuss governance issues.</p> <p>The Council operates a Standards Advisory Committee to oversee and promote high standards of conduct by the Mayor, Councillors and Co-opted Members of the Council, including in relation to the Code of Conduct and the Register of Interests. Half the Committee membership allocation is for independent Co-opted Members and there are also two separately appointed statutory Independent Persons who advise in relation to alleged breaches of the Code of Conduct. The Committee takes an active role in this work receiving regular reports, monitoring complaints against Members, the Register of Interest/Gifts and Hospitality, Member Development and reports from the work of the Committee on Standards in Public Life amongst other matters. The</p>

	<p>Committee provides full Council with an annual report on its activities which highlights areas of strength and concern; a report was last taken to full Council in July 2021. All members positively acknowledge the Code when they join the Council. A consultation was launched in June 2020 to review the model code of conduct for Members and the code was last published as part of the constitution in June 2021. Work has begun to produce a new Code and it is anticipated the new Code will be adopted in 2021-2022.</p> <p>The Council has adopted a whistleblowing policy to guide and support staff about how to raise any concerns. It is readily available on the Intranet. The Monitoring Officer maintains a central record of all whistleblowing concerns and how they have been resolved. In April 2021 the Monitoring Officer reported a summary of concerns raised and their outcomes to the Audit Committee.</p> <p>Committee reports and key decisions have been published online to ensure transparency and Executive decisions made by the Mayor and Cabinet are subject to the 'Call-In' process by backbench Councillors who can raise any concerns they may have.</p> <p>The Council maintains a Register of Interests (for officers and Members) which includes a requirement to declare interests at meetings ensuring that potential issues are recorded and Members do not take part in meetings in an inappropriate way. This includes the need to leave the room when any items for which they have a Pecuniary Interest are discussed. We recognise that the number of officers declaring interests via self-service has declined. We will be requiring officers to update their declarations. A revised guide to declaring interests at meetings has been attached to all meeting agendas since May 2020. Now that the Council is operating on-line meetings (via Teams) attendants of the meeting that declare an interest are required to leave the virtual meeting room.</p> <p>The Council has also maintained a Gifts and Hospitalities register to ensure that Members and officers declare any gifts and hospitality in an open and transparent manner. The Gifts and hospitality policy needs to be reviewed. We also recognise there has been a reduction in gifts and</p>
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	<p>hospitality being declared by officers, whilst this is likely to be related to the pandemic (less gifts and hospitality have been offered) to ensure all gifts and hospitality are recorded we will be promoting the requirements for officers throughout 2021/22.</p> <p>The Council has sought feedback from the public through its complaints and comments procedures and has responded to the outcomes as appropriate.</p> <p>The Council's Audit Committee has met throughout the year and has considered reports from internal and external audit as well as other updates, reports, and advice from the Chief Financial Officer and the Monitoring Officer.</p> <p>The Council routinely provides training for its Member on ethics during their induction. Further member training on ethics and probity was provided during 2020/21.</p>
<p>B. Ensuring openness and comprehensive stakeholder engagement.</p>	<p>Council meetings and Committees are routinely held in public unless there are good reasons for not doing so on the grounds of confidentiality/disclosure of exempt information which are provided for in statutory provisions.</p> <p>The Council has invested in the technology to facilitate the webcasting of meetings meaning that stakeholders and residents can attend meetings if they wish to or watch them online. This technology has proven particularly effective during the Covid-19 pandemic and enabled critical Committees to continue and be available to the public.</p> <p>An online library of meeting agendas, attendance, supporting papers, decisions and minutes is maintained on the Council's website. As a result, the decision-making process can be considered and reviewed by stakeholders and the public from inception through to final decision and any ultimate scrutiny.</p> <p>The Council has sought community views on a wide range of issues and has undertaken regular</p>

	<p>consultation and engagement with citizens and service users. During 2019/20 the Council launched a Consultations Hub to better facilitate consultations. Details of current, planned, and past consultations have been made available on the Council’s website along with information on how the public/stakeholders can put forward their views. The Hub has had a positive impact on consultation resulting in increased transparency and accessibility providing the Council with a more balanced view of public opinion.</p> <p>The Council’s Overview and Scrutiny Committee has engaged with stakeholders, residents and community groups to review services and drive improvement in service delivery. The Overview and Scrutiny Committee includes co-opted residents with relevant knowledge and has encouraged residents to attend its meetings, which are open to the public and webcast. Further, residents, community groups and expert witnesses have been invited to participate in Scrutiny review and challenge sessions so the Committee can hear directly from those whose interests are represented. During 2020/21 Internal Audit reviewed the arrangements for scrutiny and provided reasonable assurance. Areas that did require improvement were agreed with management and an action plan developed.</p> <p>Social media channels have been used extensively to support the Council’s engagement with stakeholders. The Council has adopted a Social Media Policy to provide advice and guidance on the use of social media.</p>
<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	<p>The Strategic Plan is the main business planning document of the Council. It sets out the corporate priorities and outcomes, the high-level activities that will be undertaken to deliver the outcomes, as well as the measures that will help determine whether the Council is achieving the outcomes. The Council has a structured set of plans which turn the vision into actions, through directorate, key council strategies and service plans. The plan is refreshed annually. The latest version has been published on the Council’s website which has been updated to reflect the impact of the pandemic.</p>

	<p>The performance of the Council against measurable outcome-led targets has been assessed through performance monitoring reports that have been considered within directorates, by the Corporate Leadership Team, Overview and Scrutiny Committee, Cabinet and subsequently at other meetings of relevance. Any such reports can also be called in for scrutiny and reviewed by the Audit Committee.</p>
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes.</p>	<p>The Council, Cabinet and Committees have received regular reports on performance monitoring, the strategic plan and other policies and procedures which demonstrate the level to which intended outcomes are being achieved and any interventions planned to address issues.</p> <p>All decisions being considered have been objectively and rigorously analysed by the Monitoring Officer and the Chief Financial Officer and all reports have set sections for legal and finance comments to be recorded. Reports have been cleared by finance and legal officers before publication, although on some occasions finance and/or legal are given very little time to review and comment and we will seek to improve lead times.</p> <p>The Council's Performance Management and Accountability Framework (PMAF) sets out how we establish whether performance improvement is necessary. The Performance Improvement Board is the main board responsible for identifying and determining interventions to bring about improvements and this board has met regularly.</p> <p>The Council's Performance Improvement Board challenges services where there are identified concerns, takes a trouble-shooting approach, acts as a "critical friend" to drive improvement in performance, and makes recommendations about where to focus resources to drive improvement.</p>
<p>E. Developing the entity's capacity, including the capability of its leadership and the individuals within</p>	<p>The roles of all officers (including statutory roles) have been defined in agreed job descriptions and person specifications. Staff performance is reviewed twice during the year Start 1 April- 31 May and then Mid-Year 1 October to November. A new approach called 'My Annual Review (MAR)' has been introduced to improve the process and make it simpler facilitating a two way</p>

<p>it.</p>	<p>conversation. Currently, metrics suggest that completion of the MAR is low across the Council, although conversely the recent staff survey reflects a higher percentage of staff saying they have objectives set with their manager. Management will continue to monitor compliance with the process and address areas of weakness.</p> <p>The Council has articulated its values and behaviours in ‘TOWER values’ which includes a behaviours framework to support officers in the MAR process and when recruiting staff.</p> <p>The Council’s transformation programme called SMARTER TOGETHER, which is led by CLT, is focused on ensuring the Council is more agile, leaner, and strategic to achieve the best outcomes with limited resources.</p> <p>All members have been provided with a Member Induction Programme and wider Member Development Programme. Members also have an online portal (members hub) to give them access to many useful documents and materials and a weekly Member Bulletin email to keep them updated with the work of the Council.</p> <p>Cabinet Members and the Mayor are held to account through regular attendance at Overview and Scrutiny Committee and Sub-Committee meetings as well as through monthly Portfolio meetings with the Mayor and quarterly performance and budget monitoring meetings.</p> <p>Staff new to the council are provided with a corporate Induction and provided with additional documents and policies to support their induction, this includes mandatory training in areas such as data protection, anti-fraud and whistleblowing. Completion of the mandatory training programme is low, although it has been improving over the last 12 months. Management will continue to monitor compliance with the process and address areas of non-compliance.</p> <p>Staff are provided with a wide range of development opportunities through the Learning Hub. The Council has adopted a range of supporting plans and strategies including the People and</p>
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	Wellbeing Plan, and the Workforce Development Strategies.
<p>F. Managing risks and performance through robust internal control and strong public financial management.</p>	<p>The Council has adopted a risk management strategy and approach with the main priorities of providing robust systems of identification, evaluation, and control of risks which threaten the Council’s ability to meet its objectives to deliver services to the community. The five-year Risk Management Strategy was reviewed and agreed by CLT at the end of 2019/20 and the Audit Committee in July 2020.</p> <p>Risk management is part of the Council’s day-to-day activities and decision-making and regular reports have been provided at corporate and directorate level. The Corporate Risk Register is independently reviewed by the Audit Committee. During the Covid-19 pandemic a bespoke risk register was created and closely monitored by the Gold and Silver groups to ensure that significant risks were acknowledged and mitigated. Engagement with risk management was much improved at all level of the business throughout the pandemic and this has continued in 2020/21.</p> <p>In July 2021 the Audit Committee received the annual report for risk management for the 2020/21 period. The report concluded that “Risk management remain an important feature of good governance and the Council’s approach to risk management has matured during 2020/21 which has been demonstrated through the proactive risk management during the response to Covid-19 pandemic. The current risk management arrangements are reasonable, but there is some room for improvement to better integrate risk management into the day-to-day operations and culture of the Council and this will be a key focus of work during 2021- 2022.” An improvement action plan for 2021/22 was agreed by the same Audit Committee.</p> <p>The Corporate Director, Resources is responsible for the proper administration of all aspects of the Council’s financial affairs including ensuring appropriate advice is given to the Council on all financial matters. The Council’s system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability.</p>

	<p>A Medium-Term Financial Strategy is in place and is refreshed annually. Revenue and capital budget planning based on corporate priorities are led by the Corporate Leadership Team and are presented for approval by the Council. Revenue and Capital Budget Monitoring reports have been presented to the Cabinet on a regular basis, this includes the annual outturn. Members have been able to scrutinise budget monitoring through the relevant Committee to ensure performance and risks are managed.</p> <p>The Council has faced significant financial challenges (increased costs, significantly reduced income and undeliverable savings) throughout 2020/2021 and was forecasting an overspend, however the Council was able to recover and the outturn position for 2020/21 was an underspend resulting a lower than anticipated pressure on reserves. Covid-19 will continue to have an impact on the Council’s finances over the next three years and will be critical to the medium-term financial planning</p> <p>Since 2019/20 Finance has been focused on rectifying significant issues with the 2018/19 and 2019/20 statement of accounts. The Mayor, Cabinet Members, CLT and the Audit Committee have been provided with regular updates on progress to finalise the accounts. The accounts continue to be subject to external audit review (by Deloitte). Further adjustments may be required through the audit process but these in themselves are unlikely to be sufficient to achieve an unqualified audit opinion.</p> <p>Production and publication of the 2020/21 statement of accounts have also been delayed and the statutory deadline to publish an audited set of accounts will not be met.</p> <p>The Council has established a detailed and far-reaching Finance Improvement Plan designed to address the significant issues that have been identified from the Independent Review commissioned following the initial production of the 2018-19 Statement of Accounts; the initial external audit feedback from Deloitte’s on both outstanding Statement of Accounts; the CIPFA</p>
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	<p>review of Financial Management reported in 2017 and a range of matters identified by officers of the Council that require rectification.</p> <p>The Council has a proactive, holistic approach to tackling fraud, theft, corruption, and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably. The outcomes of anti-fraud work have been reported to, and reviewed by, the Audit Committee.</p> <p>The Covid-19 pandemic significantly impacted on the anti-fraud team's ability to progress investigations. In line with the Council's strategy during the pandemic, only essential services were in operation. To minimise the risk to the investigators and the public, interviews, foot patrols and visiting were stopped, although desktop investigations have continued throughout. As a result, outcomes in comparison to previous years are reduced. As restrictions ease during 2021/22, the backlog of investigation and Court work will be cleared. Most Court cases are being relisted for hearings in late 2021 and 2022.</p> <p>The positive outcomes achieved following the investigation of the above matters includes 22 social housing properties being recovered and £17,000 was awarded to the Council in costs and compensation</p> <p>All reports to Council, Cabinet and Committees are required to set out key implications and information in areas such as risk, equalities, safeguarding and environmental impact.</p> <p>The Audit Committee is responsible for considering the Council's arrangements for internal governance and financial management and to recommend any actions accordingly. It has received a number of relevant reports such as annual internal audit plans, reports from external audit, anti-fraud and corruption initiatives and risk management.</p> <p>The Council's Internal Audit service undertakes an annual programme of audits which includes</p>
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	<p>providing assurance over the council's risk management processes. If any areas for improvement are identified Internal Audit makes recommendations for management to consider and implement. Progress against the plan and the outcomes of audits are reported to the Audit Committee.</p>
<p>G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.</p>	<p>The Council has a published constitution setting out how decisions are taken and how the public can get involved in decision making, including access to information, petitions and ways of getting involved in decision making. The constitution was last agreed by Council and published in May 2021.</p> <p>The Council seeks to write and communicate reports and other information for the public and other stakeholders in a fair, balanced, and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.</p> <p>The Council webcasts it's Council, Cabinet, Strategic Development Committee, Development Committee and Overview and Scrutiny Committee meetings to ensure maximum transparency. As a result of the Covid-19 pandemic the Council introduced virtual meetings and has also webcast all committee meetings including the Licensing Sub Committee and the Audit Committee.</p> <p>The Council maintains an up-to-date website which provides a mechanism for the Council to publish information important in ensuring transparency of its actions.</p> <p>The Council's constitution sets out the terms of reference of all Committees to ensure information is presented to the appropriate Committees. Access to Information rules set out how the Council maintains good public access to information and reports.</p> <p>The Council updated its Code of Corporate Governance and it was presented to the Corporate Leadership Team and the Audit Committee for approval in July 2021.</p> <p>There are governance arrangements for the partnership structure. The Tower Hamlets Plan</p>

	<p>identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities.</p> <p>The Head of Internal Audit provides an independent and objective annual opinion on the effectiveness of internal control, risk management, and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The Head of Internal Audit delivers a quarterly progress report to the Audit Committee setting out the outcome of Internal Audit and Counter Fraud activity.</p> <p>The Council responds to the findings and recommendations of External Audit, Scrutiny, and Inspection bodies. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control, risk management and governance. However, management's responsiveness to internal audit is inadequate for some audits with the implementation of agreed recommendations taking many months. The Head of Internal Audit has raised these concerns with the senior officers and the Audit Committee and has introduced new procedures to improve engagement with management.</p> <p>As senior Council decision making bodies, the Audit Committee, and any other relevant Non-Executive Committee including Scrutiny, can report any concerns they have regarding actions that have not been undertaken.</p>
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### Internal Audit

The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole of the Council's activities. It is a requirement for the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of governance, risk management and internal controls within the Council. The Head of Internal Audit reported the 2020/21 annual opinion to the Audit Committee in July 2021. The opinion for 2021/22 will be provided in July 2022. The full report from July 2021 is available on the Council's website.

## 2020/21 Head of Internal Audit Annual Opinion Issued in July 2021

*In reaching my opinion this year I have taken the following into consideration:*

- *Outcomes of the internal audit and anti-fraud activity undertaken during the year, which forms the primary basis for the opinion.*
- *The significant issues with the Council's Statement of Accounts.*
- *Assurance from third parties such as the Council's external auditors, Investors in People, the Social Care Institute for Excellence (SCIE) and the Chartered Institute of Public Finance & Accountancy (CIPFA).*
- *The significant improvement in the implementation of management actions that were agreed during the course internal audit activity.*
- *The Council's risk awareness and risk culture which has matured further in 2020-21.*
- *The fact that none of the internal audit assignments were rated as 'No assurance' for the third consecutive year and one audit received 'Substantial Assurance'.*
- *The impact on the authority from the outbreak of Covid-19 which has affected many aspects of service provision, governance, risk management, internal control, financial resilience, and ways of working.*

*Primarily on the basis of the audit and anti-fraud activity undertaken during the year, but also taking into account external assurances and other relevant matters above including the significant issues with the closure of the Council's accounts, it is my opinion that I can provide Limited<sup>1</sup> assurance that the Council has adequate systems of governance, risk management and internal control.*

Head of Internal Audit, Anti-Fraud and Risk.

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<sup>1</sup> A limited assurance opinion means that significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives.

## External Audit & Inspections

### External Audit

From 1 September 2018 Deloitte LLP was appointed as the Council's external auditor, this was following the decision of the Council to opt into the Public Sector Audit Appointments Limited (PSAA) arrangement. The PSAA Board appointed Deloitte to audit the accounts of the Council for a period of five years (2018/19 to 2022/23).

At the time of drafting this statement, Deloitte has been unable to complete its audit of the 2018/19 or 2019/20 financial statements. There have been significant issues with the Council's 2018/19 and 2019/20 statement of accounts, and it has taken many months for these issues to be investigated and resolved with some significant issues still outstanding.

The Council has developed an action plan, additional resources have been sourced to complete the plan and produce a revised set of accounts, and a dedicated finance improvement team has been created for additional support. Progress has been regularly reported to the Council's Statutory Officers, the Mayor, Cabinet Members and the Audit Committee. It is anticipated the audits for the 2018/19 and 2019/20 accounts will be completed during 2023. To support improvement moving forward a Finance Improvement Board has been created and is chaired by the Interim Corporate Director of Resources (s151 Officer). The Board will monitor, challenge, and support the delivery of the Finance Improvement Plan.

The Council is in the progress of producing a draft set of accounts for 2020/21. Due to amended regulations, laid by the Secretary of State for Housing, Communities and Local Government, the publication date for the accounts has been moved from 31 July to no later than 30 September 2021.

### Other Inspections and Review

#### Investors in People

In December 2020 the external assessor from Investors in People completed an assessment and, the Council was accredited with the Investors in People Silver Award. The assessor commented in his reports that almost a third of the elements were met at the Gold level and the organisational plans, if implemented as intended, would enable the Council to achieve Gold in the future. The key strengths recognised included a good momentum on the people agenda despite the Covid-19 pandemic; the new appraisal process "My Annual Review was successfully launched; a revised and updated organisational change policy and toolkit was put in

place; survey results revealed a friendlier culture; improvement in supporting wellbeing and inclusion were recognised; there were improved internal communications; there was also clear improvements in learning and development and more positive relationships between line management and their staff. The next assessment is due in May 2023.

#### Social Care Institute for Excellence (SCIE) and the Chartered Institute of Public Finance & Accountancy (CIPFA)

Towards the end of 2020, SCIE and CIPFA were commissioned to undertake a finance and practice review of the London Borough of Tower Hamlets Adult Social Care Service with a view to exploring the drivers for behind its high net expenditure and to propose recommendations to bring these costs into line with the budgets required for a sustainable medium term financial strategy. The subsequent report identified numerous challenges faced by the service including the comparatively late introduction of charging and financial assessment for social care services; an unusually complex caseload; high community expectations and dependency on the Council's services; high attrition rates in senior Service management posts and amongst senior posts in the Council's finance department, and the disruption caused by the Covid-19 pandemic. The authors commented:

*Despite these challenges the Council is starting to make progress and has implemented a range of new initiatives to embed a strength-based philosophy and manage practice decisions. The Service has also developed a number of initiatives to control costs and has embarked on programmes to deliver significant costs savings. All of these initiatives have started to yield benefits but have not had the fully desired impact.*

The report authors identified 10 key areas for improvement which included the need for a clearer strategic vision and strategy; action to address the weaknesses in core data held on Mosaic; the need to align change and improvement initiatives; the need to develop grounded plans to deliver savings; embedding strength-based practice; a programme to educate and raise awareness of the benefits and objectives of strength-based thinking and to strike a "new deal" with the community; sourcing project and change management support; embedding stronger business discipline; improving the reporting and monitoring of budgets and ensuring that changes to working practices are seen through and sustained. The authors made a series of recommendations that need to be developed into a clear project plan with timelines and responsibilities. The recommendations have been reported to CLT accepted by the Corporate Director and an action plan developed, although its delivery is reliant on additional resources being made available.



## Companies, Arms-Length Management Organisations and Charitable Community Benefit Societies

The Council is involved in a number of companies as well as an Arms-Length Management Organisations and Charities, the significant ones of which are detailed below.

### Tower Hamlets Homes

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

The Council's Internal Audit team provides internal audit services to THH. In keeping with the Public Sector Internal Audit Standards, the Head of Internal Audit issued an annual opinion for 2020/21 about the governance, risk management and internal control arrangements. The opinion was as follows:

*Internal Audit provides assurance over the organisation's systems of governance, internal control and risk management. On the basis of the audit work undertaken during the 2020/21 financial year, my overall opinion on the organisation's systems of governance and internal control is that **Reasonable** assurance can be provided. This is based on four of the seven core audits receiving Reasonable assurance, two receiving Substantial assurance and one receiving Limited assurance. However, in view of the Limited assurance on the organisation's Risk Management systems, I can only provide **Limited** assurance on the risk management arrangements.*

Head of Internal Audit, Anti-Fraud and Risk.

### King George's Field Trust

The Council serves as sole trustee of the King George's Field, Mile End charity. The charity is governed by a Trust Deed, and is unincorporated, being established by a Scheme of the Charity Commission dated 28th February 2000. The Charity's objectives are set out in Trust Deeds, which are as follows "To preserve in perpetuity the covenanted land and to apply the land to such charitable purposes as are set out in the Recreational Charities Act 1958, including the construction of indoor recreational facilities, subject to the approval of the National Playing Fields Association and the Charity Commission in respect of any additional purposes".

The Trust has no employees of its own and is dependent on staff of the Council for its operations; its standing orders with respect to controls for procurement, expenditure and income are aligned to those of the Council.

### **Significant Governance Issues**

Corporate Directors are required to consider whether there have been any significant governance issues. For the purposes of this review, we have defined a significant governance issue as something that:

- Seriously prejudiced or prevented achievement of one or more principal objectives.
- Resulted in the need to seek additional funding to resolve the issue.
- Required a significant diversion of resources.
- Had a material impact on the accounts.
- Resulted in significant public interest or has seriously damaged the reputation of the Council.
- Resulted in formal actions by the Section 151 (Corporate Director, Resources) or Monitoring Officer (Corporate Director, Governance).
- Received significant adverse commentary in an external inspection report and was not or cannot be addressed in a timely manner.

Progress against Significant Governance Issues Identified in 2019/20

The 2019/20 the AGS included 13 significant governance issues which needed to be addressed. A summary of progress/outcomes against these actions follows:

No.	Issue	Action	Progress / Outcome
1	<p>The Government imposed lockdown of the Country in response to the COVID-19 pandemic is anticipated to have a material impact on the Council's income sources and expenditure requirements.</p> <p>The pandemic impacts in a number of ways including the achievement of corporate objectives, the need for additional extraordinary government funding and has necessitated the diversion of resources into critical services.</p> <p>There is no guarantee that all additional costs will be reimbursed and indeed the government has raised the prospect of Council reserves being used to support some of the activity.</p>	<p>Modelling of impacts particularly in relation to the Council's tax bases for business rates and Council tax has been undertaken and MTFS modelling updated</p> <p>Review of Strategic Plan objectives and establishment and operation of GOLD and Silver management structures</p> <p>Production of returns to MHCLG setting out additional costs and utilisation of additional monies provided.</p>	<p>The outturn position for 2020-2021 was an underspend. The MTFS has been updated to reflect ongoing challenges resulting from the financial impact of COVID-19.</p>
2	<p>The issues identified with the 2018/19 Statement of Accounts (SoA) and reflected in the 2018/19 AGS have been worked on during the year. A revised SoA was presented to the Audit Committee in May 2020 and are now subject to external audit</p>	<p>A commitment was made to the Audit Committee for an independent review to be undertaken to understand and ensure that the lessons to be learnt from these issues have been fully identified and steps taken to address them.</p>	<p>The Council has established a detailed and far-reaching Finance Improvement Plan designed to address the significant issues that have been identified from the Independent Review commissioned following the initial production of the 2018-</p>

No.	Issue	Action	Progress / Outcome
	review (by Deloitte). Further adjustments will be required through the audit process.	The review was completed and presented to the Audit Committee in November 2020. An action plan is being prepared to address the issues.	19 SoA; the initial external audit feedback from Deloitte's on both outstanding SoA's; the CIPFA review of Financial Management reported in 2017 and a range of matters identified by officers of the Council that require rectification.
3	Budget Management remains a concern with overspending remaining a significant risk. Agreed action to mitigate budget pressures and savings slippage, such as the Agency Review Panel, the non-essential expenditure embargo and the production of Recovery Plans, have been largely unsuccessful.	<p>An additional set of budget challenge sessions base on an assessment of financial risk were held with budget managers and relevant Corporate Directors.</p> <p>Immediate measures were introduced to reduce future spending including a freeze on recruitment, a freeze on agency contracts, a review of staffing levels and a review of posts funded from reserves.</p> <p>In addition, the senior leadership team have prepared saving proposals to ensure a balanced budget.</p>	The outturn position for 2020-2021 was an underspend. The MTFS has been updated to reflect ongoing challenges resulting from the financial impact of COVID-19.
4	The reduction in General Reserves arising from the overspend has required a review of earmarked reserves in order to maintain an appropriate level of General Fund balances. This has impacted on delivery of other priorities and has led to a further reduction in the overall level of the	The level of usable reserves needs to be kept under review during the year and is clearly linked to the maintenance of robust budget management processes set out above.	The outturn position for 2020-2021 was an underspend which result in a lower draw on reserves than anticipated. The MTFS has been updated to reflect ongoing challenges resulting from the financial impact of COVID-19.

No.	Issue	Action	Progress / Outcome
	Council's usable reserves.		
5	<p>The COVID-19 pandemic has resulted in the potential failure of the Council's Leisure Services provider; with a request for financial support being made to avoid service failure once lockdown is ended.</p> <p>The refinancing of the Poplar Baths project has also been impacted by the pausing of the proposed project finance in the light of CV-19. This brings additional risk to the council from project failure in addition to provider failure on the leisure contract.</p>	<p>Detailed financial analysis of the position that the provider finds themselves in was undertaken on an open book basis to inform a decision about options for support and/ or provision of services in the future.</p> <p>Continued engagement with the project company and respective legal and financing specialists to minimize risk to the Council through the refinancing process.</p>	<p>Detailed financial analysis of the Council's Leisure Services provider's position has taken place on an ongoing basis and the issue of risk of failure has been largely mitigated through the following Cabinet decisions and funding secured:</p> <p>29 Jul 2020 - <b>Cabinet Report: The Safe &amp; Viable Reopening of Leisure Centre –</b></p> <ol style="list-style-type: none"> <li>1. Authorised the Corporate Director Resources to negotiate and agree a management fee sum of up to £181k for Poplar Baths.</li> <li>2. Authorised the Corporate Director Resources to negotiate and agree the removal of the Leisure Management service element from the main Poplar Baths PPP agreement, to bring it in line with the main leisure management contract or as a continuation of the current arrangements between LBTH and Folera.</li> <li>3. Approved a contract variation to the main leisure management contract to provide a management fee of up to £593k to GLL, pending further negotiation of the repayment schedule and share of surplus and following further</li> </ol>

No.	Issue	Action	Progress / Outcome
			<p>consultation with the Mayor and Lead Member.</p> <p>4. Approved increased pricing schedule</p> <p>5. Approved the phased restoration of safe and viable leisure centre activities in three phases with decisions upon implementation of each phase to be determined following a review of guidance, implementation, demand and lessons learned and following consultation with the Mayor and Lead Member in advance of each phase of restoration.</p> <p>January 2021 - <b>Cabinet Report: Procurement of the Leisure Management Contract</b> – Authorised the extension of the leisure management contract and Poplar Baths contracts to 2024</p> <p>March 2021 – <b>National Leisure Relief Fund (NLRF) funding £803k secured</b></p>

No.	Issue	Action	Progress / Outcome
6	<p>The COVID-19 pandemic has resulted in requests from Social Care providers for additional payments and for payments in advance of service delivery. This must also be seen in the context of the discontinued use of the electronic home care monitoring system in Adults Services and reversion to a manual system.</p>	<p>Alternative block payment arrangements have been put in place as a response to the pandemic. This was to ensure continuity of supply. These continue to be in place and are reviewed and adjusted accordingly on a regular basis.</p> <p>Longer term arrangements are also being explored as part of plans for homecare re-procurement which will begin in 2022.</p>	<p>Additional financial support measures were put in place to assist Social Care Providers by the use of the Government specific Covid-19 Grant funding, Adult Social Care Infection Control Fund, Adult Social Care Rapid Testing Fund and the Adult Social Care Workforce Capacity Fund. Adult Social Care Providers were allocated funding, within the grant conditions of these funding regimes, for specific items of expenditure they were incurring. This included providers with which the Local Authority does not have a contract with. Further funding to Adult Social Care Providers will continue for the period 1<sup>st</sup> April to 30<sup>th</sup> September 2021 under the continued Adult Social Care ring-fenced Infection Control and Testing Grant.</p> <p>A new reporting template and homecare monitoring process is being piloted with Homecare providers as part of a programme of 4 workstreams that will be delivered during 2021/22, in line with the re- procurement of domiciliary care services.</p>

No.	Issue	Action	Progress / Outcome
7	<p>Towards the end of 2019/20 the Council engaged an external consultant to review the extent of video surveillance system usage and compliance with the relevant Code of Practice. The consultant concluded the following:</p> <p><i>...the London Borough of Tower Hamlets can be considered not to comply with the Council's obligations to show due regard to the provisions of the Protection of Freedoms Act 2012 (PoFA), thus failing to meet the Code of Practice compiled under that Act by the Home Office Surveillance Camera Commissioner (SCC) for the operation of video surveillance systems by the Council or on behalf of the Council.</i></p> <p><i>It can also be considered that the Council fails to meet the requirements to comply with the Data Protection Act 2018 Legislation and GDPR regulations the use and management of video surveillance systems. Considering the current situation, the risks to the organisation are three-fold – financial, legal and reputational.</i></p>	<p>A comprehensive action plan to improve compliance and reduce the risks has been agreed and implementation has begun.</p>	<p>Progress with the plan and project continues (led within the directorate but covering systems across the whole Council) to ensure compliance with standards.</p>



No.	Issue	Action	Progress / Outcome
8	Failure to adequately maintain Chater House resulting in inadequate insurance, increases in premiums and a breach of the lease conditions.	Programme put in place to review the stock condition of community shops portfolio and undertake any necessary repairs and maintenance. Fire Risk Assessments to be being undertaken on all commercial portfolio.	The Council continues to review the stock condition of community shops portfolio and undertake any necessary repairs and maintenance.
9	Weaknesses or non-compliance regarding the system of governance, risk management and control in the Capital Programme ( <i>Recommendation from Audit report on governance of the capital programme</i> ).	<p>Undertake a 'fundamental review' of the current year's Capital Programme plus two years and report funding to Cabinet for oversight.</p> <p>Ensure the capital programme has adequate profiling of expenditure to capture any slippage / overspend over more than one year.</p> <p>Ensure Capital Growth Bids and Project approvals are completed and authorised by the originating officer prior to approval of the capital scheme.</p>	<p>Capital programme reviewed including profiling of expenditure in full and agreed at Cabinet.</p> <p>Capital monitoring and compliance with procedures has now improved. Capital budgets are now incorporated into Agresso. Slippage can be identified quickly and appropriate action taken.</p> <p>Bids are reviewed and approved at the Capital Delivery Board which is Chaired by the Corporate director of Place and includes representation from key officers.</p>
10	A need to improve the financial governance of capital programmes ( <i>Recommendation from Audit Report on governance of acquisition of properties for Temporary Accommodation</i> ).	Governance arrangements for the acquisition programme to be reviewed and aligned to the Council's Programme and Project Management Office (PPMO) requirements	Capital programme reviewed in full and agreed at Cabinet.

No.	Issue	Action	Progress / Outcome
		Plan to be put in place to ensure property acquisitions are financially assessed for value for money and the Officer's Authority for properties and accord to the scheme of delegation	Financial analysis of housing procurements to identify yields and if yields are insufficient purchase does not proceed.
11	Outdated governance (Directors) and purpose of traded companies in particular Seahorse Limited & Mulberry Housing Society.	Undertake a review and refresh of governance and purpose of traded housing companies (Seahorse Limited & Mulberry Housing Society)	Review of company governance arrangements completed. Future governance arrangements and purposes of companies to be considered.
12	Stronger client monitoring of capital expenditure of LBTH over Tower Hamlets Homes to mitigate risks of breaches in procurement guidelines.	<p>THH Management Agreement to be strengthened to include an operational subgroup on procurement and management of contracts.</p> <p>Programme of training for project managers to be delivered to raise awareness and understanding of the governance arrangements.</p>	<p><b>Management Agreement:</b> The Management Agreement was reviewed, agreed, and signed off by both THH and LBTH in July 2020.</p> <p><b>Project Managers:</b> All Project Managers have had training on Framework, procurement, governance, contract management (JCT Contract). Follow up training will be arranged once the contract has been mobilised.</p> <p><b>Client Capital Monitoring:</b> A Capital Programme and Community Safety Delivery group was created to enhance monitoring of capital and fire safety works delivery. The group is fully functioning, meets bi-monthly, and among other things, agrees in principle the detailed profile and configuration of the Housing capital, fire safety and FRAs programmes for</p>

No.	Issue	Action	Progress / Outcome
			<p>consideration prior to formal approval by the Council.</p> <p>In addition, the group regularly reviews reports on the spend against budget/ forecasts for all the capital and fire safety schemes, monitors expenditure against budgets of the agreed Capital Programme ensuring that schemes are within approved budgets and variances appropriately addressed.</p> <p><b>Improved Procurement and Contract Management by THH:</b> THH has set up a dedicated procurement team to improve its procurement approaches and ensure compliance and accountability for the activities delegated via the MA. THH has also strengthened the governance arrangements that support procurement and contracts. Some of the improvements made include:</p> <ul style="list-style-type: none"> <li>▪ <b>Improved visibility and procurement planning:</b> This is provided by THH procurement plan, which captures all procurement activity delivered on behalf of the Council (and the company). The plan details procurement projects earmarked for the next 12-24months and tracks the progress of each project to ensure compliance with the council's procurement rules.</li> </ul>

No.	Issue	Action	Progress / Outcome
			<p><b>Early engagement on procurement strategy:</b> The Client Team are sighted on all PIFs, Appendix 1's, Tollgate 1 and Tollgate 2 reports as they are submitted to the Council's procurement team.</p> <ul style="list-style-type: none"> <li>▪ <b>Enhanced procurement and contract governance:</b> A THH procurement Board has been set up with representatives from LBTH (procurement and Client teams). This supports and provides oversight of THH's procurement. The Board meets monthly and monitors progress against the plan. THH's Executive Management Team also receives quarterly reports on the progress of the plan.</li> <li>▪ <b>THH/LBTH procurement SLA:</b> The SLA was re-negotiated in June 2020 and is working well. THH works closely with the Councils procurement team to ensure that the council's procedures are followed, and all procurement projects are compliant.</li> </ul>

No.	Issue	Action	Progress / Outcome
13	An audit of Risk Management in 2019/20 identified that whilst the framework, strategy and procedures were well documented, directorate and service level compliance with the procedures was variable. The audit also found that, for the Corporate Risk Register, there was insufficient management review and challenge by the Corporate Leadership Team.	Work to improve Risk Management is ongoing and will continue during 2022/23.	<p>Ongoing work to identify and record new risks across the Council.</p> <p>Quarterly reporting to/review by DMTs, CLT and the Audit Committee of Directorate level and Corporate risks.</p>

Significant Governance Issues Identified in 2020/21

All four Corporate Directors submitted their returns for 2020/21 to the Chief Executive. The following table summarises the most significant issues raised and the proposed actions to address them:

No.	Issue	Action	Responsible	Timescale
1	Issues have been identified with both the 2018/19 and 2019/20 Statement of Accounts (SoA) and reflected in the 2018/19 and 2019/20 AGS respectively. These significant issues continue to be addressed. The SoA's continue to be subject to external audit review (by Deloitte). Further adjustments may be required through the audit process but these in themselves may not be sufficient to achieve an unqualified audit opinion.	The Council has established a detailed and far-reaching Finance Improvement Plan designed to address the significant issues that have been identified from the Independent Review commissioned following the initial production of the 2018-19 SoA; the initial external audit feedback from Deloitte's on both outstanding SoA's; the CIPFA review of Financial Management reported in 2017 and a range of matters identified by officers of the Council that require rectification.	As at May 2021:- Interim Corporate Director of Resources Succeeded by (once appointed):- Corporate Director of Resources and Governance	Phase 1 July 2021  Phase 2 August 2022
2	Budget management – there is a persistent overspend in adult social care and budget management (including the closure of account process) needs further strengthening across the directorate.	Implement savings programme and the recommendations in the forthcoming report by SCIE/CIPFA (this action sits alongside the practice recommendations and work on quality)  All budget managers and senior staff to work with and support Finance Team to deliver an accurate and timely outturn and closure of account process with a particular focus on accruals.	Corporate Director, Health, Adults & Community and Divisional Director, Adult Social Care and Joint Director of Integrated Commissioning  Corporate Director, Health, Adults & Community and all Divisional Directors and budget holders in the directorate	2021/22 and 2022/23  April – May 2021 and annually

No.	Issue	Action	Responsible	Timescale
		<p>Reduce levels of debt including charges for care services and NHS debt (including implement recommendations in the internal audit of the Financial Assessments of Contributions to Social Care internal audit).</p> <p>Further strengthen budget management across the directorate and particularly in Adult Social Care with a particular focus on the quality and accuracy of forecasting</p>	<p>Corporate Director, Health, Adults &amp; Community, Divisional Directors, Financial Assessment Team, Finance Business Partners (Corporate Director, Resources)</p> <p>Corporate Director, Health, Adults &amp; Community and all Divisional Directors and budget holders in the directorate, Finance Business partners.</p>	<p>2021/22</p> <p>2021/22 ongoing</p>
3	Impact of the Covid-19 pandemic	<p>Public Health continue to focus on response to the pandemic and this will continue for some time – manage the risk to business as usual activity alongside response to the pandemic and recovery from the pandemic.</p> <p>Manage increases in demand caused by the pandemic including in adult social care, substance misuse services and commissioned domestic violence services.</p>	<p>Corporate Director, Health, Adults &amp; Community &amp; Director of Public Health</p> <p>Corporate Director, Health, Adults &amp; Community and all Divisional Directors in the directorate</p>	<p>2021/22</p> <p>2021/22</p>

No.	Issue	Action	Responsible	Timescale
4	Commissioning, re-procurement and contract management of domiciliary care services	<p>Consider future options in relation to electronic home care monitoring.</p> <p>Re-procure domiciliary care services worth c£30m pa and deliver savings opportunity identified within SCIE/Cipfa report</p>	<p>Joint Director of Integrated Commissioning</p> <p>Joint Director of Integrated Commissioning</p>	<p>April – June 2021</p> <p>June 2021 – March 2022</p>
5	Compliance with standards in relation to video surveillance systems across the Council	Continue with project (led within the directorate but covering systems across the whole Council) to ensure compliance with standards	Divisional Director, Community Safety, Head of Information Governance & all Divisional Directors across the Council with responsibility for the use of surveillance systems	2021/22
6	Improvements in consistency and quality of work in Adult Social Care	<p>Implement improvements identified in forthcoming SCIE/Cipfa report regarding practice (alongside financial/savings opportunities) as part of a comprehensive transformation and improvement programme</p> <p>Implement further developments to Mosaic (IT system) and improve the quality of data</p>	<p>Corporate Director, Health, Adults &amp; Community (statutory Director of Adult Social Services), Divisional Director Adult Social Care, Principal Social Worker &amp; Joint Director of Integrated Commissioning</p> <p>Divisional Director, Adult Social Care and</p>	<p>2021/22 and 2022/23</p> <p>2021/22 and 2022/23</p>



No.	Issue	Action	Responsible	Timescale
		<p>on the system as part of the above programme.</p> <p>Implement the recommendations in the internal audit of Client Financial Affairs (service managed within Resources Directorate)</p>	<p>Divisional Director, IT</p> <p>Corporate Director Health, Adults &amp; Community, Corporate Director, Resources</p>	2021/22 and 2022/23
7	SEND Performance – weaknesses in performance and provision. Will be subject to a Local Area Inspection by Ofsted & CQC.	SEND Improvement Board driving detailed SEND Improvement Plan.	Director of Education	March 2022
8	King George Fields Trust – Charities Commission investigation into delayed submission of accounts.	Urgent resolution of accounts. Review of governance arrangements.	Director of Sports and Leisure	March 2022
9	Ensure that the council is well prepared to meet the provisions contained within the Building Safety Bill to ensure Fire Safety in residential dwelling	<p>Review the Council's Management Agreement (MA) with THH and ensure clear delegated functions are in place with THH including Fire Safety responsibilities</p> <p>Put in place a shadow structure to meet provisions contained within the bill in advance of legislation</p> <p>Put in place adequate resource, including ICT infrastructure to meet the demands of the Building Safety Bill and mitigate any risks reading THH housing stock.</p>	Director Housing and Regeneration	<p>May 2021</p> <p>August 2021</p> <p>May 2021</p>
10	Continue to progress remedial fire safety	Monitor, report and continue to progress	Director Housing and	March 2022

No.	Issue	Action	Responsible	Timescale
	measures for residents in tower blocks in the borough to improve fire safety	<p>ACM remediation with London Fire Brigade, GLA, MHCLG</p> <p>Continue to collect information on External Wall Systems, working with stakeholders (LBF, GLA, MHCLG) to identify and mitigate buildings identified as high risk</p> <p>Put in place adequate resource, including ICT infrastructure to support fire safety within the private sector</p>	Regeneration	<p>March 2022</p> <p>March 2022</p>
11	Continue to review the stock condition of community shops portfolio and undertake any necessary repairs and maintenance.	<p>Undertake a programme of reviews of community shops, including tenant's fire and safety management, property owner's liability guidance and maintenance.</p> <p>Put in place a protection measures for unoccupied units and undertake valuations on buildings ensuring the correct level of cover.</p> <p>Undertake communications to make tenants aware of risks and obligations around fire safety and the terms of their lease, taking action on shop tenants who fail to adhere to their lease.</p>	Director, Property and Major Programmes	<p>March 2022</p> <p>March 2022</p> <p>March 2022</p>

No.	Issue	Action	Responsible	Timescale
12	<p>In its annual letter, relating to 2020/21, the LGSCO stated some positive elements relating to its interaction with the council such as its satisfaction that the Council complied with 95% of recommendations within a set timeframe. However, the LGSCO also highlighted some negative elements such as 83% of complaints against the Council it investigated resulted in the complaints being upheld and in only 4% of upheld complaints, it found the Council had provided a satisfactory remedy before the complaint reached the LGSCO.</p> <p>The number of LGSCO cases is reducing and the numbers are less than most of our neighbouring councils. The performance rate of percentage of cases responded to on time has also continued to increase year on year, however, the response-on time-performance rate of 69% needs to improve further.</p>	<p>Work is ongoing with services to ensure cases are dealt with sensitively and effectively. The improvement work mentioned below will continue at pace with individuals, teams and services. More emphasis has been put on the fact that if the Council wishes to challenge the LGSCO, extensions must be agreed with the LGSCO and appropriate reasons given for the challenge in consultation with Senior Management.</p> <ul style="list-style-type: none"> <li>• Better use of technology.</li> <li>• IG Service is actively encouraging all services to set up their own reporting mechanisms from iCasework.</li> <li>• A new Outcomes Based LGSCO Protocol has been initiated by the IG Service.</li> <li>• Improved reporting for Directorate Leadership Teams</li> <li>• Improved functionality in iCasework</li> <li>• Targeted internal training programmes.</li> </ul>	Director of Customer Services	Summer 2022

13	Continue to develop the Council's Risk Management framework and related arrangements at the Corporate, Directorate and Service level.	Implement improvements including recruitment of a Risk Officer, reinvigorate strategy, enhance quarterly identification and monitoring of risks at the Corporate and Directorate levels, and roll-out training across the Council.	Corporate Director, Resources	2022/23
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## Conclusion for 2020-2021

2020-2021 has been a challenging year, the COVID-19 pandemic has had a profound impact on everyone. The pandemic has required us to govern differently to adapt and meet the needs of our community. Our governance arrangements during the pandemic have included instigating our borough emergency plans, preparing and delivering a local outbreak plan, operating clear and robust governance made up of Gold, Silver and Bronze commands, a Partnership Health Protection Board and Local Engagement Board, we have also ensured visible professional and political leadership and collaborated extensively with the London Coronavirus Response Cell and North East London Incident Management Team. Our work with partners focused on mobilising and encouraging partners towards a place-based response. It also involved lobbying government on a range of policy areas, to 'on-the-ground' visits and assisting at food distribution hubs and PPE distribution, to targeted messaging to get pandemic-related information and guidance out to residents and many more activities. We have led in the work to understand the impact of the COVID-19 pandemic in Tower Hamlets and attempted to predict the impact going forward. The first impact assessment was carried out in summer 2020 analysing the initial impacts of the pandemic in the first few months and focused on 13 core topics. This has supported our recovery plans and ensure our collective partnership focus on the areas we need to support our residents with.

During this difficult time there have been governance and leadership opportunities which we are keen to hold onto, and we are committed to delivering better outcomes for residents by using the opportunities from new ways of working and the efficiency and effectiveness learnt through our emergency response. The pandemic has compounded our financial challenges. The economic impact has reduced the amount of income that the council receives from business rates and council tax in 2020-21 and the forecast income for following years. The council has also incurred significant costs for the pandemic response, a decrease in income from fees and charges and slippage in previously planned savings. In response, we have updated both our Strategic Plan and the Medium-Term Financial Strategy to ensure our budget can support delivery of our priorities and address the significant financial challenges facing the council.

Whilst we have been able to quickly adapt our governance arrangements, there remains significant challenges, in addition to the long-term impact of the pandemic, which has included closing our financial accounts, budget management and SEND performance. We recognise that good governance requires a culture of continuous improvement and challenge, we will continue to seek improvement and will be self-critical in doing so to ensure we uphold the highest possible standards of good governance. We have put action plans in place to address any issues and regularly report progress via the Corporate Leadership Team and relevant Committees.

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# LONDON BOROUGH OF TOWER HAMLETS

**DRAFT**

**ANNUAL FINANCIAL REPORT 2021/22**

**UNAUDITED**



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# Narrative Report - 2021/22

## Introduction

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2021/22, which reports our financial results for the year.

The primary purpose of the Narrative Report is to provide information on the Local Authority, its objectives and strategies and the principal risks that it faces. The Report also provides a commentary on how the Local Authority has used its resources to achieve its intended outcomes, as identified through the development of its local objectives and strategies.

The council's Statement of Accounts for the year 2021/22 has been prepared in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for 2021/22.

Julie Lorraine,

Corporate Director of Resources (Section 151 Officer)

## Introduction to Tower Hamlets

Tower Hamlets offers the best of London in one borough. The new East End that epitomises both the capital's past and its future. London has been moving east, and Tower Hamlets is now at its heart. While Tower Hamlets represents a young, vibrant modern city, our history comes from being the hamlets of the Tower of London. This mix of old and new, combined with award winning parks, international cultural destinations, world class learning institutions and one of the largest economies in the UK, makes Tower Hamlets one of the most popular places to live, work, study and visit.

### **We are one of the fastest growing and most densely populated places in the UK**

- Tower Hamlets has the fastest growing population of any Local Authority Area across England and Wales. Between 2011 and 2021 the population in Tower Hamlets increased by 22% from 254,0961 to 310,300.
- Tower Hamlets is also the most densely populated borough in England with 15,695 residents per square kilometre compared to an average of 424 per square kilometre in England.
- Tower Hamlets added an additional 19,200 households between 2011 and 2021 with the total number of households increasing from 101,257 to 120,500.
- This represented a 19% increase, the largest increase in households in the country.
- There were slightly more persons per household than in 2011 with the average household size increasing from 2.51 in 2011 to 2.58 in 2021.
- We have fantastic transport links – 26 London Underground and DLR stations serving seven lines, including the Elizabeth Line, the second highest of any London borough.
- More homes are built here than almost anywhere else. We are expected to accommodate a further 35,000 homes by 2028.
- The median age in the borough in 2021 was 30 years of age, making Tower Hamlets the youngest borough by median age in England and Wales.

### **We are home to international business districts which generate the third highest economic output in the UK**

- Canary Wharf remains one of the most important business districts in the country with 38 office buildings, 332 shops, cafés and restaurants and held 107 cultural events in 2021/22.
- The City Fringe includes Whitechapel, Aldgate and Spitalfields. It is being developed to support London's financial sector and the growing digital-creative businesses in Tech City. Plans for a world-class life science centre were submitted in 2021 with further amendments submitted in September 2023.

### **We host some of London's best destinations**

- Historic attractions include the Tower of London, the V&A Museum of Childhood, the Museum of London, Docklands and Tower Bridge.
- There are over 120 parks including Victoria Park, voted London's most-loved park, and parts of Queen Elizabeth Olympic Park.
- World famous markets include Spitalfields, Columbia Road and Petticoat Lane. Brick Lane is a melting pot of food and culture - everything from renowned curry houses and Jewish beigel shops to the Old Truman Brewery with its own market.
- Major music festivals and events such as All Points East and the London Marathon happen here.
- World class culture is part of our fabric with 22 art galleries, including the Whitechapel Gallery, amazing street art and venues such as Wilton's Music Hall and Rich Mix.

### **We are a centre for world-class learning and innovation**

- Queen Mary University of London, one of the top Russell Group universities in the country.
- Barts NHS Trust hospitals train more than 4,000 people at any one time for medical careers.
- The Government Digital Service is driving cutting-edge innovation from its headquarters in Whitechapel.
- The London Metropolitan University School of Art, Architecture and Design is based in Aldgate.

### **We are a world borough with a proud history of diversity and equality**

- 46.8% of residents in Tower Hamlets were born outside the UK.
- The most common countries of birth other than the UK were Bangladesh, Italy, India, China and France. 14% of residents were born in a current European Union country.
- Data from the recent Census reveals that 73% of residents in Tower Hamlets reported that English is their main spoken language.
- 79% of our residents feel that people from different backgrounds get on well together.
- Our residents fought fascism in the Battle of Cable Street and the roots of the Suffragette movement are in Roman Road.
- The London Docks were the drop-off point for many immigrants to the UK as well as being the centre of world trade.

## Organisational Context and Challenges

The Strategic Plan is the main strategic business planning document of the council and a central part of our Performance Management and Accountability Framework. It sets out the corporate priorities and outcomes, the high-level activities that will be undertaken to deliver the outcomes, as well as the measures that will help us determine whether we are achieving the outcomes.

The Strategic Plan for 2021/22 was arranged around three priority areas and a set of 11 corporate outcomes:

Priority 1 - People are aspirational, independent and have equal access to opportunities

- People access a range of education, training, and employment opportunities.
- Children and young people are protected so they get the best start in life and can realise their potential.
- People access joined-up services when they need them and feel healthier and more independent.
- Residents feel they fairly share the benefits from growth and inequality is tackled.

Priority 2 - A borough that our residents are proud of and love to live in

- People live in a borough that is clean and green.
- People live in good-quality affordable homes and well-designed neighbourhoods.
- People feel safer in their neighbourhoods and anti-social behaviour is tackled.
- People feel they are part of a cohesive and vibrant community.

Priority 3 - A dynamic outcomes-based council using digital innovation and partnership working to respond to the changing needs of our borough

- People say we are open and transparent putting residents at the heart of everything we do.
- People say we work together across boundaries in a strong and effective partnership to achieve the best outcomes for our residents.
- People say we continuously seek innovation and strive for excellence to embed a culture of sustainable improvement.

Alongside this Strategic Plan we also have our Medium-Term Financial Strategy to ensure our budget can support delivery of our priorities and address the financial challenges facing the council. Through on-going engagement with our partners we focused our priorities to ensure we could collectively support the recovery of the borough from the Covid-19 pandemic and empower our partners to take a greater lead on delivering our collective priorities.

The Strategic Plan 2020/21 – 2022/23 set out the actions to meet local priorities. Some of these actions had been re-shaped by the pandemic, whilst others were reinforced.

We set out to deliver better outcomes for residents by using the opportunities from new ways of working, efficiency and effectiveness learnt through our emergency response to the pandemic, which required us to work differently to adapt and meet the needs of our community. We rapidly developed new ways of delivering essential services and moving out of lockdowns we decided to make some changes permanent, to accelerate progress towards our transformation vision, meet the needs of our community, and respond to the challenging financial position.

A new Mayor was elected in May 2022 and a new Strategic Plan was published over the summer of 2022.

## Monitoring Performance and Key Achievements

We had 76 performance measures in our Strategic Plan 2020/21 – 2022/23. Our performance in 2021/22 was shaped by the pandemic response and recovery. We reopened services in stages over the course of the year, following the Government guidance and the Covid-19 roadmap to cautiously and pragmatically lift restrictions.

At the end of quarter 4 2021 to 2022, 25 performance indicators were met or were exceeding their target and 11 were between the target and the minimum expectation, while 14 were falling short. One had a mixed rating as it had two aspects to it. Two indicators were reported as data only. We were unable to report the results of 23 indicators.

Our Workpath employment service and business and enterprise services were continuing to support residents and local businesses to thrive and survive post Covid-19 challenges.

Between April and September of the year, a total of 373 small and medium enterprises (SMEs) received practical business advice and support, including business support advice via masterclass webinars. Topics included human resources essentials for small businesses owners, help with accessing funding and networking and our Thriving High Streets 3 fund provided financial support to over 50 local businesses.

Our weekly business support newsletter, designed to provide up-to-date news on grants, webinars, training and other business support initiatives, was reaching over 7,000 business in the borough.

We continued to manage the government's coronavirus grant funding to local businesses. Since the start of the pandemic, we have supported the distributed of grants and reliefs to over 5,000 local businesses in the retail, hospitality and leisure sectors – amongst those hardest hits by lockdown. We also answered over 900 enquiries from businesses on how to access support and navigate the wide array of support schemes.

We secured 550 placements funded through our Kickstart gateway consortium, and secured jobs for 210 young Tower Hamlets residents and 78 non-residents.

Our Tackling Poverty team supported many residents in our borough to secure benefits in Employment and Support Allowance (ESA), where they were unable to work either due to being vulnerable to Covid-19 or because of self-isolation.

With our partners, we secured a grant worth £90,000 from Historic England to revitalise our high streets by creating and delivering community-led cultural activities. This funding was part of a wider cultural programme in high streets across England which aimed to make our high streets more attractive, engaging and vibrant places for people to live, work and spend time.

We produced a new Safe Communities Community Engagement Strategy with health and community partners. The strategy focused on ensuring that important information about the test and trace programme reached all sections of our community and that all high-risk groups had easy access to testing.

In July of the year, we launched a new integrated information and advice service that ran across health, social care and social welfare. It brought together a range of support services in one place, as well as being the front door for adult social care.

The service supported our residents with health, social care and social welfare information and advice, including housing, welfare and benefits, consumer issues and general advocacy. We set up an online help portal which made it easier for residents to access support and for support to be coordinated. The service helped residents remain independent and healthy for longer by providing early help and better coordination of service delivery.

We continued to work to reprocure home care which would be based on an outcome-based commissioning model.

In adult social care we supported people with care and support needs to have care at home. We were positively meeting our targets with less permanent admissions for adults aged over 65.

In adult safeguarding we were working well in meeting desired outcomes of adults in the safeguarding process ensuring that what is important to them is the focus, ensuring we are meeting the principles of making safeguarding personal.

Social care continued to support informal carers in their roles and had seen an increase in the number of carers assessments being completed.

Our performance on those supported by Reablement who remain at home after hospital discharge improved considerably and continued to support people with very complex clinical needs when discharged from hospital.

## Key Strategic Risks

It is essential to the good governance of the Council that risks are managed thoroughly and appropriately. The Council has in place a formally approved risk management strategy, which clarifies the corporate risk appetite, seeks to support decision making that considers threats and identifies mitigating actions. This allows the Council to ensure opportunities are seized and delivered.

The Council uses a corporate risk management system to identify all relevant corporate risks. Through this system, the Council identifies and proactively manages its key risks and governance challenges.

In reflection of the dynamic nature of the Council's operating environment, risks evolve and change over time and whilst the narrative report is chiefly a backward look at 2021/22, we consider it more useful to stakeholders to highlight the risks present on the Council's Corporate Risk Register at the time of publication of this report.

### Summary of Corporate Risks

1. Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.
2. Major health and safety incident.
3. The Council may overspend its budget, fail to deliver savings, and rely on reserves.
4. There is an ongoing risk of a cyber-attack and/or major loss of IT.
5. There is a risk that the statement of accounts will receive a qualified opinion for 2020/21 and 2021/22, which is dependant upon the completion of the audits and expected future legislation from the Government relating to the backlog of accounts.
6. Following the Grenfell Fire tragedy residents of tower blocks in the borough are not safe or do not feel safe from fire.
7. There is a risk that the Council will fail to comply with its obligations in relation to the Protection of Freedoms Act 2012.
8. There is a risk the Council will be unable to deliver critical and essential services.
9. Failure to prepare and take action in relation to the proposed Building Safety Act.
10. Exploitation of supply chain security vulnerability impacting vendors/partners/service.



## Financial Overview and Annual Governance Statement

Despite the Chancellor previously announcing departmental spending limits for Government departments for three years, 2022/23 to 2024/25, the Local Government Finance Settlement (LGFS) has only been announced on a one-year-at-a-time basis since then. Another single year finance settlement was announced in the latest year's provisional LGFS, published 18 December 2023, covering the 2024/25 financial year. The funding landscape for Local Government over the medium term remains highly uncertain.

On 17 November 2022 the Government announced that the implementation of Adult Social Care Reforms would be delayed from October 2023 to October 2025, however the funding for these reforms would still be provided to Local Government. The Council has therefore received additional Social Care Grant for 2023/24 with indications for further additional funding to be provided in 2024/25.

One reason councils have been provided with single year settlements was due to funding reforms that have been delayed, annually, for several years. The distribution formula utilised for allocating resources across Local Authorities dates to 2013/14 and the Government has committed to take forward a 'Fair Funding Review' to ensure a more up to date assessment of need. Although the Government had intended to introduce the new formula from April 2021, it now looks unlikely that any reforms will now come in before 2026/27.

In early 2021 the Government consulted on ending New Homes Bonus (NHB), a targeted incentive providing funding based on housing growth within the Council area, and the Government has not yet announced the outcome of its consultation although they have advised that the outcome will be announced before the 2024/25 settlement. The impact of these funding reforms will be particularly acute for Tower Hamlets when implemented and represent a significant risk going forward. Funding retained from Business Rates growth is significant and therefore the impact of resetting the Business Rates baseline would result in a substantial funding reduction for the Council when, or indeed if, this occurs.

The Council is making a significant new and additional investment in services and is drawing down £22.1m from reserves to balance the 2023/24 budget. It will be important to continue work to balance the budget over the medium term, ensuring alignment with the refreshed strategic plan. The budget for 2024/25 is planned to be presented to Full Council for approval in February 2024.

The impact of inflation continues to have an impact on fuel, energy costs and food prices; high inflation has a direct impact on the costs of the council's contracts, and fuel and energy. The societal impacts of rising prices will also mean more individuals will require council support going forward. The latest Bank of England forecasts show high inflation for the next two years but reducing back to normal levels by the end of 2025.

## Revenue Outturn for the Year

### General Fund

The General Fund is the primary revenue fund through which the Council pays for its services.

Ongoing reductions in mainstream government grant funding over the last decade and a long-term continuing upward trend in the demand for key front-line services in adult social care, children's services and for housing services, particularly homelessness, have collectively created a challenging financial environment for the Council.

The overall outturn position for General Fund services, excluding the Dedicated Schools Budget, after the contributions to/from reserves, is a drawdown from GF reserves of £2.7m, which will stand at £20.4m as at 31st March 2022. The revenue outturn position is summarised below:

	Annual Budget and Reserve Transfers	Outturn	Outturn Variance
	£m	£m	£m
	A	B	= B - A
<b>Children's and Culture</b>	84.7	85.4	0.7
<b>Health, Adults and Communities</b>	131.0	128.6	(2.4)
<b>Place</b>	76.1	77.2	1.1
<b>Chief Executive's Office</b>	17.9	17.7	(0.2)
<b>Resources</b>	42.2	41.9	(0.3)
<b>Corporate Costs and Central Items (including Core Funding)</b>	(351.9)	(348.1)	3.8
<b>Total</b>	<b>0.0</b>	<b>2.7</b>	<b>2.7</b>
<b>Outturn Variance Transfer from GF Reserves</b>			<b>(2.7)</b>
<b>Council Outturn</b>			<b>0.0</b>

## **Revenue Reserves**

The table below presents the movement on the Councils revenue reserves for the last year:

	31 March 2021	31 March 2022
	£m	£m
<b>General Fund balances</b>	(24.4)	(20.4)
<b>HRA balances</b>	(50.8)	(52.9)
<b>Schools' balances</b>	(36.0)	(35.6)
<b>GF earmarked reserves (Reserves without Restrictions)</b>	(73.5)	(87.4)
<b>GF earmarked reserves (Restricted Reserves)</b>	(105.4)	(135.2)
<b>Total</b>	<b>(290.1)</b>	<b>(331.5)</b>

The significant increase in earmarked reserves at 31 March 2022 is mainly contained within GF earmarked reserves (Restricted Reserves) (£29.8m) which is largely attributable to Contributions the council received during the year for restricted purposes, including contributions for Health, Adult's and Communities Joint Funding Agreements (£12.4m), carry forward of Covid-19 grant monies to meet future persisting pressures (£4.9m) and funding relating to the Collection Fund to meet current and future liabilities and deficits that have already arisen and may arise in future years (£4.9m).

We are in a hugely unpredictable environment, and we are facing significant challenges over the medium-term, potential changes to local government funding and service demand. Thus, it is important to maintain reserves at an adequate level to help mitigate and manage these significant risks and ensure the Council remains on a sustainable footing.

### ***Housing Revenue Account***

The Housing Revenue Account (HRA) records expenditure and income on running the Council's own housing stock and closely related services or facilities. The HRA is ring-fenced within the General Fund and primarily supports management and maintenance costs. The HRA outturn finalised at a £2.1m underspend, which was transferred to HRA reserves, which total £52.9m at 31<sup>st</sup> March 2022.

### ***Dedicated Schools Budget***

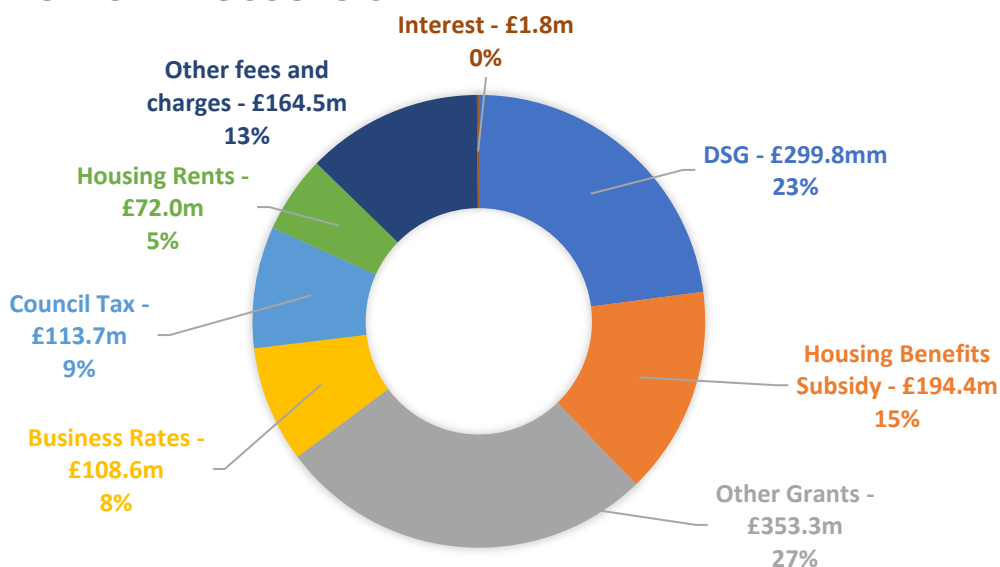
This budget records the expenditure and income on the ring-fenced schools' budgets and related services. The outturn finalised at an in-year overspend on Dedicated Schools Grant of £3.1m, and the main reason for this is the overspend within the High Needs Funding Block, in very similar fashion to previous years. The Dedicated Schools Grant now has a cumulative deficit of £14.3m.

## Revenue Income

Government grants and subsidies continue to be the main sources of revenue funding, although with not inconsiderable revenues from fees and charges, business rates, council tax and housing rents.

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

### REVENUE FUNDING SOURCES

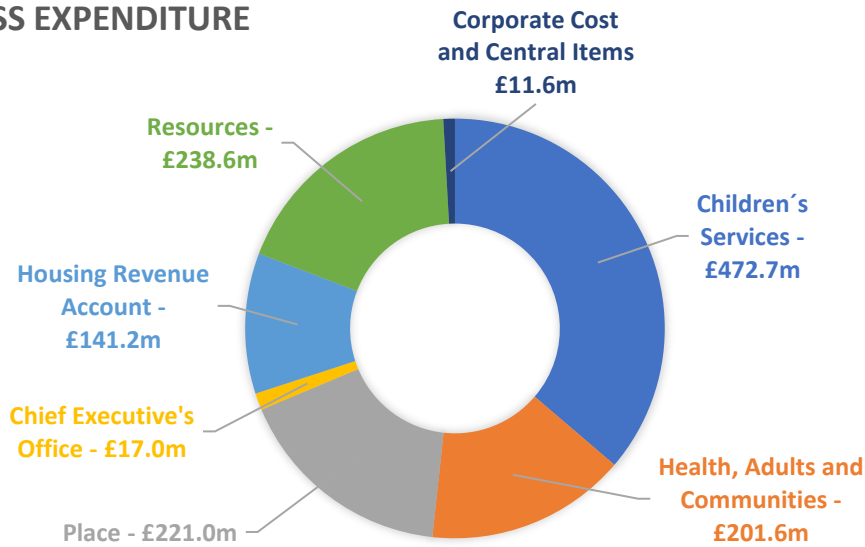


The diagram shows where the Council's expenditure is funded from. Government grants and subsidies are the main source of the £1.308bn revenue funding at £0.848bn, along with revenues from fees and charges, business rates, council tax and housing rents. The largest service grant is the Dedicated Schools Grant of £0.300bn which can only be used to fund education services and is largely 'passported' directly to schools.

## Expenditure on Services

The service with the largest gross expenditure is Children's and Culture, which includes schools and social care for children.

### GROSS EXPENDITURE



The diagram shows where the Council's gross expenditure of £1.304bn is spent by services area. The largest gross expenditure of £0.473bn is spent on the Children's and Culture service, which includes schools and social care for children.

## Capital Investment and Funding

### *Capital Investment*

The Council has continued to invest in its infrastructure with over £155.3m spent on its capital programme. Within the General Fund, the main area of investment was in Place with £38.2m spent on the new Town Hall, £19.7m was invested in improving schools, £18.3m spent on public realm improvements and £8.1m was spent on public health. Within the HRA, over £35.1m was spent on building new homes. Furthermore, £3.1m was spent under the devolved schools budgets.

### *Capital Funding*

A significant part of the capital programme was financed by borrowing £64.7m. This was “internal borrowing” against the Council’s own internal resources.

Capital grants and contributions financed £57.8m of expenditure with capital receipts of £21.6m being another significant source of funding.

Capital spending and financing for 2021-22 is shown in the following table:

	31 March 2021	31 March 2022
	£m	£m
<b><i>Capital Investment</i></b>		
Children and Culture	20.3	24.6
Health, Adults and Communities	3.9	9.0
Place	73.2	71.7
Resources	6.8	1.1
Local Authority Housing (Housing Revenue Account)	60.7	52.0
<b>Total</b>	<b>164.9</b>	<b>158.4</b>
<b><i>Capital Funding</i></b>		
Borrowing	65.7	64.7
Capital Grants and Contributions	42.6	57.8
Capital Receipts	31.3	21.6
Major Repairs Reserve	17.5	11.9
Direct Revenue / Reserves Funding	7.8	2.4
<b>Total</b>	<b>164.9</b>	<b>158.4</b>

## **Borrowing and Investments**

Long-term borrowing for the Council remained steady throughout the year, falling slightly from £69.9m to £68.7m. Short-term borrowing arising from repayment liabilities associated with loans decreased from £2.1m to £1.6m during the year.

Long-term Investments for the Council also largely remained steady, falling from £60.9m to £56.2m. Short-term Investments decreased from £117.4m to £115.4m during the year.

## **Pensions**

The Council's Pension Fund's income originates from employee contributions and existing assets (investments). This income is compared with the estimated cost of pensions payable in the future to determine the Council's Pension Liability. The net amount is included in the accounts as the Council's pension net surplus or liability.

The net liability decreased from £614.3 million in 2020/21 to £478.0 million in 2021/22. Although this sum has a significant impact on the net worth of the Council (as shown in its Balance Sheet) contributions to the Pension Fund are set by the actuary's triennial valuation, which concluded in March 2020, and provides for stable trends in contributions.

## **Statement of Responsibilities for the Statement of Accounts**

### **The Council's responsibilities**

The Council is required:

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

### **The responsibilities of the Corporate Director of Resources**

The Corporate Director of Resources (Section 151 Officer) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice").

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

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

The Corporate Director of Resources has also:

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

### **Certificate of the Corporate Director of Resources**

I certify that the Statement of Accounts 2021/22 presents a true and fair view of the financial position of the Council in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice") as at 31<sup>st</sup> March 2022 and its income and expenditure for the year ended 31<sup>st</sup> March 2022 except for:

- The possible effect of issues relating to the quality of pension scheme membership data including prior year comparator data (as described under Note 4 to the main accounts – Assumptions Made About the Future and Other Sources of Estimation Uncertainty) on the pension liability at 31 March 2022 and related entries;



- The possible effect of issues relating to the lack of group accounts including prior year comparator data (as described under Note 44 to the main accounts – Group Accounts);
- Not having fully complied with the disclosure requirements in relation to officers' remuneration for the comparative year only (as presented in Note 33 to the main accounts – Officers' Remuneration);
- Not having fully complied with the disclosure requirements in relation to related parties (as presented under Note 38 to the main accounts – Related Parties)
- Not having complied with the disclosure requirements in relation to revenue from contracts with customers including prior year comparator data.

**Julie Lorraine**

Corporate Director of Resources

Date:

### **Approval of the accounts**

I certify that the audited Statement of Accounts has been approved by resolution of the Audit Committee of the London Borough of Tower Hamlets in accordance with the Accounts and Audit Regulations 2015.

**Councillor Harun Miah**

Chair of the Audit Committee

Date:

## Auditor's Reports

This section is left intentionally blank subject to the completion of the audit.

## 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.

	NOTE	USABLE RESERVES						UNUSABLE RESERVES								TOTAL USABLE RESERVES £'000	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	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000	POOLED INVESTMENT FUND ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	DEDICATED SCHOOLS ADJUSTMENT ACCOUNT £'000			
<b>Balance as at 1 April 2020</b>		(24,612)	(157,866)	(48,210)	-	(134,156)	(194,163)	(559,007)	(793,374)	(1,503,398)	473,379	24,334	16,982	6,334	2,969	-	(1,772,774)	(2,331,781)
<b>Movement in reserves during 2020/21</b>																		
Surplus or (Deficit) on the Provision of Services		(10,085)	-	(15,614)	-	-	-	(25,699)	-	-	-	-	-	-	-	-	-	(25,699)
Other comprehensive expenditure and income		-	-	-	-	-	-	-	67,631	-	121,696	-	-	-	-	-	189,327	189,327
<b>Total Comprehensive Expenditure and Income</b>		<b>(10,085)</b>	<b>-</b>	<b>(15,614)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25,699)</b>	<b>67,631</b>	<b>-</b>	<b>121,696</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>189,327</b>	<b>163,628</b>
Adjustments between accounting basis and funding basis under regulations	8	(46,722)	-	13,059	(74)	(4,803)	(5,611)	(44,151)	22,433	(32,235)	19,249	25,282	(435)	(6,232)	4,915	11,174	44,150	(1)
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>(56,807)</b>	<b>-</b>	<b>(2,555)</b>	<b>(74)</b>	<b>(4,803)</b>	<b>(5,611)</b>	<b>(69,850)</b>	<b>90,064</b>	<b>(32,235)</b>	<b>140,945</b>	<b>25,282</b>	<b>(435)</b>	<b>(6,232)</b>	<b>4,915</b>	<b>11,174</b>	<b>233,477</b>	<b>163,627</b>
Transfers to or from earmarked reserves	9	46,891	(46,891)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to or from school reserves	9	10,153	(10,153)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Increase or (Decrease) in 2020/21</b>		<b>237</b>	<b>(57,044)</b>	<b>(2,555)</b>	<b>(74)</b>	<b>(4,803)</b>	<b>(5,611)</b>	<b>(69,850)</b>	<b>90,064</b>	<b>(32,235)</b>	<b>140,945</b>	<b>25,282</b>	<b>(435)</b>	<b>(6,232)</b>	<b>4,915</b>	<b>11,174</b>	<b>233,477</b>	<b>163,627</b>
<b>Balance as at 31 March 2021 carried forward</b>		<b>(24,375)</b>	<b>(214,910)</b>	<b>(50,765)</b>	<b>(74)</b>	<b>(138,959)</b>	<b>(199,774)</b>	<b>(628,857)</b>	<b>(703,310)</b>	<b>(1,535,633)</b>	<b>614,324</b>	<b>49,616</b>	<b>16,547</b>	<b>102</b>	<b>7,884</b>	<b>11,174</b>	<b>(1,539,296)</b>	<b>(2,168,153)</b>
<b>Movement in reserves during 2021/22</b>																		
Surplus or (Deficit) on the Provision of Services		(6,713)	-	25,676	-	-	-	18,963	-	-	-	-	-	-	-	-	-	18,963
Other comprehensive expenditure and income		-	-	-	-	-	-	-	(149,996)	-	(183,070)	-	-	-	-	-	(333,066)	(333,066)
<b>Total Comprehensive Expenditure and Income</b>		<b>(6,713)</b>	<b>-</b>	<b>25,676</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,963</b>	<b>(149,996)</b>	<b>-</b>	<b>(183,070)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(333,066)</b>	<b>(314,103)</b>
Adjustments between accounting basis and funding basis under regulations	8	(32,643)	-	(27,804)	(5,413)	(420)	2,692	(63,588)	14,294	15,610	46,697	(13,428)	(288)	(2,391)	3,094	63,588	-	-
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>(39,356)</b>	<b>-</b>	<b>(2,128)</b>	<b>(5,413)</b>	<b>(420)</b>	<b>2,692</b>	<b>(44,625)</b>	<b>(135,702)</b>	<b>15,610</b>	<b>(136,373)</b>	<b>(13,428)</b>	<b>-</b>	<b>(288)</b>	<b>(2,391)</b>	<b>3,094</b>	<b>(269,478)</b>	<b>(314,103)</b>
Transfers to or from earmarked reserves	9	43,802	(43,802)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to or from school reserves	9	(423)	423	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Increase or (Decrease) in Year</b>		<b>4,023</b>	<b>(43,379)</b>	<b>(2,128)</b>	<b>(5,413)</b>	<b>(420)</b>	<b>2,692</b>	<b>(44,625)</b>	<b>(135,702)</b>	<b>15,610</b>	<b>(136,373)</b>	<b>(13,428)</b>	<b>-</b>	<b>(288)</b>	<b>(2,391)</b>	<b>3,094</b>	<b>(269,478)</b>	<b>(314,103)</b>
<b>Balance as at 31 March 2022</b>		<b>(20,352)</b>	<b>(258,289)</b>	<b>(52,893)</b>	<b>(5,487)</b>	<b>(139,379)</b>	<b>(197,082)</b>	<b>(673,482)</b>	<b>(839,012)</b>	<b>(1,520,023)</b>	<b>477,951</b>	<b>36,188</b>	<b>16,547</b>	<b>(186)</b>	<b>5,493</b>	<b>14,268</b>	<b>(1,808,774)</b>	<b>(2,482,256)</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

Gross Expenditure	2020/21		Note	Gross Expenditure	2021/22	
	Gross Income	Net Expenditure			Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
<b>Continuing Operations</b>						
465,097	(374,491)	90,606	Children's and Culture	472,671	(373,547)	99,124
186,102	(94,669)	91,433	Health, Adults and Communities	201,613	(128,896)	72,717
189,343	(102,047)	87,296	Place	221,018	(146,941)	74,077
18,002	(2,815)	15,187	Chief Executive's Office*	17,010	(2,704)	14,306
104,770	(97,655)	7,115	Local Authority Housing (Housing Revenue Account)	141,228	(98,185)	43,043
282,670	(232,711)	49,959	Resources	238,564	(188,122)	50,442
13,349	(1,241)	12,108	Corporate Cost and Central Items	11,563	(4,859)	6,704
<b>1,259,333</b>	<b>(905,629)</b>	<b>353,704</b>	<b>NET COST OF SERVICES</b>	<b>1,303,667</b>	<b>(943,254)</b>	<b>360,413</b>
		(15,012)	Other Operating Expenditure			1,890
		12,680	Financing and Investment Income and Expenditure			19,659
		(377,071)	Taxation and Non-Specific Grant Income			(362,999)
		<b>(25,699)</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>18,963</b>
			<b>Other Comprehensive Income and Expenditure</b>			
		67,631	(Surplus)/Deficit on revaluation of non-current assets			(149,996)
		121,696	Remeasurement of the net defined benefit pensions liability			(183,070)
		<b>189,327</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(333,066)</b>
<b>163,628</b>			<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>	<b>(314,103)</b>		

\*Previously known as Governance

# BALANCE SHEET

31 March 2021 £'000		Note	31 March 2022 £'000
<b>Long-term Assets</b>			
2,698,548	Property, plant and equipment	14	2,871,631
18,860	Heritage Assets	16	19,067
2,259	Intangible Assets	15	2,338
60,897	Long-term investments	17	56,186
2,159	Long Term Debtors	18	2,173
<b>2,782,723</b>	<b>Total Long-term assets</b>		<b>2,951,395</b>
<b>Current Assets</b>			
117,415	Short-term investments	17	115,371
979	Assets held for sale	22	213
272,767	Short-term debtors	20	213,536
199,269	Cash and cash equivalents	21	250,546
<b>590,430</b>	<b>Total Current Assets</b>		<b>579,666</b>
<b>Current liabilities</b>			
(65,006)	Cash and cash equivalents	21	(45,963)
(2,064)	Short-term borrowing	17	(1,557)
(269,447)	Short-term creditors	23	(287,925)
(5,078)	Provisions	24	(5,730)
<b>(341,595)</b>	<b>Total Current liabilities</b>		<b>(341,175)</b>
<b>Long Term Liabilities</b>			
(13,083)	Provisions	24	(5,966)
(69,872)	Long-term borrowing	17	(68,709)
(614,324)	Liability related to defined benefit pension schemes	41	(477,951)
(112,642)	Capital grants receipts in advance	37	(104,917)
(53,484)	Deferred liabilities	39,40	(50,087)
<b>(863,405)</b>	<b>Total Long-Term Liabilities</b>		<b>(707,630)</b>
<b>2,168,153</b>	<b>NET ASSETS</b>		<b>2,482,256</b>
<b>Reserves</b>			
(628,857)	Usable Reserves	25	(673,482)
(1,539,296)	Unusable Reserves	26	(1,808,774)
<b>(2,168,153)</b>	<b>TOTAL RESERVES</b>		<b>(2,482,256)</b>

*I certify that the statement of accounts presents a true and fair view of the financial position of the Council as at 31 March 2022 and its income and expenditure for the year then ended.*

Date

Julie Lorraine - Corporate Director of Resources

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## 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.

2020/21 £'000		Note	2021/22 £'000
25,699	Net surplus or (deficit) on the provision of services		(18,963)
138,899	Adjustments to net surplus or deficit on the provision of services for non cash movements	27	188,319
(87,222)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	27	(78,883)
<b>77,376</b>	<b>Net cash flows from Operating Activities</b>		<b>90,473</b>
(23,295)	Investing Activities	28	(49,655)
(53,384)	Financing Activities	29	29,502
<b>697</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>70,320</b>
133,566	Cash and cash equivalents at the beginning of the reporting period		134,263
<b>134,263</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>204,583</b>

## 1 Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31st March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003

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

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 going concern concept assumes that the Council will continue in operational existence for the foreseeable future.

### 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 contracts with service recipients, whether for services or the provision of goods, is recognised as the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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.
- The Council operates a de minimis of £10,000 for revenue and £50,000 for capital below which items of income and expenditure are not required to be accrued.

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

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

### **4. Exceptional items**

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

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

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparatives amounts for the prior period.

### **6. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service

- revaluation and impairment losses on 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 assets attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the general fund, Minimum Revenue Provision (MRP), by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

The Council has also decided to make a voluntary MRP contribution for HRA properties equal to 100% over the life of the asset as recommended in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

## **7. Council Tax and Non-domestic Rates (England)**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

## **8. Accounting for Council Tax and NDR**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income 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 as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

## 9. Employee Benefits

### ***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.

### ***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 in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. 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.

### ***Post-Employment Benefits***

Employees of the Council are members of four 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).
- The NHS Pension Scheme, administered by NHS Business Services Authority on behalf of the Department of Health and Social Care

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' and NHS schemes mean that liabilities for these benefits cannot be identified to the Council. The schemes are therefore accounted for as if they were defined contributions schemes – no liability for future payments of benefits is recognised in the Balance Sheet. The Children's Services line in the Comprehensive Income

and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year, and Health, Adults and Communities charged for the contributions to the NHS Pension Scheme.

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

The Local Government scheme is a defined benefits scheme.

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

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (based on the constituents of the iBoxx AA corporate bond) as at 31st March 2022.

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 the following 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 a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services.
- net 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. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as Other Comprehensive Income and Expenditure.
- 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 or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in 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.

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 not incorporated THH's pension liabilities and assets that have arisen into its pension obligations into the net pension liability as presented within the single entity balance sheet; this is due to the Council not indemnifying THH for all pension costs.

### ***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.

## **10. Financial Instruments**

### ***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.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance or the Housing Revenue Account 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.

## ***Financial Assets***

Financial assets are classified based on a consideration of the business model for holding the asset, along with analysis of their cashflow characteristics. There are three main classes, measured at:

- Amortised Cost
- Fair Value through Profit or Loss
- Fair Value through other Comprehensive Income and Expenditure (none currently held by the Council)

### *Financial Assets Measured at Amortised Costs*

Financial assets measured at amortised cost 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 subsequently 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 financial assets held by the Council, 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.

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.

### *Expected Credit Loss Model*

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has calculated the expected credit loss on non-housing trade debtors and housing related rent arrears. The expected lifetime credit loss is calculated in the first instance upon historic payment information.

Further consideration has been given to macro-economic factors, in particular that the effects of COVID-19 might render collection of outstanding debts more difficult. However, since this is the first national experience of pandemic, identifying and quantifying impacts in any robust manner has not been possible.

The Council's treasury advisors provide details of potential 12-month credit losses on treasury deposits, with deposits to other Councils having no default risk, the remaining deposits to banks had no known credit losses. This is borne out by the Council not having a treasury

counterparty default on a deposit in recent years. The Council has not purchased any credit impaired investments.

#### *Financial Assets Measured at Fair Value through Profit or Loss*

Financial Assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

### **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 is transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **12. Heritage assets**

The Council does not actively acquire or dispose of heritage assets as part of its normal day to day business and where the Council holds heritage assets, these have usually been donated. The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £19.1 million at 31 March 2022. This valuation is based on valuations for Works of Art and Civic Regalia. The local history collection is not included on the balance sheet as valuations are not available due to the unique nature of the assets. Valuations are made by what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous.

Most heritage assets owned by the council have an historical interest to the Borough but would not have material market value.

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. 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. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

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

##### *Finance Leases*

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

- 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).

##### *Operating Leases*

Leases that do not meet the definition of finance leases as described above are accounted for as operating leases. Rentals payables 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:



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.

#### **14. 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 Council's arrangements for accountability and financial performance. 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.

#### **15. 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 accrual's 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.

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

- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).

- Other Land and Buildings – current value, determined as the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value – this is the case in particular for the valuation of schools.
- Vehicles, Plant, Furniture and Equipment, and Infrastructure – depreciated historical cost.
- Community Assets, and Assets Under Construction – historical cost.
- Surplus Assets – fair value, estimated at highest and best use from a market perspective.

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

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

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

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

### ***Impairment***

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

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

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

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

### ***Depreciation***

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

- dwellings - straight-line allocation over the useful life of the property as estimated by the valuer
- other buildings – straight-line allocation over the useful life of the property as estimate by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over varying useful asset lives depending on the detailed nature of the asset
- infrastructure – straight-line allocation over varying useful asset lives depending on the detailed nature of the asset.

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.

### ***Disposals (other than Infrastructure Assets) 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.

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

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

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

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. 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.

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

### ***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 the authority has an 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.

### ***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.

### ***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.

## **18. Reserves**

The Council sets aside specific amounts as revenue reserves for future policy purposes or to cover contingencies; these are earmarked reserves. In addition, there are some capital reserves which are used to hold the capital resources of the Council separately from revenue reserves. Collectively, these are all presented on the Balance Sheet, together with General Fund Balances and HRA Balances, as Usable Reserves.

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. Collectively, these are presented as Unusable Reserves on the Balance Sheet.

## **19. 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.

## **20. Fair value measurement**

The Council measures some of its non-financial assets such as surplus assets and assets held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

## **21. Value added Tax (VAT)**

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

## **22. Community Infrastructure Levy**

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure.

## **23. Schools**

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority-maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

## 2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

At the balance sheet date the following new standards and amendments to existing standards have been published, but will only be adopted by the Code of Practice of Local Authority Accounting in the United Kingdom in future years.

### ***Annual Improvements to IFRS Standards 2018–2020.***

The annual IFRS improvement programme notes 4 changed standards:

- IFRS 1 (First-time adoption) will be amended in relation to foreign operations; the council does not have foreign operations so will not be impacted.
- IAS 37 Onerous contracts will be amended to clarify the intention but will not have a material impact.
- IAS 41 Agriculture will be amended but does not impact an urban local authority.
- IAS 16 Property, Plant and Equipment will be altered to require sales proceeds to be recognised as income before one of these assets are in use rather than deducted from cost. This change will have no significant

### ***IFRS 16 Leases (deferral to 1 April 2024)***

IFRS 16 Leases will require local authorities to review all their lessor and lessee accounting arrangements to comply with the new financial reporting standard, with potential balance sheet implications, and the initial assessment should be completed by the council during 2024-25. The key aspect is for lessees to recognise appropriate leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition of de minimus thresholds for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2024.

## 3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the authority has not had to make any critical



## 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 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 the assumptions and estimates.

The items in the authority's Balance Sheet at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

### ***Pensions Liability***

Estimation of the net liability, of £478.0m, 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. Two firms of consulting actuaries (Hymans Robertson LLP) and Barnett Waddingham LLP are engaged to provide the Council with expert advice about the assumptions to be applied.

With regard to the locally administered scheme the actuaries provide the following sensitivity analysis:

- a 0.1% decrease in the real discount rate would lead to an increase of approximately £38.4m in the scheme liabilities;
- a 0.1% increase in the rate of pension increase (taken as CPI) would lead to an increase of £34.8m;
- a 0.1% increase in salaries would result in an increase of £3.3m; and
- an increase of 1 year in life expectancy would increase the liabilities in the range £67.2m - £112.0m.

With regard to the LPFA scheme, the liabilities would increase by:

- £0.9m for a reduction of 0.1% in the discount rate;
- less than £0.1m for increases to long term salaries of 0.1%;
- £0.8m for 0.1% increase in pensions and deferred revaluations;
- £4.8m for a one-year increase in life expectancy.

The valuation of the pension liability and related entries relies on information about scheme members, such as their age and current salary or annual pension. Errors were identified in the information provided by the council to the actuary for the purpose of the valuation of the liability at 31 March 2022 and 31 March 2021. It has not been practicable to check and correct all errors in view of the volume of records involved.

### ***Property, Plant and Equipment Valuations***

Assets at carrying value of £2,473.4m are valued in accordance with the professional standards set by the Royal Institution of Chartered Surveyors and valuations are prepared by the Council's external specialists. Property, plant and equipment are subject to full valuation by a qualified valuer under a rolling programme at least once every five years. The valuation in 2021/22 was conducted by Wilks Head and Eve LLP.

The total gross book value of assets valued as part of the valuation process for 2021/22 amounted to £2,272.8m. A 0.1% variation in valuation would lead to a movement of approximately £22.7m in the total gross book value of assets.

The Housing Revenue Account (HRA) residential portfolio was valued utilising a beacon methodology. In order to value the whole portfolio, it was necessary to research a number of information sources. These include sales of directly comparable property, changes of income flow for non-residential HRA property, information available at a local level showing house price movement plus regional and National Indices.

## 4 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### *Property, Plant and Equipment Valuations (Continued)*

The valuation of schools in particular is subject to the application of estimates. Schools are classified as specialised assets because there are no ready made market transactions to validate their value, and they are therefore valued on a Depreciated Replacement Cost basis, with the two components of buildings, and land, valued separately, as explained below.

School buildings have been valued on a "modern equivalent asset" basis, whereby the cost of rebuilding each building in its current size has been calculated, and this Gross Replacement Cost has been adjusted to reflect obsolescence factors. The approach to obsolescence is based on an initial assumption of an asset life of 60 years, combined with a hybrid use of straight-line and reducing balance obsolescence factors, as follows: straight-line obsolescence is applied over the first 25 years of the asset life from construction date (with no deferral period), and then after the first 25 years the obsolescence factor is applied at a reducing balance rate. (The application of the 'soft' threshold is a result of public sector building assets generally lasting much longer than the 60-year target life so it would not be appropriate to continue applying obsolescence at the same rate resulting in 100% obsolescence for a building when it is 60 years old. This is evident within many Local Authority portfolios which include properties that are significantly older than 60 years and are still fully operational and providing the service they were initially constructed to do.) School buildings are valued at £442.2m as at 31 March 2022 (£431.3m at 31 March 2021).

The land valuation applied to schools' sites has been adjusted to reflect the principle market for the land type being residential, and that an element of any residential site would be adopted for social or affordable housing, which therefore gives rise to a significant discount on the raw land values; the net land value applied is an estimated £15.6m per hectare (£13.8m in 2020/21). The land the schools sit on is valued at £444.8m as at 31st March 2022 (£401.7m at 31st March 2021).

There has been a recent revision of guidance by government regarding the use of reinforced autoclaved aerated concrete (RAAC) to suggest that in some instances it may be unsafe and require remedial action. The Council has reviewed its portfolio of properties, performing both desktop evaluation based on age and style of build, and on-site inspection where there was uncertainty as to whether RAAC was present or not, and is satisfied that across the board there is no material impact arising from possible usage of RAAC.

## 5 Material Items of Income and Expenditure

A material item is an item of expenditure or income that is unusual in scale and non-recurring. For 2021/22, the items of this nature are listed below:

- The revaluation movements applied to the Housing Revenue Account resulted in a charge of £50.3m in the CIES (£12.2m in 2020/21).
- The sale proceeds generated from the disposal of assets amounted to £23.7m in 2021/22 (£31.9m in 2020/21).

## 6 EVENTS AFTER THE BALANCE SHEET DATE

Since the Balance Sheet date of 31 March 2022, there have been no material events that would necessitate amendments to these accounts.

## 7 EXPENDITURE AND FUNDING ANALYSIS

This statement shows the reconciliation between the net expenditure in the Comprehensive Income and Expenditure Account and the expenditure chargeable to the General Fund and Housing Revenue Account balances.

Expenditure Chargeable to GF and HRA balances	2020/21		Net Expenditure in the CIES		Expenditure Chargeable to GF and HRA balances	2021/22		Net Expenditure in the CIES
	Adjustments between funding and accounting basis	£'000				£'000	Adjustments between funding and accounting basis	
79,987	10,619	90,606	Children and Culture		74,012	25,112	99,124	
91,471	(38)	91,433	Health, Adults and Communities		63,551	9,166	72,717	
66,200	21,096	87,296	Place		56,705	17,372	74,077	
17,934	(2,747)	15,187	Chief Executive's Office		17,706	(3,400)	14,306	
(2,554)	9,669	7,115	Local Authority Housing (Housing Revenue Account)		(6,607)	49,650	43,043	
40,485	9,474	49,959	Resources		38,114	12,328	50,442	
19,614	(7,506)	12,108	Corporate Cost and Central Items		58,130	(51,426)	6,704	
<b>313,137</b>	<b>40,567</b>	<b>353,704</b>	<b>NET COST OF SERVICES</b>		<b>301,611</b>	<b>58,802</b>	<b>360,413</b>	
(315,455)	(63,948)	(379,403)	Other Income and Expenditure		(299,716)	(41,734)	(341,450)	
<b>(2,318)</b>	<b>(23,381)</b>	<b>(25,699)</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>		<b>1,895</b>	<b>17,068</b>	<b>18,963</b>	
(72,822)			<b>Opening General Fund and HRA balances</b>		(75,140)			
(2,318)			Plus Deficit/(Surplus) on General Fund and HRA Balance in Year		1,895			
<b>(75,140)</b>			<b>CLOSING GENERAL FUND AND HRA BALANCES</b>		<b>(73,245)</b>			

## 7a NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

This statement shows the adjustments from the net chargeable amounts to the General Fund and Housing Revenue Account to arrive at the Comprehensive Income and Expenditure Statement amounts:

Adjustments for Capital Purposes	2020/21						2021/22				
	Transfers (to)/from Earmarked Reserves	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments	Adjustments for Capital Purposes		Transfers (to)/from Earmarked Reserves	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments	
	£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
16,879	(19,165)	2,063	10,842	10,619	Children and Culture	13,248	423	9,696	1,745	25,112	
327	(1,973)	1,009	599	(38)	Health, Adults and Communities	4,494	-	5,038	(366)	9,166	
17,862	(656)	2,104	1,786	21,096	Place	8,206	-	10,574	(1,408)	17,372	
-	(1,016)	3,607	(5,338)	(2,747)	Chief Executive's Office	-	-	4,064	(7,464)	(3,400)	
16,486	-	(1,886)	(4,931)	9,669	Local Authority Housing (Housing Revenue Account)	53,114	-	(1,886)	(1,578)	49,650	
2,736	5,206	1,341	191	9,474	Resources	5,720	-	6,722	(114)	12,328	
(12,952)	6,541	-	(1,095)	(7,506)	Corporate Cost and Central Items	(7,427)	(43,802)	-	(197)	(51,426)	
<b>41,338</b>	<b>(11,063)</b>	<b>8,238</b>	<b>2,054</b>	<b>40,567</b>	<b>NET COST OF SERVICES</b>	<b>77,355</b>	<b>(43,379)</b>	<b>34,208</b>	<b>(9,382)</b>	<b>58,802</b>	
(59,291)	(45,981)	11,011	30,313	(63,948)	Other income and expenditure from the Expenditure and Funding Analysis	(47,720)	-	12,489	(6,503)	(41,734)	
<b>(17,953)</b>	<b>(57,044)</b>	<b>19,249</b>	<b>32,367</b>	<b>(23,381)</b>	<b>DIFFERENCE BETWEEN SURPLUS OR DEFICIT AND THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>29,635</b>	<b>(43,379)</b>	<b>46,697</b>	<b>(15,885)</b>	<b>17,068</b>	

### Adjustments for Capital Purposes

This column includes the following adjustments:

Services – depreciation and impairment and revaluation gains and losses are added back in as these are not in the net chargeable amounts but are chargeable under generally accepted accounting practices. Capital expenditure financed by revenue and statutory charges for capital financing (Minimum Revenue Provision) are removed as these is not chargeable to the Comprehensive Income and Expenditure Statement.

Other income and expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets and also adjusts for the share of housing capital receipts paid to central government under a pooling arrangement. Capital grants are adjusted for income not chargeable under generally accepted accounting practices. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### Transfers (to)/from Earmarked Reserves

This column adjusts for the application of earmarked reserves against expenditure and the transfer of any balances to earmarked reserves which are not included in the Comprehensive Income and Expenditure Statement as they are not chargeable under generally accepted accounting practices.

### Net Change for Pensions Adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

Services - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

Other income and expenditure – the net interest on the defined benefit liability is charged to Financing and Investment Income and Expenditure.

### Other Adjustments

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

Services – adjustments in this column include the timing differences for premia and discounts; interest payable, interest receivable, levies and trading account surplus/deficit moved out of service expenditure to be recognised as part of Other Income and Expenditure within the Surplus or Deficit on the Provision of Services; recognising the accrual of employee annual leave in the Comprehensive Income and Expenditure Statement; also adjusting revenue grants to include those receivable without conditions or for which conditions were satisfied throughout the year.

Other income and expenditure – this column represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

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

2021/22	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES
<b>Adjustments involving the Capital Adjustment Account</b>							
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>							
Charges for depreciation and impairment of non current assets	(28,757)	-	(17,349)	-	-	(46,106)	46,106
Charges for amortisation	(457)	-	-	-	-	(457)	457
Revaluation movements on PPE (charged to SDPS) reversed	219	(50,299)	-	-	-	(50,080)	50,080
Revaluation movements on AHFS (charged to SDPS) reversed	-	-	-	-	-	-	-
Capital grants and contributions applied	22,189	1,115	-	-	34,549	57,853	(57,853)
Revenue expenditure funded from capital under statute	(12,355)	(4,926)	-	-	-	(17,281)	17,281
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(16,393)	(5,512)	-	-	-	(21,905)	21,905
<u>Inclusion of items not debited or credited to the Comprehensive Income &amp;</u>							
Statutory provision for the financing of capital investment	9,961	2,202	-	-	-	12,163	(12,163)
Capital expenditure charged against the General Fund and HRA balances	2,408	-	-	-	-	2,408	(2,408)
<b>Adjustments involving the Capital Receipts Reserve</b>							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	386	23,336	-	(23,722)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	21,565	-	21,565	(21,565)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,737)	-	-	1,737	-	-	-
<b>Adjustment involving the Major Repairs Reserve</b>							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	11,936	-	-	11,936	(11,936)
<b>Adjustments involving the Financial Instruments Adjustment Account</b>							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-
<b>Adjustment involving the Pensions Reserve</b>							
Reversal of items relating to retirement benefits debited or credited to the CIES	(91,156)	-	-	-	-	(91,156)	91,156
Employer's pensions contributions and direct payments to pensioners payable in the year	42,573	1,886	-	-	-	44,459	(44,459)
<b>Adjustments involving the Collection Fund Adjustment Account</b>							
Amount by which council tax and NNDR credited to the CIES is different from council tax and NNDR income calculated in accordance with statutory requirements	13,428	-	-	-	-	13,428	(13,428)
<b>Adjustments involving the Pooled Investments Adjustment Account</b>							
Amount by which changes in the value of pooled investments charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	288	-	-	-	-	288	(288)
<u>Other adjustments include</u>							
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Capital grants and contributions unapplied credited to CIES when receivable	27,463	4,394	-	-	(31,857)	-	-
<b>Adjustments involving the Accumulated Absences Account</b>							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2,391	-	-	-	-	2,391	(2,391)
<b>Adjustments primarily involving the Dedicated Schools Adjustment Account:</b>							
Movement of negative Dedicated schools grant reserve to the DSG adjustment account	(3,094)	-	-	-	-	(3,094)	3,094
<b>Total Adjustments</b>	<b>(32,643)</b>	<b>(27,804)</b>	<b>(5,413)</b>	<b>(420)</b>	<b>2,692</b>	<b>(63,588)</b>	<b>63,588</b>

## 8 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS (Continued)

2020/21	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES £'000
<b>Adjustments involving the Capital Adjustment Account</b>							
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>							
Charges for depreciation and impairment of non current assets	(26,920)	-	(17,617)	-	-	(44,537)	44,537
Charges for amortisation of intangible non-current assets	(120)	-	-	-	-	(120)	120
Revaluation movements on PPE (charged to SDPS) reversed	(11,391)	(11,901)	-	-	-	(23,292)	23,292
Revaluation movements on AHFS (charged to SDPS) reversed	-	(30)	-	-	-	(30)	30
Capital grants and contributions applied	15,616	608	-	-	26,358	42,582	(42,582)
Revenue expenditure funded from capital under statute	(7,359)	(6,105)	-	-	-	(13,464)	13,464
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(610)	(18,537)	-	-	-	(19,147)	19,147
<u>Inclusion of items not debited or credited to the Comprehensive Income &amp;</u>							
Statutory provision for the financing of capital investment	9,524	1,634	-	-	-	11,158	(11,158)
Capital expenditure charged against the General Fund and HRA balances	7,818	-	-	-	-	7,818	(7,818)
<b>Adjustments involving the Capital Receipts Reserve</b>							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	524	38,505	-	(39,029)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	31,292	-	31,292	(31,292)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(2,934)	-	-	2,934	-	-	-
<b>Adjustment involving the Major Repairs Reserve</b>							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	17,543	-	-	17,543	(17,543)
<b>Adjustments involving the Financial Instruments Adjustment Account</b>							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	435	-	-	-	435	(435)
<b>Adjustment involving the Pensions Reserve</b>							
Reversal of items relating to retirement benefits debited or credited to the CIES	(63,250)	-	-	-	-	(63,250)	63,250
Employer's pensions contributions and direct payments to pensioners payable for the year	42,115	1,886	-	-	-	44,001	(44,001)
<b>Adjustments involving the Collection Fund Adjustment Account</b>							
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	(25,283)	-	-	-	-	(25,283)	25,282
<b>Adjustments involving the Pooled Investments Adjustment Account</b>							
Amount by which changes in the value of pooled investments charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	6,232	-	-	-	-	6,232	(6,232)
<u>Other adjustments include</u>							
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Capital grants and contributions unapplied credited to CIES when receivable	25,405	6,564	-	-	(31,969)	-	-
<b>Adjustments involving the Accumulated Absences Account</b>							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(4,915)	-	-	-	-	(4,915)	4,915
<b>Adjustments primarily involving the Dedicated Schools Adjustment Account:</b>							
Movement of negative Dedicated schools grant reserve to the DSG adjustment account	(11,174)	-	-	-	-	(11,174)	11,174
<b>Total Adjustments</b>	(46,722)	13,059	(74)	(4,803)	(5,611)	(44,151)	44,150

## 9 TRANSFERS TO / FROM EARMARKED RESERVES

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

	BALANCE AT 31 MARCH 2020	TRANSFERS OUT 2020/21	TRANSFERS IN 2020/21	BALANCE AT 31 MARCH 2021	TRANSFERS OUT 2021/22	TRANSFERS IN 2021/22	BALANCE AT 31 MARCH 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 Schools Balances	(25,882)	750	(10,903)	(36,035)	7,650	(7,227)	(35,612)
2 DSG	11,080	(11,080)	-	-	-	-	-
3 Insurance	(8,666)	-	(1,300)	(9,966)	-	(200)	(10,166)
4 New Civic Centre	(16,993)	16,993	-	-	-	-	-
5 Parking Control	(3,295)	-	-	(3,295)	-	(2,835)	(6,130)
6 Transformation	(5,343)	1,730	-	(3,613)	-	-	(3,613)
7 Collection Fund Smoothing Reserve	(11,445)	-	(47,900)	(59,345)	-	(4,993)	(64,338)
8 ICT / Finance Systems	(14,548)	5,225	(300)	(9,623)	501	-	(9,122)
9 Mayor's Tackling Poverty Reserve	(3,366)	-	-	(3,366)	-	-	(3,366)
10 Free School Meals	(2,000)	2,000	(6,000)	(6,000)	2,000	-	(4,000)
11 Mayor's Investment Priorities	(5,424)	452	-	(4,972)	-	-	(4,972)
12 Risk Reserve	(7,418)	5,249	(750)	(2,919)	1,051	(793)	(2,661)
13 MTFs Smoothing Reserve	(30,559)	6,000	(16,000)	(40,559)	-	-	(40,559)
14 Adults, Health & Wellbeing (including Public Health)	(1,013)	-	(2,308)	(3,321)	-	(3,658)	(6,979)
15 Services Reserve	(3,191)	449	(2,620)	(5,363)	1,029	(11,999)	(16,333)
16 Revenue Grants	(8,478)	25	(390)	(8,843)	523	(10,814)	(19,134)
17 Covid-19 Grant	(10,318)	6,839	-	(3,479)	-	-	(3,479)
18 Ringfenced Developers' Contributions	(3,167)	43	-	(3,124)	-	-	(3,124)
19 CIL	(7,840)	-	-	(7,840)	2,069	-	(5,771)
20 Council Tax Hardship	-	-	(2,448)	(2,448)	-	-	(2,448)
21 Local Elections Reserve	-	-	(800)	(800)	-	(150)	(950)
22 Mayors Covid Recovery Fund	-	-	-	-	894	(3,000)	(2,106)
23 Black, Asian and Minority Ethnic (BAME)	-	-	-	-	-	(1,000)	(1,000)
24 Health, Adults and Communities (HAC) Joint fund	-	-	-	-	-	(12,427)	(12,427)
<b>Earmarked Reserve Total</b>	<b>(157,866)</b>	<b>34,674</b>	<b>(91,718)</b>	<b>(214,910)</b>	<b>15,716</b>	<b>(59,096)</b>	<b>(258,289)</b>

### Corporate Reserves

- 1 Reserves held by schools under the scheme of delegation. This balance can only be used by the Schools and is not available to the Council for general use.
- 2 In accordance with regulations, the deficit on the schools DSG reserve has been transferred to the dedicated schools grant adjustment account, an unusable reserve.
- 3 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.
- 4 Reserve to contribute towards funding of the new Civic Centre in Whitechapel.
- 5 Parking control reserve.
- 6 Reserve created to support the delivery of the Council's transformation programme.
- 7 Collection Fund Smoothing Reserve - used to manage fluctuations in Business Rates income.
- 8 Reserve to support the planned investment in Council's finance systems.
- 9 Contribution toward funding of welfare reform programme.
- 10 Reserve to fund free school meals programme.
- 11 Reserve to fund Mayor's Investment Priority schemes.
- 12 Risk Reserve to manage funding of risks arising.
- 13 Unspent element of the New Homes Bonus Grant which will to be used to fund housing schemes.
- 14 Reserves held for Adults, Health and Wellbeing and Public Health services.
- 15 Includes Building Control, Land Charges, and Planning reserves.
- 16 Unspent revenue grants without repayment conditions.
- 17 Grant received to fund Covid-19 related expenditure.
- 18 This balance consists of developers' contributions which are ringfenced for specific purposes.
- 19 Community Infrastructure Levy.
- 20 Council Tax Hardship Relief.
- 21 Contribution for future Local Election Costs.
- 22 Mayors Covid Recovery Fund.
- 23 Black, Asian and Minority Ethnic (BAME) reserve to support deliver Inequalities Commission recommendations.
- 24 Health, Adults and Communities (HAC) Joint funding.

## 10 OTHER OPERATING EXPENDITURE

2020/21 £'000		2021/22 £'000
1,936	Levies	1,970
2,934	Payments to Housing Capital Receipts Pool	1,737
(19,882)	Net (gain) / loss on disposal of non-current assets	(1,817)
<b>(15,012)</b>	<b>Total</b>	<b>1,890</b>

## 11 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2020/21 £'000		Note	2021/22 £'000
9,765	Interest payable and similar charges		9,559
11,011	Net interest on the net defined benefit liability/(asset)		12,489
(1,591)	Interest receivable and similar income	17	(1,785)
(6,632)	Net (gains)/losses on financial assets at fair value through profit and loss		(604)
127	(Surplus) or deficit of trading operations		-
<b>12,680</b>	<b>Total</b>		<b>19,659</b>

## 12 TAXATION AND NON SPECIFIC GRANT INCOME

2020/21 £'000		Note	2021/22 £'000
(105,059)	Council Tax income		(113,667)
(90,751)	Non domestic rates		(108,592)
(138,917)	Non-ringfenced Government grants	37	(93,100)
(42,344)	Capital grants and contributions	37	(47,640)
<b>(377,071)</b>	<b>Total</b>		<b>(362,999)</b>

## 13 INCOME AND EXPENDITURE ANALYSED BY NATURE

2020/21 £'000		2021/22 £'000
489,446	Employee benefits expenses	521,994
701,850	Other service expenses	685,029
67,979	Depreciation, amortisation and impairment	96,643
9,765	Interest payments	9,559
11,011	Net interest on the net defined benefit liability/(asset)	12,489
(6,632)	Net (gains)/losses on financial assets at fair value through profit and loss	(604)
1,936	Precepts and levies	1,970
2,934	Payments to housing capital receipts pool	1,737
(19,882)	Gains and losses on disposal of non-current assets	(1,817)
<b>1,258,407</b>	<b>TOTAL EXPENDITURE</b>	<b>1,327,000</b>
(214,959)	Fees, charges and other service income	(236,463)
(1,591)	Interest and investment income	(1,785)
(195,810)	Income from council tax and non-domestic rates	(222,259)
(871,746)	Government grants and contributions	(847,530)
<b>(1,284,106)</b>	<b>TOTAL INCOME</b>	<b>(1,308,037)</b>
<b>(25,699)</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>18,963</b>



## 14 PROPERTY, PLANT AND EQUIPMENT

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The authority has determined in accordance with Regulation 30M England of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

The totality of Property, Plant and Equipment is provided in the first table below, with details of in-year movements within each subsection provided in the tables thereafter.

2020/21 £'000	TOTAL PPE	2021/22 £'000
133,010	Infrastructure assets (net book value) - 31 March	144,031
2,565,538	Other PPE - 31 March	2,727,600
<b>2,698,548</b>	<b>TOTAL PPE - 31 March</b>	<b>2,871,631</b>

2020/21 £'000	Infrastructure Assets	2021/22 £'000
125,292	Infrastructure assets (net book value) - 1 April	133,010
17,733	Additions in-year	21,368
(10,015)	Depreciation charge in-year	(10,347)
-	Reclassifications	-
<b>133,010</b>	<b>Infrastructure assets (net book value) - 31 March</b>	<b>144,031</b>

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

MOVEMENTS IN 2021/22	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	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
<b>Cost or Valuation</b>								
<b>At 1 April 2021</b>	<b>1,097,416</b>	<b>1,280,833</b>	<b>49,081</b>	<b>36,274</b>	<b>26,407</b>	<b>113,989</b>	<b>2,604,000</b>	<b>231,938</b>
Additions	12,502	15,909	3,987	1,341	508	84,795	119,042	4,413
Revaluation increases/(decreases) recognised in the Revaluation Reserve	58,959	59,068	-	-	(1,830)	-	116,197	16,917
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(47,070)	(461)	-	-	(2,549)	-	(50,080)	(1,538)
Derecognition - Disposals	(4,673)	(15,795)	-	-	-	-	(20,468)	-
Derecognition - Other	-	(704)	-	-	-	-	(704)	-
Assets Reclassified (to)/from Held for Sale	-	-	-	-	(213)	-	(213)	-
Other Reclassification of Assets	1,447	3,159	-	(1,039)	(954)	(2,613)	-	-
<b>At 31 March 2022</b>	<b>1,118,581</b>	<b>1,342,009</b>	<b>53,068</b>	<b>36,576</b>	<b>21,369</b>	<b>196,171</b>	<b>2,767,774</b>	<b>251,730</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2021</b>	<b>-</b>	<b>11,634</b>	<b>26,746</b>	<b>-</b>	<b>-</b>	<b>82</b>	<b>38,462</b>	<b>3,410</b>
Depreciation charge	16,034	14,335	5,236	-	153	-	35,758	2,241
Depreciation written out to the Revaluation Reserve	(15,985)	(17,695)	-	-	(119)	-	(33,799)	(2,041)
Derecognition - Disposals	(68)	(152)	-	-	-	-	(220)	-
Derecognition - Other	-	(27)	-	-	-	-	(27)	-
Other Reclassification of Assets	19	33	-	-	(7)	(45)	-	-
<b>At 31 March 2022</b>	<b>-</b>	<b>8,128</b>	<b>31,982</b>	<b>-</b>	<b>27</b>	<b>37</b>	<b>40,174</b>	<b>3,610</b>
<b>Net Book Value</b>								
<b>At 31 March 2022</b>	<b>1,118,581</b>	<b>1,333,881</b>	<b>21,086</b>	<b>36,576</b>	<b>21,342</b>	<b>196,134</b>	<b>2,727,600</b>	<b>248,120</b>
<b>At 31 March 2021</b>	<b>1,097,416</b>	<b>1,269,199</b>	<b>22,335</b>	<b>36,274</b>	<b>26,407</b>	<b>113,907</b>	<b>2,565,538</b>	<b>228,528</b>

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

MOVEMENTS IN 2020/21	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	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
<b>Cost or Valuation</b>								
<b>At 1 April 2020</b>	<b>1,136,458</b>	<b>1,286,895</b>	<b>39,331</b>	<b>33,740</b>	<b>26,371</b>	<b>90,419</b>	<b>2,613,214</b>	<b>230,218</b>
Additions	33,724	26,471	9,750	2,534	7	59,451	131,937	8,989
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(93,446)	(10,206)	-	-	5,486	-	(98,166)	(4,537)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(7,608)	(15,287)	-	-	(397)	-	(23,292)	(2,732)
Derecognition - Disposals	(3,654)	-	-	-	(14,500)	-	(18,154)	-
Derecognition - Other	-	(1,164)	-	-	-	-	(1,164)	-
Assets Reclassified (to)/from Held for Sale	(219)	(156)	-	-	-	-	(375)	-
Other Reclassification of Assets	32,161	(5,720)	-	-	9,440	(35,881)	-	-
<b>At 31 March 2021</b>	<b>1,097,416</b>	<b>1,280,833</b>	<b>49,081</b>	<b>36,274</b>	<b>26,407</b>	<b>113,989</b>	<b>2,604,000</b>	<b>231,938</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2020</b>	<b>-</b>	<b>10,431</b>	<b>23,568</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>34,010</b>	<b>3,235</b>
Depreciation charge	16,607	14,708	3,178	-	29	-	34,522	2,242
Depreciation written out to the Revaluation Reserve	(16,631)	(13,009)	-	-	(243)	-	(29,883)	(2,067)
Derecognition - Disposals	(53)	-	-	-	-	-	(53)	-
Derecognition - Other	-	(118)	-	-	-	-	(118)	-
Assets reclassified (to)/from Held for Sale	(3)	(13)	-	-	-	-	(16)	-
Other Reclassification of Assets	80	(365)	-	-	203	82	-	-
<b>At 31 March 2021</b>	<b>-</b>	<b>11,634</b>	<b>26,746</b>	<b>-</b>	<b>-</b>	<b>82</b>	<b>38,462</b>	<b>3,410</b>
<b>Net Book Value</b>								
<b>At 31 March 2021</b>	<b>1,097,416</b>	<b>1,269,199</b>	<b>22,335</b>	<b>36,274</b>	<b>26,407</b>	<b>113,907</b>	<b>2,565,538</b>	<b>228,528</b>
At 31 March 2020	1,136,458	1,276,464	15,763	33,740	26,360	90,419	2,579,204	226,983

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Depreciation

The following useful lives have been used in the calculation of depreciation, applied on a straight line basis:

- Council Dwellings – 50 years
- Other Land and Buildings – 50 years for schools, libraries and offices; 54 years for temporary accommodation; 53 years for garages; 41 years for community buildings
- Vehicles, Plant & Equipment - 5 years on a straight line basis, or as advised by the service
- Infrastructure assets - 25 years for roads, footways, street furniture, traffic management systems and other highway-related assets, and street lighting installed before 2018/19; 12 years for new LED lanterns, and 50 years for columns, for streetlighting installed from 2018/19 onwards, 100 years for tunnels, and 120 years for bridges

### Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million at 31st March 2022 as

	Committed sum 31/03/2022 £'000	Costs to 31/3/2022 £'000	2022/23 onwards £'000
Whitechapel Civic Centre	117,268	96,835	20,433
New Housing - Infill sites	36,931	32,845	4,086
Barnsley Street	18,097	12,110	5,987
St Pauls Way	7,793	7,733	60
Mellish Street	7,168	4,560	2,608
Lowder House Garage site	5,262	5,506	-
Keats House	3,034	1,360	1,674
Strahan Road	2,535	1,558	977
Hanbury St Garage site	2,305	2,291	14
Norman Grove	6,444	1,202	5,242
Shetland Road	5,689	1,372	4,317
London Dock School	11,085	1,793	9,292
<b>TOTAL</b>	<b>223,611</b>	<b>169,165</b>	<b>54,690</b>

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million at 31st March 2021 as

	Committed sum 31/2/2021 £'000	Costs to 31/3/2021 £'000	2021/22 onwards £'000
Whitechapel Civic Centre	116,047	62,025	54,022
New Housing - Infill sites	36,931	27,637	9,294
Barnsley Street (Formerly Ashington East)	18,097	3,082	15,015
St Pauls Way	7,793	3,998	3,795
Mellish Street	7,168	1,967	5,201
Lowder House Garage site	5,261	2,246	3,015
Keats House	3,034	589	2,445
Strahan Road	2,535	324	2,211
Hanbury St Garage site	2,305	1,111	1,194
Sidney Street	1,748	764	984
London Dock School	11,085	1,004	10,081
<b>TOTAL</b>	<b>212,004</b>	<b>104,747</b>	<b>107,257</b>

### Revaluations

In 2021/22, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2016'.

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 31st March in the year of valuation. In 2021/22, school assets held at depreciated replacement cost (DRC) were also subject to a desktop valuation as at 31st March 2022. A summary of total valuation per asset category is shown below.

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	-	383	21,086	144,031	36,576	-	196,134	398,210
Valued at current value in:								
2021/22	1,118,581	1,134,061	-	-	-	20,160	-	2,272,802
2020/21	-	68,415	-	-	-	1,182	-	69,597
2019/20	-	52,947	-	-	-	-	-	52,947
2018/19	-	75,154	-	-	-	-	-	75,154
2017/18	-	2,921	-	-	-	-	-	2,921
<b>31 March 2022</b>	<b>1,118,581</b>	<b>1,333,881</b>	<b>21,086</b>	<b>144,031</b>	<b>36,576</b>	<b>21,342</b>	<b>196,134</b>	<b>2,871,631</b>

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### 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 above reconciling the movement over the year in the Property, Plant and Equipment balances. An impairment review was carried out by qualified valuers at 31st March 2022 a few blocks under Council Dwellings were impaired resulting in impairment loss of £0.910 million.

### Fair Value Measurement – Surplus Assets

Surplus assets have been valued using the Fair Value approach, and the Valuer has advised that Level 2 inputs have been employed (and the definition of this is explained below). The objective of this measurement approach is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under the current market conditions.

- Level 2 inputs are quoted prices other than quoted prices in Level 1 that are observable for the asset.
- Significant Observable Inputs as used for the valuation of Surplus Assets are such things as current market conditions (based on recent sales prices), and size, location and condition of property, along with other relevant factors.
- The level of inputs has not changed from the previous balance sheet date.

## 15 INTANGIBLE ASSETS

Movement on Intangible Assets	Total £'000
<b>Asset value at 31 March 2020</b>	684
Additions	1,695
Amortisation	(120)
<b>Asset value at 31 March 2021</b>	<b>2,259</b>
Additions	536
Amortisation	(457)
<b>Asset value at 31 March 2022</b>	<b>2,338</b>

All intangible assets are given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful life assigned to intangible assets used by the Council is between four and six years.

The carrying amount of intangible assets is amortised on a straight-line basis.

## 16 HERITAGE ASSETS

The Council holds a number of heritage assets. These include civic regalia, works of art across the borough (one of which is a sculpture valued at £18m which was relocated to the borough during 2017/18) 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.

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 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.

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.

## 17 FINANCIAL INSTRUMENTS

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are classified into one of three categories based on the business model for holding the instruments and their expected cashflow characteristics as follows:

**Amortised Cost** - where cash flows are solely for payments of principal and interest and the Council's business model is to collect those cash flows. For borrowing, this means that the amount in the balance sheet is the remaining principal and the accrued interest. Financial assets include cash in hand, bank current and deposit accounts, fixed term deposits.

**Fair Value Through Other Comprehensive Income (FVOCI)** - Fair value is defined as the amount for which an asset or a liability could be exchanged between market participants in an arm's length transaction. Where held as fair value through other comprehensive income, the cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows and sell the instruments, including equity investments that the Council has elected into this category).

**Fair Value Through Profit and Loss (FVTPL)** - These assets are measured and carried at fair value and all gains and losses due to changes in fair value (both realised and unrealised) are recognised in the Comprehensive Income & Expenditure Statement as they occur.

The Council holds some assets at fair value through profit or loss - the Council's investments in pooled funds have been classified as such, as well as holdings in money market funds. The former are long-term strategic holdings whose changes in fair value are not considered to be part of the Council's annual financial performance. The fair values for these investments have been mostly derived from "Level 1 inputs" (where the fair values are only derived from quoted prices in active markets for identical assets or liabilities).

### Catagories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet.

Financial Instrument Categories	Non-Current		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2021	2022	2021	2022	2021	2022
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Assets</b>						
<b>Financial Assets - Fair Value through profit and loss*</b>						
Investments	55,897	56,186	20,000	20,000	75,897	76,186
Cash Equivalents	-	-	70,900	115,200	70,900	115,200
					-	-
<b>Financial Assets at Amortised Cost</b>						
Investments	5,000	-	97,415	95,371	102,415	95,371
Trade Debtors	2,159	2,173	85,976	77,207	88,135	79,380
Cash and Cash Equivalents	-	-	128,369	135,346	128,369	135,346
<b>Total Financial Assets</b>	<b>63,056</b>	<b>58,359</b>	<b>402,660</b>	<b>443,124</b>	<b>465,716</b>	<b>501,483</b>
<b>Financial Liabilities</b>						
<b>Financial Liabilities at Amortised Cost</b>						
Cash and Cash Equivalents	-	-	(65,006)	(45,963)	(65,006)	(45,963)
Borrowing	(69,872)	(68,709)	(2,064)	(1,557)	(71,936)	(70,266)
Trade Creditors	-	-	(81,503)	(94,155)	(81,503)	(94,155)
Service Concessions and Finance Leases	(53,484)	(50,087)	(2,874)	(3,396)	(56,358)	(53,483)
<b>Total Financial Liabilities</b>	<b>(123,356)</b>	<b>(118,796)</b>	<b>(151,447)</b>	<b>(145,071)</b>	<b>(274,803)</b>	<b>(263,867)</b>

\*The valuation basis is Level 1 classification, where fair value is determined by unadjusted quoted prices in active markets, but subject to the further detail provided in the text above the table.

## 17 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:

	2020/21		2021/22			
	Financial Liabilities measured at amortised cost	Financial Assets measured at amortised cost	Financial Assets measured at FVPL*	Financial Liabilities measured at amortised	Financial Assets measured at amortised cost	Financial Assets measured at FVPL*
	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	9,765	-	-	9,559	-	-
Loan repayment penalty	-	-	-	-	-	-
Interest income	-	(1,591)	-	-	(1,785)	-
Money Market Funds (Cash Equivalents)	-	-	(96)	-	-	(68)
Pooled Funds	-	-	(6,536)	-	-	(536)
<b>Net Gain/(Loss) for the year</b>	<b>9,765</b>	<b>(1,591)</b>	<b>(6,632)</b>	<b>9,559</b>	<b>(1,785)</b>	<b>(604)</b>

\*Fair Value through Profit and Loss

### Fair Values of Financial Instruments carried at Amortised Cost

The fair value of each class of financial instruments which are carried in the balance sheet at amortised cost is disclosed in the table below. Some classes of instrument (namely cash and cash equivalents, trade debtors and creditors, and investments which are predominantly fixed-term deposits of maturity under 12 months, and in any case no longer than 3 years) have been assessed as having carrying values which are not materially different from fair values, and so are not disclosed in the table below.

	Fair Value Valuation Basis	31 March 2021	31 March 2021	31 March 2022	31 March 2022
		Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Borrowing held at amortised cost					
Public Works Loans Board	Level 2	(54,362)	(61,966)	(52,692)	(50,448)
Market Loans - Fixed Interest	Level 2	(17,574)	(31,160)	(17,574)	(26,162)
Service Concessions	Level 2	(29,348)	(46,446)	(26,655)	(37,932)
Finance Leases	Level 2	(27,009)	(59,864)	(26,828)	(51,924)
<b>Financial Liabilities</b>		<b>(128,293)</b>	<b>(199,436)</b>	<b>(123,749)</b>	<b>(166,466)</b>

The fair value valuation bases are as follows:

Level 1 - unadjusted quoted prices in active markets for identical instruments that the Council can access at the balance sheet date.

Level 2 - using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - using unobservable inputs for the asset or liability.

The fair value of borrowings is higher 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.

The fair values of borrowings are estimated as the price the lender would receive to sell the loans to another market participant on 31st March, based on observable market rates for similar transactions, including local authority bonds in issue. Where there is no directly comparable bond in issue, the market rate is derived from observed interest rate swap rates plus an interpolated credit spread. Ultimately, if prevailing interest rates were lower, then the fair values of the Council's borrowings would increase. The fair values quoted for borrowings include accrued interest as at 31st March in order to enable direct comparison with the carrying amounts (which, being valued at amortised cost, also include accrued interest).

The fair values of service concessions and finance leases are estimated as the price the Council would pay to transfer the liability to another market participant on 31st March, and the underlying methodology is a discounted cash flow analysis. The key input involved is the discount factor, and that has been assessed as the yields on AA corporate bonds. Ultimately, if prevailing bond yields were lower, then the fair values would increase, all other factors being equal.

## 17 FINANCIAL INSTRUMENTS (CONTINUED)

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

The council is exposed to a variety of risks in providing its services and as such, seeks to minimise the potential adverse effects on the resources available to fund services. These risks include:

- Credit risk - the possibility that counterparties might fail to pay amounts due to the council
- Liquidity risk - the possibility that the Council might not have access to cash to meet its liabilities as they fall due.
- Market risk - the possibility that financial loss may arise as a result of changes in values such measures as interest rates

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.

### 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 financial institutions as shown below which is further detailed in the Treasury Management Strategy.

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities (subject to checks on their balance sheet position depending on duration)	25 years	£30m	Unlimited
Secured investments	25 years	£30m	Unlimited
Banks (unsecured)	13 months	£15m	Unlimited
Building societies (unsecured)	13 months	£15m	£30m
Registered providers (unsecured)	5 years	£15m	£75m
Money market funds	n/a	£30m	Unlimited
Strategic pooled funds	n/a	£30m	£150m
Real estate investment trusts	n/a	£30m	£75m



## 17 FINANCIAL INSTRUMENTS (CONTINUED)

### *Credit Risk Exposure on Treasury Management Activities*

As at the balance sheet date investments of principal are analysed as follows, and the credit-worthiness of the investment portfolio is rated at AA- (rated A+ in 2020/21).

Financial Asset Class	31 March	31 March
	2021	2022
	£'000	£'000
<b>Long-term Investments</b>		
Fixed-term deposits with other local authorities	5,000	-
Fixed-term deposits with financial institutions	-	-
Pooled investment funds with financial institutions	55,897	56,186
<b>Short-term investments</b>		
Fixed-term deposits with other local authorities	97,000	55,000
Fixed-term/call account deposits with financial institutions	-	40,000
Pooled investment funds with financial institutions	20,000	20,000
<b>Cash Equivalents</b>		
Fixed-term deposits with other local authorities	10,000	-
Fixed-term/call account deposits with financial institutions	15,000	35,000
MMFs with financial institutions	70,900	115,200
<b>TOTAL</b>	<b>273,797</b>	<b>321,386</b>

The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits, and has no historical experience of defaults on any of its investments.

### *Credit Risk Exposure on Trade Debtors*

Where the Council provides services to customers or has contractual arrangements in place with other organisations, there is the possibility that outstanding monies will not be repaid. The table below shows the gross amounts outstanding and the expected lifetime credit loss (using the

	31 March 2021		31 March 2022	
	Gross	Loss	Gross	Loss
	debtors	allowance	debtors	allowance
	£'000	£'000	£'000	£'000
Long-term trade debtors	2,159	-	2,173	-
NHS	7,879	-	22,573	-
Tower Hamlets Homes	2,410	-	4,266	-
Leaseholders	39,952	(2,402)	39,539	(2,402)
Tenants (HRA and temporary accommodatio	20,217	(18,205)	20,404	(18,474)
Other	41,963	(5,838)	17,908	(6,607)
<b>TOTAL</b>	<b>114,580</b>	<b>(26,445)</b>	<b>106,863</b>	<b>(27,483)</b>

For Leaseholders, the loss allowance is a reflection of the time-value of money, being calculated by means of a discounted cash flow of the expected collection time profile.

For Tenants, the loss allowance is calculated at nearly full coverage of the gross receivable, reflecting the difficulties of collection, especially from those housed in temporary accommodation. In 2021/22, £0.306m was written off (£0.997m in 2020/21).

For others, the loss allowance is calculated by means of mostly reviewing outstanding debts and assessing on an individual basis, but using collective assessment in the segment of adult social care cutomers; no component element of the loss allowance is significant. In the year, £0.316m was written off (£0.192m in 2020/21).

With the exception of leaseholders, who are permitted to pay for the costs of major works incurred on their accommodation blocks by means of payment plans over a number of years, the Council

## 17 FINANCIAL INSTRUMENTS (CONTINUED)

### Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council has ready 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 maturity structure of financial liabilities is as follows (at nominal value):

Loans outstanding	31 March 2021	31 March 2022
	£'000	£'000
Public Works Loans Board	115,765	112,677
Market debt	60,403	59,644
PFI / Finance Leases	126,693	117,162
<b>TOTAL</b>	<b>302,861</b>	<b>289,483</b>
Less than 1 year	13,378	12,914
Between 1 and 2 years	12,914	11,924
Between 2 and 5 years	36,053	36,072
Between 5 and 10 years	35,358	28,095
More than 10 years	205,158	200,478
<b>TOTAL</b>	<b>302,861</b>	<b>289,483</b>

The Council uses money market funds to provide liquidity.

## 17 FINANCIAL INSTRUMENTS (CONTINUED)

### Market Risk - Interest rate:

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates - the interest expense charged to the surplus or deficit on the provision of services will rise
- borrowings at fixed rates - the fair value of the liabilities will fall
- investments at variable rates - the interest income credited to the surplus or deficit on the provision of services will rise
- investments at fixed rates - the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 75% of its net debt in variable rate loans and to prioritise use of cash balances and temporary borrowing over new variable rate loans. The Council's Strategy is that new variable rate loans from the Public Works Loans Board are to be for periods up to ten years.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

### 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 2022, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as follows:

Interest Rate Risk	2020/21 £'000	2021/22 £'000
Increase in interest payable on variable rate borrowings	-	-
Increase in interest receivable on variable rate investments	(760)	(1,052)
<b>Impact on Income and Expenditure Account</b>	<b>(760)</b>	<b>(1,052)</b>

Fair Value Movements	2020/21 £'000	2021/22 £'000
Decrease in fair value of fixed rate investments	542	246
Decrease in fair value of fixed rate borrowing liabilities	21,446	(16,603)
<b>Impact on Income and Expenditure Account</b>	<b>21,988</b>	<b>(16,357)</b>

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

### Market Risk - Price

The market prices of the Council's pooled funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices and its investments in pooled equity funds is also subject to the risk of falling share prices. This price risk is minimised by limiting the Council's maximum exposure to property and equity investments.

### Foreign Exchange Risk

The council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

## 18 LONG TERM DEBTORS

	Balance at 1st April 2020 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2021 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2022 £'000
Mortgages on Right to Buy properties	27	-	(27)	-	-	-	-
Sundry Loans	1,589	613	(43)	2,159	69	(55)	2,173
	1,616	613	(70)	2,159	69	(55)	2,173

## 19 NON-FINANCIAL ASSETS

Where monies are collectible due to statutory powers rather than contractual arrangements, these are classified as non-financial assets. Receivables past due and not impaired as at the balance sheet date are as per the table below.

Balances at 31 March 2022	0-1 year old £'000	1-2 years old £'000	2+ years old £'000
Council Tax and Court Costs	8,405	1,779	1,350
National Non Domestic Rates	6,737	1,612	479
Housing Benefits Overpayments	1,843	1,543	7,577
Community Infrastructure Levy	2,943	-	-
Parking	1,441	-	-
<b>Total</b>	<b>21,369</b>	<b>4,934</b>	<b>9,406</b>

Balances at 31 March 2021	0-1 year old £'000	1-2 years old £'000	2+ years old £'000
Council Tax and Court Costs	8,322	1,761	1,337
National Non Domestic Rates	5,051	1,209	359
Housing Benefits Overpayments	2,017	1,689	8,295
Community Infrastructure Levy	9,081	-	-
Parking	804	-	-
<b>Total</b>	<b>25,275</b>	<b>4,659</b>	<b>9,991</b>

## 20 SHORT TERM DEBTORS

	31 March 2021 £'000	31 March 2022 £'000
National Health Service	7,879	22,573
HM Revenue & Customs	34,576	28,520
Other Central Government Bodies	67,207	33,980
Other Local Authorities	47,566	40,555
Tower Hamlets Homes	2,410	4,266
Council Tax	10,066	9,822
National Non Domestic Rates	6,619	8,828
Housing and Tenants Rents	51,738	50,200
Other Entities & Individuals	37,406	12,063
Payments in Advance	7,300	2,729
<b>Total</b>	<b>272,767</b>	<b>213,536</b>

## 21 CASH AND CASH EQUIVALENTS

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

	31 March 2021 £'000	31 March 2022 £'000
Cash held by the Council	103,369	100,346
Short-term deposits with banks, building societies and local authorities	25,000	35,000
Money Market Funds	70,900	115,200
Cash overdraft	(65,006)	(45,963)
<b>Total Cash and Cash Equivalents</b>	<b>134,263</b>	<b>204,583</b>

## 22 ASSETS HELD FOR SALE

As at the 31st March 2022, the Council has 4 properties which are classified as Assets Held for Sale.

	31 March 2021 £'000	31 March 2022 £'000
<b>Value at 1st April</b>	-	979
Assets newly classified as held for sale:		
Property, Plant and Equipment transfer	359	213
Revaluation increases/(decreases) recognised in the Revaluation Reserve	650	-
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(30)	-
Assets declassified as held for sale:		
Assets sold	-	(979)
<b>Value at 31st March</b>	<b>979</b>	<b>213</b>

### Assets Held for Sale – basis of valuation

In line with IFRS 5, Assets Held for Sale have been valued at the lower of carrying value and Fair Value as appropriate to the measurement requirements of the code. The approach to Fair Value valuation would be as described under Fair Value Measurement – Surplus Assets (within Note 14).

## 23 SHORT TERM CREDITORS

	31 March 2021 £'000	31 March 2022 £'000
National Health Service	(3,241)	(6,644)
HM Revenue & Customs	(7,818)	(9,396)
Other Central Government Bodies	(102,654)	(102,504)
Other Local Authorities	(14,656)	(7,477)
Council Tax	(8,823)	(9,684)
National Non Domestic Rates	(9,474)	(10,219)
Housing and Tenants Rents	(2,120)	(2,008)
Other Entities & Individuals	(76,142)	(85,503)
Receipts in advance	(44,519)	(54,490)
<b>Total</b>	<b>(269,447)</b>	<b>(287,925)</b>

## 24 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 31 March 2020 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2021 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2022 £'000
(a) Business rates appeals	(6,238)	2,323	(149)	(4,064)	1,595	(1,582)	(4,051)
(b) Insurance Fund	(1,000)	801	(815)	(1,014)	709	(1,374)	(1,679)
(c) Other corporate provisions	(1,960)	1,960	-	-	-	-	-
<b>TOTAL</b>	<b>(9,198)</b>	<b>5,084</b>	<b>(964)</b>	<b>(5,078)</b>	<b>2,304</b>	<b>(2,956)</b>	<b>(5,730)</b>

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

LONG-TERM PROVISIONS	Balance at 31 March 2020 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2021 £'000	Amounts used or written £'000	Contributions or transfers £'000	Balance at 31 March 2022 £'000
(a) Business rates appeals	(500)	-	500	-	-	-	-
(b) Insurance Fund	(2,810)	-	(273)	(3,083)	-	665	(2,418)
(d) Repayment of deposits	(58)	58	-	-	-	-	-
(e) Water Charges	(9,000)	-	-	(9,000)	6,452	-	(2,548)
(f) Disrepairs	(200)	-	-	(200)	-	-	(200)
(g) Employment Disputes	(800)	-	-	(800)	-	-	(800)
<b>TOTAL</b>	<b>(13,368)</b>	<b>58</b>	<b>227</b>	<b>(13,083)</b>	<b>6,452</b>	<b>665</b>	<b>(5,966)</b>

- (a) Council share of provision for business rates appeals.
- (b) 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.
- (c) A previous provision made to meet anticipated liabilities in relation to the fatal incident involving a child in Mile End Park in 2015 is no longer required.
- (d) Reclassification of provision as a short term creditor.
- (e) A High Court ruling in 2016 established that another London Borough had not passed on discounts from a water supplier to its tenants. The discounts were given as part of the agreement with the water company as an administration fee for collection of charges from tenants. As a result of this ruling the Council may receive claims from tenants for overpaid water charges as a similar agreement was in place with the water company.
- (f) Provision for legal costs relating to the disrepair of Council properties
- (g) Provision for settlements or costs incurred in employment disputes

## 25 USABLE RESERVES

31 March 2021 £'000		31 March 2022 £'000
(24,375)	General Fund	(20,352)
(50,765)	Housing Revenue Account	(52,893)
(214,910)	Earmarked Reserves	(258,289)
(138,959)	Capital Receipts Reserve	(139,379)
(199,774)	Capital Grants Reserve	(197,082)
(74)	Major Repairs Reserve	(5,487)
<b>(628,857)</b>	<b>Total Usable Reserves</b>	<b>(673,482)</b>

More details regarding the movements in the Council's General Fund and Housing Revenue Account are detailed in the Movement in Reserves Statement and in Note 9. Details regarding the movement in Earmarked Reserves can be found in Note 10.

### Capital Receipts Reserve

31 March 2021 £'000		31 March 2022 £'000
(134,156)	Balance at 1 April	(138,959)
(39,029)	Capital Receipts in year	(23,722)
2,934	Capital Receipts Pooled	1,737
31,292	Capital Receipts used for financing	21,565
<b>(138,959)</b>	<b>Balance at 31 March</b>	<b>(139,379)</b>

### Capital Grants Reserve

31 March 2021 £'000		31 March 2022 £'000
(194,163)	Balance at 1 April	(199,774)
(12,830)	Community Infrastructure Levy (CIL) recognised in year	(6,923)
(19,139)	Other Capital grants recognised in year	(24,934)
5,467	Community Infrastructure Levy (CIL) applied	9,226
20,891	Other Capital grants and contributions applied	25,323
<b>(199,774)</b>	<b>Balance at 31 March</b>	<b>(197,082)</b>

Of the Capital Grants Reserve balance above, CIL balances as at 31st March 2021 and 2022 are £100.231m and £97.928m respectively.

### Major Repairs Reserve

31 March 2021 £'000		31 March 2022 £'000
-	Balance at 1 April	(74)
(17,617)	Transfer from Capital Adjustment Account - depreciation	(17,349)
17,543	Financing of capital expenditure	11,936
<b>(74)</b>	<b>Balance at 31 March</b>	<b>(5,487)</b>

## 26 UNUSABLE RESERVES

31 March 2021 £'000		31 March 2022 £'000
(703,310)	Revaluation Reserve	(839,012)
(1,535,633)	Capital Adjustment Account	(1,520,023)
16,547	Financial Instruments Adjustment Account	16,547
614,324	Pensions Reserve	477,951
49,616	Collection Fund Adjustment Account	36,188
7,884	Accumulating Compensated Absences Adjustment Account	5,493
102	Pooled Investment Fund Adjustment Account	(186)
11,174	Dedicated Schools Adjustment Account	14,268
<b>(1,539,296)</b>	<b>Total Unusable Reserves</b>	<b>(1,808,774)</b>

### Revaluation Reserve

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

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

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

2020/21 £'000		2020/21 £'000
(793,374)	<b>Balance at 1 April</b>	(703,310)
(39,825)	Upward revaluation of assets	(173,591)
107,456	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	23,595
67,631	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(149,996)
6,985	Difference between current value depreciation and historical cost depreciation	5,509
15,448	Accumulated gains on assets sold or scrapped	8,785
22,433	Amount written off to the Capital Adjustment Account	14,294
<b>(703,310)</b>	<b>Balance at 31 March</b>	<b>(839,012)</b>



## 26 UNUSABLE RESERVES (CONTINUED)

### Capital Adjustment Account

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

The Account 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 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2020/21 £'000		2021/22 £'000
<b>(1,503,398)</b>	<b>Balance at 1 April</b>	<b>(1,535,633)</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
44,537	Charges for depreciation and impairment of non current assets	46,106
120	Charges for amortisation of intangible non-current assets	457
23,292	Revaluation losses and reversals on Property, Plant and Equipment	50,080
30	Revaluation losses and reversals on Assets Held for Sale	-
13,464	Revenue expenditure funded from capital under statute	17,281
19,147	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	21,905
<u>100,590</u>		135,829
<u>(22,433)</u>	Adjusting amounts written out of the Revaluation Reserve	<u>(14,294)</u>
78,157	Net written out amount of the cost of non current assets consumed in the year	121,535
	<b>Capital financing applied in the year:</b>	
(31,292)	Use of the Capital Receipts Reserve to finance new capital expenditure	(21,565)
(17,543)	Use of the Major Repairs Reserve to finance new capital expenditure	(11,936)
(42,582)	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	(57,853)
(11,157)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(12,163)
<u>(7,818)</u>	Capital expenditure charged against the General Fund and HRA balances	<u>(2,408)</u>
<u>(110,392)</u>		<u>(105,925)</u>
<b>(1,535,633)</b>	<b>Balance at 31 March</b>	<b>(1,520,023)</b>

## 26 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 HRA Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the HRA 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.

A £60m LOBO loan was repaid prematurely in November 2018. The premium is being charged to revenue over the remaining life of the loan.

2020/21 £'000		2021/22 £'000
16,982	<b>Balance at 1 April</b>	16,547
(435)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-
<b>16,547</b>	<b>Balance at 31 March</b>	<b>16,547</b>

### Pensions Reserve

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

2020/21 £'000		2021/22 £'000
473,379	<b>Balance at 1 April</b>	614,324
116,499	Actuarial gains or losses on pensions assets and liabilities	(183,070)
63,250	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	91,156
(44,001)	Employer's pensions contributions and direct payments to pensioners payable in the year	(44,459)
5,197	Derecognition of Tower Hamlet Homes pension scheme asset	-
<b>614,324</b>	<b>Balance at 31 March</b>	<b>477,951</b>

## 26 UNUSABLE RESERVES (CONTINUED)

### 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.

2020/21 £'000		2021/22 £'000
24,334	<b>Balance at 1 April</b>	49,616
25,282	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 accordance with statutory requirements	(13,428)
<b>49,616</b>	<b>Balance at 31 March</b>	<b>36,188</b>

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2020/21 £'000		2021/22 £'000
2,969	<b>Balance at 1 April</b>	7,884
(2,969)	Settlement or cancellation of accrual made at the end of the preceding year	(7,884)
7,884	Amounts accrued at the end of the current year	5,493
4,915	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,391)
<b>7,884</b>	<b>Balance at 31 March</b>	<b>5,493</b>

### Pooled Investment Fund Adjustment Account

The Pooled Investment Fund Adjustment Account contains the gains/losses made by the authority arising from increases/decreases in the value of its investments that are measured at fair value through profit and loss. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

2020/21 £'000		2021/22 £'000
6,334	<b>Balance at 1 April</b>	102
(6,232)	Upward revaluation of investments	(288)
-	Downward revaluation of investments	-
102		(288)
<b>102</b>	<b>Balance at 31 March</b>	<b>(186)</b>

### Dedicated Schools Adjustment Account

The Local Authorities (Capital Finance and Accounting) regulations were amended on 29 November 2020. New accounting treatment is required for local authorities' schools budget deficits relating to its accounts for a financial year beginning 1 April 2021, 1 April 2022 and 1 April 2023. Local authorities are not permitted to charge the value of the deficit to the general fund. Any historical deficit and in year deficit is to be recorded in a dedicated schools grant adjustment account, a newly created unusable reserve.

2020/21 £'000		2021/22 £'000
	<b>Balance at 1 April</b>	11,174
11,080	Transfer of the opening dedicated schools grant deficit from the DSG reserve (earmarked usable reserve) to the DSG adjustment account.	-
94	In year dedicated schools grant deficit	3,094
11,174		3,094
<b>11,174</b>	<b>Balance at 31 March</b>	<b>14,268</b>

## 27 NOTE TO THE CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2020/21 £'000		2021/22 £'000
2,056	Interest received	1,822
(9,770)	Interest paid	(9,568)
<b>(7,714)</b>		<b>(7,746)</b>

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2020/21 £'000		2021/22 £'000
44,537	Depreciation	46,106
120	Amortisation	457
23,322	Impairment and Downward valuations	50,080
63,661	Increase/(Decrease) in Creditors	10,658
(20,048)	(Increase)/Decrease in Debtors	19,166
19,249	Movement in Pension Liability	46,697
(11,089)	Other non-cash items charged to the net surplus or deficit on the provision of services	(6,750)
19,147	Carrying amount of non-current assets sold (property, plant and equipment and intangible assets)	21,905
<b>138,899</b>		<b>188,319</b>

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2020/21 £'000		2021/22 £'000
(39,029)	Proceeds from the sale of property plant and equipment and intangible assets	(23,722)
(48,193)	Any other items for which the cash effects are investing or financing cash flows	(55,161)
<b>(87,222)</b>		<b>(78,883)</b>

## 28 NOTE TO THE CASH FLOW STATEMENT - INVESTING ACTIVITIES

2020/21 £'000		2021/22 £'000
(151,930)	Purchase of property, plant and equipment and intangible assets	(133,865)
(117,000)	Purchase of short-term and long-term investments	(105,000)
(602)	Other payments for investing activities	-
39,029	Proceeds from the sale of property, plant and equipment and intangible assets	23,722
110,000	Proceeds from short-term and long-term investments	112,000
97,208	Other receipts from investing activities	53,488
<b>(23,295)</b>	<b>Net cash flows from investing activities</b>	<b>(49,655)</b>

## 29 NOTE TO THE CASH FLOW STATEMENT - FINANCING ACTIVITIES

2020/21 £'000		2021/22 £'000
32,246	Other receipts from financing activities	34,036
(2,293)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,873)
(755)	Repayments of short and long-term borrowing	(1,661)
(82,582)	Other payments for financing activities	-
<b>(53,384)</b>	<b>Net cash flows from financing activities</b>	<b>29,502</b>

### 30 CASH FLOW- RECONCILIATION OF FINANCIAL LIABILITIES FROM FINANCING ACTIVITIES

2021/22	Balance at 1	Cash Flows	Non Cash	Balance at 31
	April 2021		Changes	March 2022
	£'000	£'000	£'000	£'000
Long Term Borrowings	(69,874)	-	1,165	(68,709)
Short Term Borrowings	(2,066)	1,674	(1,165)	(1,557)
Lease Liabilities	(27,009)	181	-	(26,828)
PFI Liabilities	(29,348)	2,693	-	(26,655)
<b>Net cash outflow from financing activities</b>	<b>(128,297)</b>	<b>4,548</b>	<b>-</b>	<b>(123,749)</b>

2020/21	Balance at 1	Cash Flows	Non Cash	Balance at 31
	April 2020		Changes	March 2021
	£'000	£'000	£'000	£'000
Long Term Borrowings	(71,534)	-	1,660	(69,874)
Short Term Borrowings	(1,162)	756	(1,660)	(2,066)
Lease Liabilities	(27,166)	157	-	(27,009)
PFI Liabilities	(31,486)	2,138	-	(29,348)
<b>Net cash outflow from financing activities</b>	<b>(131,348)</b>	<b>3,051</b>	<b>-</b>	<b>(128,297)</b>

## 31 POOLED BUDGETS

Under the terms of a Section 75 Agreement (National Health Service Act 2006), the Council has one Pooled Budget and Lead Commissioning agreement with the Tower Hamlets Clinical Commissioning Group for the Better Care Fund (BCF). This provides a single framework partnership agreement relating to the commissioning of health and social care services to deliver the Tower Hamlets BCF plan, incorporating the Integrated Community Equipment Service and the Improved Better Care Fund.

The Council manages and delivers statutory functions, alongside the Clinical Commissioning Group, to collaboratively deliver efficient, joined up health and social care services to residents.

A summary memorandum Income and Expenditure Account for the pooled budget is shown below. The Council's contribution to the pool is included in the Adult Social Care gross expenditure figure disclosed in the Comprehensive Income and Expenditure Statement. The Council received income of £9.407m in 2021/22 from the Minimum CCG Contribution to Adult Social Care.

2021/22	BCF £'000
<b>Income</b>	
The Council	(28,818)
Tower Hamlets Clinical Commissioning Group (CCG)	(27,109)
	<b>(55,927)</b>
<b>Expenditure</b>	<b>55,927</b>
<b>Surplus/(Deficit) for the year</b>	<b>-</b>

2020/21	BCF £'000
<b>Income</b>	
The Council	(28,135)
Tower Hamlets Clinical Commissioning Group (CCG)	(27,066)
	<b>(55,201)</b>
<b>Expenditure</b>	<b>55,201</b>
<b>Surplus/Deficit for the year</b>	<b>-</b>

## 32 MEMBERS' ALLOWANCES

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

	2020/21 £'000	2021/22 £'000
Allowances	990	1,024
<b>Total</b>	<b>990</b>	<b>1,024</b>

### 33 OFFICERS' REMUNERATION

#### Senior Employees

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

2021/22	Salary, Fees and Allowances £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive	215,860	-	41,004	-	256,864
<b>Corporate Directors</b>					
Mr J Thomas - Children's and Culture <sup>1</sup>	152,844	-	29,893	5,447	188,184
Health, Adults and Communities <sup>2</sup>	144,969	-	27,804	2,500	175,273
Place	147,675	-	27,844	-	175,519
Mr K Bartle - Resources	172,371	-	-	-	172,371
<b>Other Directors</b>					
Monitoring Officer	111,306	-	21,482	-	132,788
Public Health	111,306	-	16,006	-	127,312
Strategy Transformation & Improvement	111,306	-	21,482	-	132,788
Communications & Marketing	111,306	-	21,482	-	132,788

1 Other payment relates to Honoraria

2 Other payment relates to Market Supplement

2020/21	Salary, Fees and Allowances £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive	212,584	-	41,644	-	254,228
<b>Corporate Directors</b>					
Children's and Culture <sup>1</sup>	48,851	-	-	6,204	55,055
Children's and Culture <sup>2</sup>	114,898	-	22,376	-	137,274
Health, Adults and Communities	144,157	-	28,027	-	172,184
Governance and Monitoring Officer <sup>3</sup>	123,185	130,041	23,965	12,166	289,357
Place	145,453	-	28,285	-	173,738
Resources <sup>4</sup>	117,873	129,688	22,908	6,463	276,932
Resources <sup>5</sup>	66,311	-	-	-	66,311
<b>Other Directors</b>					
Monitoring Officer <sup>6</sup>	18,277	-	3,637	-	21,914
Public Health	109,662	-	15,769	-	125,431
Strategy, Transformation & Improvement	110,286	-	21,947	-	132,233
Communications & Marketing	109,662	-	21,823	-	131,485

1 Other payment relates to untaken annual leave. Left 31/07/20

2 Commenced employment on 06/07/20

3 Left 31/01/21 Other relates to untaken leave

4 Left 31/01/21 Other relates to untaken leave

5 Commenced 08/12/20

6 Commenced 01/02/20

### 33 OFFICERS' REMUNERATION (CONTINUED)

#### Other Employees

Numbers of the Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contribution) are provided below. Please note that remuneration for the purposes of this note has been defined by statute (the Accounts and Audit Regulations 2015) and as such also includes payments arising from compensation for loss of office and wrongful dismissal.

Remuneration band (£)	2020/21	2021/22
	Number of employees	Number of employees
50,000 - 54,999	459	527
55,000 - 59,999	265	353
60,000 - 64,999	136	150
65,000 - 69,999	91	103
70,000 - 74,999	49	38
75,000 - 79,999	52	37
80,000 - 84,999	48	68
85,000 - 89,999	15	14
90,000 - 94,999	13	22
95,000 - 99,999	12	8
100,000 - 104,999	11	8
105,000 - 109,999	6	5
110,000 - 114,999	4	5
115,000 - 119,999	4	1
120,000 - 124,999	2	4
125,000 - 129,999	2	3
130,000 - 134,999	2	1
135,000 - 139,999	-	1
140,000 - 144,999	-	1
185,000 - 189,999	-	2
290,000 - 294,999	-	1
	<b>1,171</b>	<b>1,352</b>

#### Exit Payments

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

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£'000)	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
0 - 20,000	87	33	69	152	156	185	1,233	1,385
20,001 - 40,000	8	7	44	69	52	76	1,492	2,103
40,001 - 60,000	1	1	22	19	23	20	1,108	962
60,001 - 80,000	1	1	19	13	20	14	1,361	972
80,001 - 100,000	1	1	5	9	6	10	526	867
100,001 - 150,000	4	-	4	7	8	7	962	839
150,001 - 200,000	-	-	1	1	1	1	181	161
<b>Total</b>	<b>102</b>	<b>43</b>	<b>164</b>	<b>270</b>	<b>266</b>	<b>313</b>	<b>6,862</b>	<b>7,289</b>

The above table includes any compensation for loss of office payments included within the senior officer remuneration note on a previous page.



## 34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

	2020/21 £'000	2021/22 £'000
<b>Expenditure</b>		
Property, Plant and Equipment	149,670	140,410
Heritage Assets	25	207
Intangible Assets	1,695	536
Revenue Expenditure Funded from Capital Under Statute	13,464	17,281
<b>TOTAL</b>	<b>164,854</b>	<b>158,434</b>
<b>Sources of Finance</b>		
Borrowing	65,619	64,672
Capital Grants and Contributions	42,582	57,853
Capital Receipts	31,292	21,565
Major Repairs Reserve	17,543	11,936
Direct Revenue Funding	7,818	2,408
<b>TOTAL</b>	<b>164,854</b>	<b>158,434</b>

	2020/21 £'000	2021/22 £'000
<b>Opening Capital Financing Requirement</b>	<b>427,243</b>	<b>481,704</b>
<b>Capital investment</b>		
Property, Plant and Equipment	149,670	140,410
Heritage Assets	25	207
Intangible Assets	1,695	536
Revenue Expenditure Funded from Capital under Statute	13,464	17,281
<b>Sources of finance</b>		
Capital Grants and Contributions	(42,582)	(57,853)
Capital Receipts	(31,292)	(21,565)
Major Repairs Reserve	(17,543)	(11,936)
Sums set aside from revenue:		
· Direct Revenue Funding	(7,818)	(2,408)
· Minimum Revenue Provision	(9,524)	(9,961)
· HRA Revenue Provision for Debt Repayment on Finance Lease Principal	(1,634)	(2,202)
<b>Closing Capital Financing Requirement</b>	<b>481,704</b>	<b>534,213</b>

## 35 EXTERNAL AUDIT COSTS

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

	2020/21 £'000	2021/22 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year*	162	162
<b>Total</b>	<b>162</b>	<b>162</b>

\* These figures may be updated after the auditors, Public Sector Audit Appointments, and the Council agree any possible additional fees based on the standard scale rate and the additional time spent.

## 36 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by grant monies provided by the Department for Education - 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 (ISB), 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 2021/22	Central Expenditure £'000	ISB £'000	Total £'000
A	DSG for 2021/22 before Academy Recoupment			(376,516)
	Academy figure Recouped 2021/22			76,920
	Total DSG after Academy Recoupment 2021/22			(299,596)
	Brought forward from 2020/21			11,174
B	Carry forward to 2021/22 agreed in advance			-
C	Agreed initial budgeted distribution in 2021/22	(47,990)	(240,432)	(288,422)
D	In-year adjustments			-
E	Final budget distribution for 2021/22	(47,990)	(240,432)	(288,422)
F	Less actual central expenditure	62,550		62,550
G	Less actual ISB deployed to schools		240,140	240,140
H	Council contribution for 2021/22	-	-	-
<b>I</b>	<b>Carry forward to 2022/23</b>	<b>14,560</b>	<b>(292)</b>	<b>14,268</b>

- A DSG figure as issued by DfE in March 2022.
- B The amount which the Council decided after consultation with the schools forum to carry forward to 2021/22.
- C Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
- D Changes to Initial distribution in 2021/22.
- E Budgeted distribution of DSG at year end.
- F Actual amount of central expenditure items in 2021/22.
- G Amount of ISB distributed to schools.
- H Contribution from the Council in 2021/22 which substituted for DSG in funding the Schools Budget.
- I Difference between budgeted distributions and actuals plus carry forward agreed in advance.

Notes	DSG Receivable for 2020/21	Central Expenditure £'000	ISB £'000	Total £'000
A	DSG for 2020/21 before Academy Recoupment			(359,788)
	Academy figure Recouped 2020/21			70,175
	Total DSG after Academy Recoupment 2020/21			(289,613)
	Brought forward from 2019/20			11,080
B	Carry forward to 2020/21 agreed in advance			-
C	Agreed initial budgeted distribution in 2020/21	(45,346)	(233,187)	(278,533)
D	In-year adjustments	987		987
E	Final budget distribution for 2020/21	(44,359)	(233,187)	(277,546)
F	Less actual central expenditure	54,863		54,863
G	Less actual ISB deployed to schools		233,857	233,857
H	Council contribution for 2020/21	-	-	-
<b>I</b>	<b>Carry forward to 2021/22</b>	<b>10,504</b>	<b>670</b>	<b>11,174</b>

- A DSG figure as issued by DfE in March 2021.
- B The amount which the Council decided after consultation with the schools forum to carry forward to 2020/21.
- C Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
- D Changes to Initial distribution in 2020/21.
- E Budgeted distribution of DSG at year end.
- F Actual amount of central expenditure items in 2020/21.
- G Amount of ISB distributed to schools.
- H Contribution from the Council in 2020/21 which substituted for DSG in funding the Schools Budget.
- I 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:

	2020/21 £'000	2021/22 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b><i>Non-Ringfenced Government Grants</i></b>		
Business Rate Related Grants	(55,495)	(27,055)
Revenue Support Grant (Formula Grant)	(33,823)	(34,010)
Local Service Support Grant	-	(1,404)
New Homes Bonus	(21,980)	(17,646)
Covid-19 Grant	(27,619)	(12,985)
<b>Total Non-Ringfenced Government Grants</b>	<b>(138,917)</b>	<b>(93,100)</b>
<b><i>Capital Grants and Contributions</i></b>		
Schools-funded Capital Programme	(382)	(524)
Special Provision Capital Fund	(1,181)	-
Transport for London Funding	(2,551)	(1,815)
Major Works Contributions	(6,564)	(4,394)
Capital Maintenance Grant	(3,382)	(4,747)
Community Infrastructure Levy (CIL)	(12,830)	(6,923)
GLA Building Council Homes for Londoners	(608)	(1,115)
Developers' Contributions (capital)	(12,410)	(19,627)
Other Capital Grants	(2,436)	(8,495)
<b>Total Capital Grants and Contributions</b>	<b>(42,344)</b>	<b>(47,640)</b>
<b>Credited to Services</b>		
Capital Grants funding REFCUS	(1,186)	(1,264)
Developers' Contributions (capital) funding REFCUS	(4,619)	(6,257)
Developers' Contributions (revenue)	(403)	(1,978)
Dedicated Schools Grant	(288,627)	(299,596)
PFI Credits	(9,380)	(9,380)
National Tutoring Programme	(28)	(1,014)
Recovery Premium Grant	-	(1,002)
Workforce Capacity & Retention Fund	-	(2,127)
School Sixth Form Grant	(12,457)	(13,070)
Pupil Premium Grant	(16,795)	(16,243)
Public Health Grant	(35,195)	(36,350)
Housing Benefit Subsidy	(207,008)	(194,347)
Improved Better Care Fund	(16,317)	(16,316)
NHS Contributions	(16,744)	(33,369)
Business Support Grants	(11,224)	(5,606)
Local Council Tax Support Admin Grant	-	(4,027)
Community Infrastructure Levy (revenue)	(2,131)	(828)
Teachers' Pensions Grant	(7,241)	(1,004)
Flexible Homelessness Support	(3,885)	-
Universal Infant Free School Meals	(2,934)	(2,299)
Community Learning	(2,556)	(2,691)
Social Care Grant	(9,367)	(12,341)
Teachers' Pay Grant	(2,427)	(345)
Unaccompanied Asylum Seeker Grant	(1,211)	(1,215)
Physical Education and Sport	(1,177)	(1,124)
Tackling Troubled Families	(1,559)	(1,563)
Council Tax Hardship Fund	(4,382)	-
Sales, Fees and Charges Re-imburement Grant (Covid Grant)	(7,235)	(1,268)
Infection Control	(1,851)	(1,382)
Contain Outbreak Management	(2,194)	(8,217)
Covid-Catchup Premium	(1,486)	(1,149)
Test and Trace Support Payment	(1,427)	(1,890)
Next Steps Accommodation Prog-Rough Sleepers (Short Term)	(1,265)	-
Rough Sleeping Initiative Grant	(649)	(1,902)
Homelessness Prevention Grant	-	(7,079)
Winter Grant Scheme (Family Support)	(1,276)	(758)
Other Revenue Grants	(14,249)	(17,789)
<b>Total Credited to Services</b>	<b>(690,485)</b>	<b>(706,790)</b>
<b>Total Grant Income in Comprehensive Income &amp; Expenditure Account</b>	<b>(871,746)</b>	<b>(847,530)</b>

## 37 GRANT INCOME (CONTINUED)

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

Receipt in Advance Grant Balances	31st March 2021 £'000	31st March 2022 £'000
<b>Capital Grants Receipts in Advance</b>		
Developers' Contributions (capital)	(105,326)	(98,491)
South Dock Bridge	(1,750)	(1,750)
Building Council Homes for Londoners	(5,315)	(4,200)
Other conditional capital grants and contributions	(251)	(476)
<b>Total Capital Grants Receipts in Advance</b>	<b>(112,642)</b>	<b>(104,917)</b>
<b>Revenue Grants Receipts in Advance</b>		
Developers' Contributions (revenue)	(11,716)	(11,033)
Council Tax Rebate Grants	-	(2,881)
Covid Grants	(9,846)	(35)
Other conditional revenue grants	(53)	(47)
<b>Total Revenue Grants Receipts in Advance</b>	<b>(21,615)</b>	<b>(13,996)</b>
<b>Total Grant Receipt in Advance Balances</b>	<b>(134,257)</b>	<b>(118,913)</b>

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**

The UK Central government has significant influence 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). Details of grants received from UK central government departments and other grant making bodies are set out in the Grant Income note. Grant receipts outstanding at 31 March 2022 are within the Creditors note.

### **Other public bodies (subject to common control by central government)**

The Council works closely with a number of NHS bodies. This includes a pooled budget that it operates with the Tower Hamlets Clinical Commissioning Group, details of which are set out in the Pooled Budget note. It also has significant transactions with the East London NHS Trust. The total amounts due to or from NHS bodies in total at the year end are shown in the Debtors and Creditors note.

The Council works closely with many other Local Authorities and related bodies. The Grant Income note contains details of grants received by the Council, including those from other Local Authorities and the Debtors and Creditors notes detail amounts due to or from other Local Authorities at the year end.

The Council works closely with many schools, not only those maintained by itself, including Academies and those managed by other Local Authorities. Whilst independent of Local Authorities Academies are ultimately controlled by Central Government. Transactions between the Council and these organisations, and amounts outstanding at the end of the year are included in the relevant parts of the Statement of Accounts.

### **Pension Fund**

The Council oversees the administration of the Pension Fund. The published Pension Fund accounts are presented on the Council website.

### **Entities controlled or significantly influenced by the Council**

#### **Tower Hamlets Homes**

Tower Hamlets Homes is a wholly owned subsidiary of London Borough of Tower Hamlets and the Council has representation on the Board of the Company.

It is an arms length management organisation responsible for management of the Council's housing stock.

During the year the Council paid a management fee of £40.331m (20/21 £37.098m) and received income of £5.705mm (20/21 £4.85) for the provision of services. At the 31 March 2022 £4.266m was due from Tower Hamlets Homes (20/21 £2.410m).

#### **King George's Field, Mile End**

The Council is the sole trustee of the King George's Field, Mile End charity and members of the Cabinet of the Council are also Members of the charity's Board

The charity is responsible for maintaining the area of Mile End Park, and the other open spaces within King George's Field, Mile End. The land is managed by the Council on behalf of the charity.

During the year the charity received funding of £0.425m (20/21 £0.636m) from the Council, which included £nil Covid-19 relief contribution (20/21 £0.390m), and paid £0.526m (20/21 £0.479m) for services provided. At the 31 March 2022 £0.103m cash (20/21 £0.370m) was owed to the Council as an overdraft held on behalf of the charity.

#### **Sea Horse Homes**

SSeahorse Homes Ltd is a wholly owned subsidiary of the London Borough of Tower Hamlets. £0.030m was due from the subsidiary at 31 March 2022 (20/21 £0.030m) .

#### **Mulberry Housing Society**

Mulberry Housing is a Community Benefit Society which hadn't commenced trading by the 31 March 2022.

£0.010m was due from the Society at 31 March 2022 (20/21 £0.010m).

The Council has the right to appoint two out of five Board Members.

#### **Ocean Regeneration Trust**

The Ocean Regeneration Trust is a charity which has the aim of supporting residents on the Ocean Estate.

During the year the Trust received £0.202m funding and rental income from the Council (20/21 £0.199m) and paid £0.043m (20/21 £nil) for services provided.

The Council has representation on the Board of the Charity, with the right to appoint two out of twelve directors.

## 38 RELATED PARTIES (continued)

### **Capital Letters (London)**

Capital Letters is a pan-London accommodation and procurement company with membership drawn from a number of London Boroughs including Tower Hamlets. Members of the company have representation on the Board of the Company.

During the year the company received £2.274m from the Council (20/21 £0.263m) and paid £0.005m (20/21 nil payment) for services provided.

### **Norton Folgate Almshouse**

Norton Folgate Almshouse is a charity which has the aim of providing affordable housing in Spitalfields.

The Council has representation on the Board of the Charity with the right to appoint three out of the seven trustees.

### **PLACE Ltd**

Pan-London Accommodation Collaborative Enterprise Ltd (PLACE Ltd) is intended to provide modular temporary accommodation. Tower Hamlets is one of four London Boroughs who are key stakeholders and members of the company, and is deemed the lead borough for the programme. Members have representation on the Board of the Company.

### **Rich Mix Cultural Foundation**

Rich Mix Cultural Foundation is a charity which has the aim of advancing education of the public in arts and culture and the elimination of racial discrimination. Tower Hamlets has the right to appoint two Trustees to the Board of the Charity but a third Trustee was a Councillor during the year. During the year transactions between the Council and Charity were negligible.

### **Blackwall Reach Trust**

Blackwall Reach Trust is a charity incorporated in August 2019 with the aim of providing open space for the Blackwall Reach Community and members of the public for recreation and social welfare purposes. It was dormant until September 2021. The Council can appoint two Trustees to the Board.

### **Tower Hamlets Community Housing**

Tower Hamlets Community Housing was a company limited by guarantee that converted to a registered society in 2018. It aims to provide good quality affordable housing to those on low incomes in housing need. As a registered society the Council has the power to appoint two Trustees to the Board. The Council received services to the value of £0.103m (20/21 £0.117m) from the organisation in 20/21 and charged £0.020m (20/21 £0.030m). £0.022m was due from the organisation (20/21 £0.006m) the year end.

### **Tower Hamlets LEP Limited**

Tower Hamlets LEP Limited is involved in schools projects within Tower Hamlets under the Building Schools for the Future programme. The Council is a shareholder and has representation on the board of the company.

### **Tower Hamlets Education Partnership**

Tower Hamlets Education Partnership is a registered charity and a company limited by guarantee, with three out of four members being LBTH maintained schools. The purpose of the charity is the advancement of education through member schools and other educational settings, with an initial focus on the London Borough of Tower Hamlets. The administrative centre of the Council (ie excluding schools) provided funding of £0.537m in 21/22 (20/21 £0.715m) in pursuit of these aims and charged the charity £0.006m (20/21 £0.065m) for the provision of services and premises. The Council also recovered the cost of staff seconded to the charity during the year, amounting to £0.790m (20/21 £0.749m). At the end of 21/22, the charity owed £0.399m (20/21 £0.258m) to the Council and the Council owed £0.605m (20/21 £nil) to the charity. The charity also receives a significant proportion of its remaining income from maintained schools within the Borough.

## 38 Related Parties (continued)

### **The Davenant Centre**

The Davenant Centre is a registered charity which provides two community centres for educational and social benefit within Tower Hamlets. The council has provided a loan facility (secured on the properties) to the charity with £0.607m (20/21 £0.601m) outstanding. £0.006m (20/21 £0.006m) interest accrued on the loan during the year. The council has voting rights of 26% to amend certain specific clauses of the memorandum and articles of association at meetings of the charity.

### **Membership of and relationship with other organisations**

Members and Senior Officers of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2021/22 is shown in the Members Allowances Note and Senior Officers remuneration in the Officers Remuneration Note. During the year there were nine external organisations (20/21 ten) where Members or Senior Officers or their close personal family had an interest outside of those listed above, which undertook financial transactions with the Council. Total expenditure of £2.208m (20/21 £1.299m) was incurred with these organisations for goods and services, and £0.852m (20/21 £0.541m) income was recorded from them for goods and services provided. In addition a payroll service was provided for one organisation with payroll costs of £4.500m (20/21 £4.423m) being recovered from them. At the end of the year £0.658m was due from these organisations (20/21 £1.110m) and £nil was due to them (20/21 £0.005m).

## 39 LEASES

### Authority as Lessee

#### Finance Leases

As a Lessee the Council has acquired a residential development under finance leases. The assets acquired under the leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts.

Depreciation policy on leased assets is consistent with the policy on owned assets and subject to revaluation in the same way as any other asset.

#### Leased In Assets

	Buildings 31 March 2021 £'000	Buildings 31 March 2022 £'000
Poplar Baths Leisure Centre	20,529	20,110
Poplar Baths Housing	4,724	4,210
Dame Colet Residential Development	3,508	3,170
<b>Total</b>	<b>28,761</b>	<b>27,490</b>

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	Buildings 31 March 2021 £'000	Buildings 31 March 2022 £'000
Finance lease liabilities (net present value of minimum lease payments)	27,009	26,828
Finance costs payable in future years	52,356	49,893
<b>Minimum lease payments</b>	<b>79,365</b>	<b>76,721</b>

#### The minimum lease payments will be payable over the following periods:

	Minimum Lease payments		Finance Lease Liabilities	
	31 March 2021 £'000	31 March 2022 £'000	31 March 2021 £'000	31 March 2022 £'000
Not later than one year	2,644	2,644	181	197
Later than one year and not later than five years	10,577	10,577	911	996
Later than five years	66,144	63,500	25,917	25,635
	<b>79,365</b>	<b>76,721</b>	<b>27,009</b>	<b>26,828</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.



## 39 LEASES (CONTINUED)

### Authority as Lessee

#### **Operating Leases**

The Council leases in some properties (including office accommodation, car parks and business units), as well as a number of vehicles (including minibuses and vans), and 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 2021 £'000	Vehicles Plant & Equipment 31 March 2021 £'000	Land & Buildings 31 March 2022 £'000	Vehicles Plant & Equipment 31 March 2022 £'000
<b>Health, Adults and Communities</b>				
Not later than one year	50	-	103	-
Later than one year and not later than five years	-	-	410	-
Later than five years	-	-	1,026	-
<b>Children's and Culture</b>				
Not later than one year	-	176	-	1,075
Later than one year and not later than five years	-	212	-	1,329
<b>Place</b>				
Not later than one year	4,111	1,220	4,066	1,336
Later than one year and not later than five years	4,365	1,926	570	868
Later than five years	2,011	-	2,465	-
<b>Total</b>				
<b>Not later than one year</b>	4,161	1,396	4,169	2,411
<b>Later than one year and not later than five years</b>	4,365	2,138	980	2,197
<b>Later than five years</b>	2,011	-	3,491	-
	<b>10,537</b>	<b>3,534</b>	<b>8,640</b>	<b>4,608</b>

## 39 LEASES (CONTINUED)

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

	Land & Buildings 31 March 2021 £'000	Vehicles Plant & Equipment 31 March 2021 £'000	Land & Buildings 31 March 2022 £'000	Vehicles Plant & Equipment 31 March 2022 £'000
<b>Health, Adults and Communities</b>				
Minimum Lease Payments	50	-	50	-
<b>Children's and Culture</b>				
Minimum Lease Payments	-	160	-	986
<b>Place</b>				
Minimum Lease Payments	4,111	739	5,626	1,404
<b>Total</b>				
<b>Minimum Lease Payments</b>	<b>4,161</b>	<b>899</b>	<b>5,676</b>	<b>2,390</b>

### Authority as Lessor

#### Finance Leases

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

#### Operating Leases

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

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

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

	30 March 2021 £'000	31 March 2022 £'000
Not later than one year	(4,423)	(3,562)
Later than one year and not later than five years	(11,341)	(10,819)
Later than five years	(18,853)	(18,878)
	<b>(34,617)</b>	<b>(33,259)</b>

## 40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

The Council is party to two Private Finance Initiative (PFI) schemes in respect of the design, construction, maintenance and servicing of 28 schools - the Mulberry and Grouped Schools schemes - until the years 2029 and 2028 respectively. The contracts specify minimum standards for the services to be provided by the contractors, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractors took on the obligation to construct or refurbish schools and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the schools. The buildings and any plant and equipment installed in them at the end of the contracts will be transferred to the authority for nil consideration, other than those that relate to academies, being Mulberry, Clara Grant, Stepney Green and Old Ford schools. The authority only has rights to terminate the contracts if it compensates the contractors in full for costs incurred and future profits that would have been generated over the remaining term of the contract.

The Council entered into a third PFI contract, with an energy services company, to provide heating and hot water to around 500 homes in the Barkantine district in March 2000 and this contract will continue until October 2025. No re-negotiation of the contract terms are expected, and the Council is working with the Department of Levelling Up, Housing and Communities in preparation for arrangements after contract expiry. It is classed as a user pay arrangement (with the consequence that payments to contractors do not meet the definition of "unitary payments").

The authority makes an agreed payment each year to each of the contractors which is increased annually by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Unitary payments remaining to be made under the PFI contracts at 31 March 2022 (excluding any estimation of inflation and availability/performance deductions) are as follows:

Payments due under PFI schemes, as at 31st March 2022	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	(418)	(2,583)	(198)	(3,199)
Within 2 - 5 years	(2,395)	(16,232)	(790)	(19,417)
Within 6 - 10 years	(1,420)	(2,619)	-	(4,039)
	<b>(4,233)</b>	<b>(21,434)</b>	<b>(988)</b>	<b>(26,655)</b>
<b>Interest</b>				
Within 1 year	475	3,372	-	3,847
Within 2 - 5 years	1,333	8,526	-	9,859
Within 6 - 10 years	243	412	-	655
	<b>2,051</b>	<b>12,310</b>	<b>-</b>	<b>14,361</b>
<b>Service Charges</b>				
Within 1 year	673	1,235	-	1,908
Within 2 - 5 years	2,694	12,466	-	15,160
Within 6 - 10 years	1,347	1,104	-	2,451
	<b>4,714</b>	<b>14,805</b>	<b>-</b>	<b>19,519</b>

The payments made to the contractors have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable while the capital expenditure remains to be reimbursed. The liability outstanding to be paid to the contractor for capital expenditure incurred (or simply the amortisation of the liability recognised in the case of the Energy PFI) is as follows:

Movement on PFI Liabilities	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2021</b>	<b>(4,582)</b>	<b>(23,580)</b>	<b>(1,186)</b>	<b>(29,348)</b>
Repayments/Amortisation of deferred liability	349	2,146	198	2,693
<b>Liabilities at 31 March 2022</b>	<b>(4,233)</b>	<b>(21,434)</b>	<b>(988)</b>	<b>(26,655)</b>
<b>Consisting of:</b>				
Long term liability	(3,815)	(18,851)	(790)	(23,456)
Short-term liability	(418)	(2,583)	(198)	(3,199)
<b>Liability value at 31 March 2022</b>	<b>(4,233)</b>	<b>(21,434)</b>	<b>(988)</b>	<b>(26,655)</b>

## 40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS (CONTINUED)

The assets associated with the PFI contracts have been recognised on the Council's balance sheet, with movements in valuation as per below.

Movement on PFI Assets	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Asset value at 31 March 2020</b>	<b>225,116</b>	<b>1,867</b>	<b>226,983</b>
Depreciation	(2,061)	(181)	(2,242)
Revaluations	(5,202)	-	(5,202)
Enhancements	8,989	-	8,989
<b>Asset value at 31 March 2021</b>	<b>226,842</b>	<b>1,686</b>	<b>228,528</b>
Depreciation	(2,060)	(181)	(2,241)
Revaluations	17,420	-	17,420
Enhancements	4,413	-	4,413
<b>Asset value at 31 March 2022</b>	<b>246,615</b>	<b>1,505</b>	<b>248,120</b>

Comparatives for the 2020/21 year are presented below.

Payments due under PFI schemes, as at 31st March 2021	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	(349)	(2,146)	(198)	(2,693)
Within 2 - 5 years	(2,189)	(13,804)	(790)	(16,783)
Within 6 - 10 years	(2,044)	(7,630)	(198)	(9,872)
	<b>(4,582)</b>	<b>(23,580)</b>	<b>(1,186)</b>	<b>(29,348)</b>
<b>Interest</b>				
Within 1 year	514	3,710	-	4,224
Within 2 - 5 years	1,579	10,698	-	12,277
Within 6 - 10 years	473	1,613	-	2,086
	<b>2,566</b>	<b>16,021</b>	<b>-</b>	<b>18,587</b>
<b>Service Charges</b>				
Within 1 year	673	1,593	-	2,266
Within 2 - 5 years	2,694	11,063	-	13,757
Within 6 - 10 years	2,020	3,742	-	5,762
	<b>5,387</b>	<b>16,398</b>	<b>-</b>	<b>21,785</b>

Movement on PFI Liabilities	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2020</b>	<b>(4,896)</b>	<b>(25,206)</b>	<b>(1,384)</b>	<b>(31,486)</b>
Repayments/Amortisation of deferred liability	314	1,626	198	2,138
<b>Liabilities at 31 March 2021</b>	<b>(4,582)</b>	<b>(23,580)</b>	<b>(1,186)</b>	<b>(29,348)</b>
<b>Consisting of:</b>				
Long term liability	(4,233)	(21,434)	(988)	(26,655)
Short-term liability	(349)	(2,146)	(198)	(2,693)
<b>Liability value at 31 March 2021</b>	<b>(4,582)</b>	<b>(23,580)</b>	<b>(1,186)</b>	<b>(29,348)</b>

## 41 PENSIONS SCHEMES - DEFINED BENEFIT SCHEMES

### 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 four pensions schemes:

- The Local Government Pension Scheme (LGPS) administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority (LPFA)
- The Teachers' Pension Scheme (TPS), administered by Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Business Services Authority on behalf of the Department of Health and Social Care

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 London Borough of Tower Hamlets pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of the Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Corporate Director of Resources of the Council and Investment Fund managers.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the general fund and HRA the amounts required by statute as described in the accounting policies note.

The TPS and NHS schemes are explained further in the next note (Pension Schemes Accounted for as Defined Contribution Schemes), since they are accounted for on a different basis.

### Transactions Relating to Retirement Benefits

The cost of LGPS retirement benefits is recognised in the Comprehensive Income and Expenditure Statement 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	
	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000
<b>COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b>						
<i>Cost of Services</i>						
Current service costs	48,840	76,521	248	258	49,088	76,779
Past service costs	627	1,888	-	-	627	1,888
Impact of settlements	-	-	2,524	-	2,524	-
<i>Finance and Investment Income and Expenditure</i>						
Interest cost on defined benefit obligation	41,257	46,231	1,170	1,305	42,427	47,536
Interest income on plan assets	(30,411)	(33,832)	(1,005)	(1,215)	(31,416)	(35,047)
<b>Net charge to the Surplus or Deficit on Provision of Services</b>	<b>60,313</b>	<b>90,808</b>	<b>2,937</b>	<b>348</b>	<b>63,250</b>	<b>91,156</b>
<i>Other Comprehensive Income and Expenditure</i>						
Changes in demographic assumptions	27,873	(2,282)	(695)	-	27,178	(2,282)
Changes in financial assumptions	454,571	(136,660)	8,533	(1,600)	463,104	(138,260)
Other experience	(20,933)	3,807	(958)	153	(21,891)	3,960
Return on plan assets excluding amounts included in net interest	(343,193)	(18,644)	(8,699)	(9,378)	(351,892)	(28,022)
Actuarial (gains)/losses	-	(18,466)	-	-	-	(18,466)
Derecognition of Tower Hamlet Homes pension scheme asset*	5,197	-	-	-	5,197	-
<b>Total charge in Comprehensive Income and Expenditure Statement</b>	<b>183,828</b>	<b>(81,437)</b>	<b>1,118</b>	<b>(10,477)</b>	<b>184,946</b>	<b>(91,914)</b>
<b>MOVEMENT IN RESERVES STATEMENT</b>						
Reversal of net charges made for retirement benefits	(60,313)	(90,808)	(2,937)	(348)	(63,250)	(91,156)
Actual amount charged against the General Fund/HRA balances	43,623	44,073	378	386	44,001	44,459

\*Note this line incorporates adjustments due to not recognising the net pension asset sitting with THH

In addition to the figures presented above, the Council is also responsible for all payments in respect of discretionary awards made to teachers upon retirement. In 2021/22 there were such payments of £0.774m (£0.808m in 2020/21).

## 41 PENSIONS SCHEMES - DEFINED BENEFIT SCHEMES (CONTINUED)

### Assets and Liabilities in Relation to Retirement Benefits

#### Reconciliation of present value of scheme liabilities:

	The Council*		LPFA		Total	
	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000
Opening balance at 1st April	(1,914,245)	(2,309,403)	(58,820)	(70,249)	(1,973,065)	(2,379,652)
Removal of liability of Tower Hamlet Homes	110,453	-	-	-	110,453	-
Current service cost	(48,840)	(76,521)	(248)	(258)	(49,088)	(76,779)
Past service costs	(627)	(1,888)	-	-	(627)	(1,888)
Effect of settlements	-	-	(6,513)	-	(6,513)	-
Interest cost	(41,257)	(46,231)	(1,170)	(1,305)	(42,427)	(47,536)
Contributions	(10,206)	(10,396)	(42)	(40)	(10,248)	(10,436)
Benefits paid	56,830	59,353	3,424	3,208	60,254	62,561
Remeasurement gains / (losses):						
Changes in demographic assumptions	(27,873)	2,282	695	-	(27,178)	2,282
Changes in financial assumptions	(454,571)	136,660	(8,533)	1,600	(463,104)	138,260
Other experience	20,933	(3,807)	958	(153)	21,891	(3,960)
<b>31st March</b>	<b>(2,309,403)</b>	<b>(2,249,951)</b>	<b>(70,249)</b>	<b>(67,197)</b>	<b>(2,379,652)</b>	<b>(2,317,148)</b>

\* Within 2020/21 the Council entered into a new management agreement with Tower Hamlets Homes and as a consequence no longer includes their pension liability within the accounts.

#### Reconciliation of fair value of the scheme assets:

	The Council*		LPFA		Total	
	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000
Opening fair value of scheme assets	1,440,265	1,695,218	59,421	70,110	1,499,686	1,765,328
Removal of asset of Tower Hamlet Homes	(115,650)	-	-	-	(115,650)	-
Interest income	30,411	33,832	1,005	1,215	31,416	35,047
Effect of settlements	-	-	3,989	-	3,989	-
Contributions						
Employees into the scheme	10,206	10,396	42	40	10,248	10,436
Employer	43,623	44,073	378	386	44,001	44,459
Benefits paid	(56,830)	(59,353)	(3,424)	(3,208)	(60,254)	(62,561)
Remeasurement gains / (losses):						
Return on plan assets	343,193	18,644	8,699	9,378	351,892	28,022
Actuarial gains/(losses)**	-	18,466	-	-	-	18,466
<b>31st March</b>	<b>1,695,218</b>	<b>1,761,276</b>	<b>70,110</b>	<b>77,921</b>	<b>1,765,328</b>	<b>1,839,197</b>

\* Within 2020/21 the Council entered into a new management agreement with Tower Hamlets Homes and as a consequence no longer includes their pension liability within the accounts.

\*\*Note this line incorporates adjustments due to an asset ceiling, and due to not recognising the net pension asset sitting with THH at 31 March 2020

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.

#### Pension assets and liabilities recognised in the Balance Sheet

	The Council*		LPFA		Total	
	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000
Present value of scheme liabilities	(2,309,403)	(2,249,951)	(70,249)	(67,197)	(2,379,652)	(2,317,148)
Fair value of plan assets	1,695,218	1,761,276	70,110	77,921	1,765,328	1,839,197
<b>Total deficit in the schemes</b>	<b>(614,185)</b>	<b>(488,675)</b>	<b>(139)</b>	<b>10,724</b>	<b>(614,324)</b>	<b>(477,951)</b>

\* Within 2020/21 the Council entered into a new management agreement with Tower Hamlets Homes and as a consequence no longer includes their pension liability within the accounts.

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 £478.0 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 further contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The Council expects to make total contributions of £44.9 million in the year to 31 March 2023.

## 41 PENSIONS SCHEMES - DEFINED BENEFIT SCHEMES (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	
	2020/21	2021/22	2020/21	2021/22
Long-term expected rate of return on assets in the scheme <sup>1</sup>				
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men (years)	21.7	21.7	21.0	21.0
Women (years)	23.9	24.2	23.7	23.8
Longevity at 65 for future pensioners:				
Men (years)	23.0	22.8	22.3	22.4
Women (years)	25.7	25.7	25.5	25.6
Rate of inflation	2.9%	3.2%	2.9%	3.4%
Rate of increase in salaries	3.1%	3.4%	2.5%	3.4%
Rate of increase in pensions	2.9%	3.2%	2.9%	3.4%
Rate for discounting scheme liabilities	2.0%	2.0%	1.9%	2.6%

<sup>1</sup> The expected rates of return are set equal to the discount rate.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses as presented in Note 4 have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

### Impact on the authority's cash flows

With regard to the Council-administered pension fund, the objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation was completed on 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

At the time of the relevant triennial valuation based on 31 March 2019, the weighted average duration of the defined benefit obligation for scheme members is 16.9 years (and this figure doesn't change until the next triennial valuation).

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

The categories of assets are as follows.

	The Council		LPFA	
	2020/21	2021/22	2020/21	2021/22
Equities	0%	0%	42%	48%
Private Equity	0%	0%	9%	9%
Bonds	0%	6%	4%	3%
Property	8%	10%	9%	9%
Investment/Hedge Funds and Unit Trusts:			11% *	11% *
Equity-based	55%	51%		
Bond-based	25%	15%		
Hedge Funds	0%	0%		
Other	10%	17%		
* Detailed breakdown not included due to low overall percentage				
Credit - unquoted	0%	0%	8%	8%
Infrastructure - unquoted	0%	0%	8%	10%
Cash	2%	1%	9%	2%

### Teachers' Pension Scheme

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes though it is approximately 0.3%. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2021/22, the council paid £21.637m to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.7% of pensionable pay. The figures for 2020/21 were £21.964m and 23.7%. There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £22.006m (23.7% of pensionable pay).

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These payments are accounted for as incurred and detailed in Note 41.

The authority is not liable to the scheme for any other entities' obligations under the plan.

### NHS Pension Scheme

In 2013/14, former NHS employees transferred to the Council. These employees have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and, as with the TPS, the Council is unable to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes, though it is much less than 0.1%. It is therefore accounted for on the same basis as a defined contribution scheme.

£0.100m million was payable into the scheme in 2021/22 by the Council (2020/21: £0.114m). This represents 20.7% of pensionable pay. The contributions due to be paid in the next financial year are estimated to be £0.105m. These amounts represent 20.7% of pensionable pay.

The authority is not liable to the scheme for any other entities' obligations under the plan.



## 43 TRUSTS

The Council serves as sole trustee of the King George's Field, Mile End charity. The charity is governed by a Trust Deed, and is unincorporated, being established by a Scheme of the Charity Commission dated 28th February 2000.

The King George's Field, Mile End Charity Board (which sits as a committee of the Council) is responsible for managing the Trust's affairs and discharging the Council's duties as trustee.

The Charity's objectives are set out in Trust Deeds, which are as follows "To preserve in perpetuity the covenanted land and to apply the land to such charitable purposes as are set out in the Recreational Charities Act 1958, including the construction of indoor recreational facilities, subject to the approval of the National Playing Fields Association and the Charity Commission in respect of any additional purposes".

The funds of the Trust do not represent income, expenditure, assets or liabilities of the Council. The value of income and expenditure, the underlying assets, extent of any liabilities are disclosed as follows:

2020/21 £'000		2021/22 £'000
(1,183)	Income	(1,182)
1,180	Expenditure	1,277
(8)	Net unrealised (gains)/losses on Investments	46
<b>(11)</b>	<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>	<b>141</b>
16,023	Fixed assets	15,989
456	Current assets	327
(470)	Creditors - amounts falling due within one year	(362)
<b>16,009</b>	<b>NET CURRENT ASSETS</b>	<b>15,954</b>
15,932	Endowment funds	15,896
77	Unrestricted reserves	58
<b>16,009</b>	<b>TOTAL CHARITY FUNDS</b>	<b>15,954</b>

The Council acts as trustee for a number of smaller trusts, which were disclosed in this note in previous years. However, since they are not material to the accounts, those detailed disclosures will no longer be provided here.

## 44 GROUP ACCOUNTS

The Council has control or significant influence over a number of entities which therefore fall within its group boundary for accounting purposes.

The Council has not previously prepared group accounts as the Council had originally concluded that group accounts would not be materially different to the Council's single entity accounts.

However in the light of more recent information, the Council has concluded that group accounts would be materially different to the Council's single entity accounts. In particular, the effect of consolidating the Council's two most financially significant subsidiaries, Tower Hamlets Homes Limited and King George's Field, Mile End charity, would result in group net assets at 31 March 2022 being materially higher than the net assets and subsidiary reserves in the single entity accounts.

As the preparation of group accounts would not result in expenditure, income or indebtedness being reported which was materially different to amounts in the single entity accounts and since the preparation of group accounts would necessitate further commitment of time and resources, the Council has decided not to prepare them. The overriding consideration for this decision is that completion of the audit for the current year in order to make more rapid progress on the backlog of audits and accounts for subsequent years would be of more material benefit to the users of accounts and also to management of the Council's finances.

## 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	2020/21 £'000	2021/22 £'000
<b>EXPENDITURE</b>			
Repairs and maintenance		18,938	19,320
Supervision and management		40,184	40,131
Rents, rates, taxes and other charges		9,278	9,548
Depreciation of non-current assets	<a href="#">6</a>		
On dwellings		16,607	16,034
On other assets		1,010	1,315
Revaluation losses (and reversals)		11,931	50,299
Debt management costs		97	90
Movement in the allowance for bad debts		478	(578)
Sums directed by the Secretary of State that are expenditure in accordance with the Code		6,104	4,926
<b>TOTAL EXPENDITURE</b>		<b>104,627</b>	<b>141,085</b>
<b>INCOME</b>			
Gross rental income			
Dwelling rents		(67,526)	(67,611)
Non dwelling rents		(4,260)	(4,412)
Charges for services and facilities		(25,754)	(26,161)
Contributions towards expenditure		(115)	-
<b>TOTAL INCOME</b>		<b>(97,655)</b>	<b>(98,185)</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		<b>6,972</b>	<b>42,900</b>
HRA services share of Corporate and Democratic Core		143	143
<b>NET COST OF HRA SERVICES</b>		<b>7,115</b>	<b>43,043</b>
<b>HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account</b>			
(Gain)/loss on sale of HRA non-current assets		(19,968)	(17,824)
Interest payable and similar charges <sup>1</sup>		4,480	6,135
Interest and investment income		(69)	(169)
Capital grants and contributions receivable		(7,172)	(5,509)
<b>DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES</b>		<b>(15,614)</b>	<b>25,676</b>

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

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

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

	2020/21		2021/22	
	£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward		(48,210)		(50,765)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account	(15,614)		25,676	
Net additional amount required by statute to be debited/(credited) to the HRA balance for the year	13,059		(27,804)	
Decrease (Increase) in the HRA Balance		<b>(2,555)</b>		<b>(2,128)</b>
<b>Balance on the Statutory HRA Carried Forward</b>		<b>(50,765)</b>		<b>(52,893)</b>

# NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2020/21		2021/22	
	£'000	£'000	£'000	£'000
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year</b>				
Revenue expenditure funded from capital under statute	(6,105)		(4,926)	
Capital grants and contributions	7,172		5,509	
Gain or loss on sale of HRA non-current assets	19,968		17,824	
Depreciation of non-current assets	(17,617)		(17,349)	
Reversal of revaluation (losses)/gains on non-current assets	(11,931)		(50,299)	
Net charges made for retirement benefits in accordance with IAS19	1,886		1,886	
		(6,627)		(47,355)
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year</b>				
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	435		-	
Transfer to / from Capital Adjustment Account	1,634		2,202	
Transfer to Major Repairs Reserve	17,617		17,349	
		19,686		19,551
<b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>		<b>13,059</b>		<b>(27,804)</b>

## 2 HOUSING STOCK

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

	2020/21	2021/22
Low-rise flats (1-2 storeys)	254	256
Medium-rise flats (3-5 storeys)	6,723	6,689
High-rise flats (6 or more storeys)	3,883	3,866
Houses and bungalows	771	769
<b>TOTAL AT 31<sup>st</sup> MARCH</b>	<b>11,631</b>	<b>11,580</b>

## 3 NON-CURRENT ASSETS

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

	2020/21 £'000	2021/22 £'000
Dwellings	1,097,416	1,118,581
Other Land and Buildings	58,901	91,263
Surplus Assets Not Held for Sale	5,949	4,987
Assets Under Construction	30,604	61,466
Assets Held for Sale	760	213
<b>TOTAL</b>	<b>1,193,630</b>	<b>1,276,510</b>

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	Assets Under Construction £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 31 <sup>st</sup> March 2020	1,136,458	60,608	14,770	39,221	-	1,251,057
Additions, disposals, transfers and revaluations	(39,042)	(1,707)	(8,821)	(8,617)	760	(57,427)
Total value at 31 <sup>st</sup> March 2021	1,097,416	58,901	5,949	30,604	760	1,193,630
Additions, disposals, transfers and revaluations	21,165	32,362	(962)	30,862	(547)	82,880
<b>TOTAL VALUE AT 31<sup>st</sup> MARCH 2022</b>	<b>1,118,581</b>	<b>91,263</b>	<b>4,987</b>	<b>61,466</b>	<b>213</b>	<b>1,276,510</b>

The vacant possession value of dwellings within the Council's HRA was £4,482 million in 2021/22 (£4,391 million in 2020/21). 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

	2020/21 £'000	2021/22 £'000
Balance at 1 <sup>st</sup> April	-	(74)
Transfer from Capital Adjustment Account - depreciation	(17,617)	(17,349)
Financing of capital expenditure	17,543	11,936
<b>Balance at 31<sup>st</sup> March 2021</b>	<b>(74)</b>	<b>(5,487)</b>

## 5 CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

	2020/21 Total £'000	2021/22 Total £'000
<b>Expenditure</b>	60,741	52,102
<b>Sources of finance</b>		
Borrowing	26,717	21,166
Capital Receipts	10,873	9,499
Capital Grants and Contributions	5,608	9,501
Major Repairs Reserve	17,543	11,936
<b>TOTAL CAPITAL FINANCING</b>	<b>60,741</b>	<b>52,102</b>

### (ii) Capital Receipts

Capital receipts (gross) in 2021/22 from the disposal of non-current assets within the HRA amounted to £23.515 million (£38.733 million in 2020/21) as follows:

	2020/21 £'000	2021/22 £'000
Dwellings	9,512	12,873
Other land and buildings	29,221	10,642
<b>TOTAL CAPITAL RECEIPTS</b>	<b>38,733</b>	<b>23,515</b>

## 6 DEPRECIATION

	2020/21 £'000	2021/22 £'000
Dwellings	16,607	16,034
Other Land and Buildings	1,010	1,315
<b>TOTAL DEPRECIATION</b>	<b>17,617</b>	<b>17,349</b>

## 7 PENSION COSTS

These figures should 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. Within 2020/21 the Council entered into a new management agreement with Tower Hamlets Homes and as a consequence no longer includes their pension liability within the accounts.

	Total	
	2020/21 £'000	2021/22 £'000
<b>STATEMENT OF MOVEMENT IN HRA RESERVES</b>		
Employer's pensions contributions and direct payments to pensioners	1,886	1,886

## 8 RENT ARREARS

	2020/21 £'000	2021/22 £'000
Gross rent arrears at 31 <sup>st</sup> March	5,595	4,698
Arrears as % of rent receivable	8.3	7.1
Provision made for bad debts	4,437	3,619

# COLLECTION FUND

The Collection Fund Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the Council as billing authority in relation to the collection from tax payers and distribution to precepting bodies and the Government of Council Tax and Non-Domestic Rates.

2020/21				2021/22		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
<b>INCOME</b>						
-	(139,630)	<b>(139,630)</b>	Council Tax Receivable	-	(155,236)	<b>(155,236)</b>
(334,697)	-	<b>(334,697)</b>	Business Rates Receivable	(372,001)	-	<b>(372,001)</b>
(3,569)	-	<b>(3,569)</b>	Transitional Protection Payments Receivable	(2,043)	-	<b>(2,043)</b>
(11,553)	-	<b>(11,553)</b>	Business Rates Supplements Receivable	(12,048)	-	<b>(12,048)</b>
<b>(349,819)</b>	<b>(139,630)</b>	<b>(489,449)</b>	<b>Total amounts to be credited</b>	<b>(386,092)</b>	<b>(155,236)</b>	<b>(541,327)</b>
<b>EXPENDITURE</b>						
<b>Apportionment of Previous Year Surplus/(Deficit:)</b>						
(3,335)	-	<b>(3,335)</b>	Central Government	(37,515)	-	<b>(37,515)</b>
(17,920)	(503)	<b>(18,423)</b>	Tower Hamlets	(36,523)	(2,747)	<b>(39,271)</b>
(10,080)	(158)	<b>(10,238)</b>	Greater London Authority	(41,964)	(860)	<b>(42,824)</b>
<b>Precepts, demands and shares</b>						
154,249	-	<b>154,249</b>	Central Government	149,191	-	<b>149,191</b>
140,227	108,438	<b>248,664</b>	Tower Hamlets	135,628	114,189	<b>249,818</b>
172,946	33,959	<b>206,906</b>	Greater London Authority	167,275	37,301	<b>204,576</b>
<b>Business Rate Supplement</b>						
11,534	-	<b>11,534</b>	Payment to levying authority's BRS Revenue Account	12,029	-	<b>12,029</b>
19	-	<b>19</b>	Administrative Costs	19	-	<b>19</b>
<b>Charges to the Collection Fund</b>						
5,789	1,644	<b>7,433</b>	Increase/(decrease) in allowance for impairment	5,340	4,421	<b>9,761</b>
(492)	-	<b>(492)</b>	Increase/(decrease) in allowance for appeals	(38)	-	<b>(38)</b>
1,031	-	<b>1,031</b>	Charge to General Fund for allowable collection costs	1,049	-	<b>1,049</b>
<b>453,969</b>	<b>143,380</b>	<b>597,349</b>	<b>Total Amounts to be debited</b>	<b>354,491</b>	<b>152,304</b>	<b>506,795</b>
104,150	3,750	<b>107,900</b>	<b>(Surplus)/Deficit arising during the year</b>	<b>(31,600)</b>	<b>(2,932)</b>	<b>(34,532)</b>
40,906	1,971	<b>42,877</b>	<b>(Surplus)/Deficit b/f at 1 April</b>	<b>145,056</b>	<b>5,721</b>	<b>150,777</b>
<b>145,056</b>	<b>5,721</b>	<b>150,777</b>	<b>(Surplus)/Deficit c/f at 31 March</b>	<b>113,456</b>	<b>2,789</b>	<b>116,245</b>

## (Surplus)/Deficit on the Collection Fund

2020/21				2021/22		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
46,656	-	<b>46,656</b>	Central Government	36,993	-	<b>36,993</b>
45,240	4,376	<b>49,616</b>	Tower Hamlets	34,037	2,151	<b>36,188</b>
53,160	1,345	<b>54,505</b>	Greater London Authority	42,426	639	<b>43,065</b>
<b>145,056</b>	<b>5,721</b>	<b>150,777</b>	<b>(Surplus)/Deficit c/f at 31 March</b>	<b>113,456</b>	<b>2,789</b>	<b>116,245</b>



# NOTES TO THE COLLECTION FUND

## 1. COUNCIL TAX

Council Tax, introduced in 1993, is charged on residential properties depending on the nature and degree of occupation of the 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. The tax for each Band is set as a fraction of Band D. The number of properties in each band and calculation of the tax base (adjusted to reflect relevant discounts and exemptions) was approved by Cabinet in January 2021 and is summarised in the table below:

Band	Valuation Bands	Ratio to Band D	2020/21 Number of chargeable dwellings	2020/21 Equivalent number of band D dwellings	2021/22 Number of chargeable dwellings	2021/22 Equivalent number of band D dwellings
A	Up to £40,000	6/9	1,411	941	1,377	918
B	£40,001 and up to £52,000	7/9	22,057	17,156	21,986	17,100
C	£52,001 and up to £68,000	8/9	36,244	32,216	36,477	32,424
D	£68,001 and up to £88,000	9/9	27,237	27,237	27,995	27,995
E	£88,001 and up to £120,000	11/9	20,442	24,985	21,904	26,772
F	£120,001 and up to £160,000	13/9	9,780	14,126	10,600	15,311
G	£160,001 and up to £320,000	15/9	4,110	6,849	4,420	7,366
H	Over £320,001	18/9	635	1,270	709	1,417
			121,916	124,780	125,468	129,303
Adjustment for Reduction Scheme & Collection Rate				(22,514)		(22,457)
<b>Council Tax Base</b>				<b>102,266</b>		<b>106,846</b>

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

The Council collects business rates for its local area. The amount due to be paid by a business for their property is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The rateable value is determined by the Valuation Office Agency, a government executive agency. The national uniform rate in 2021/2022 was 51.2p (51.2p for 2020/21) and the rate for small businesses was set at 49.9p (49.9p for 2020/21). The total rateable value in the borough as at 31st March 2022 was £1,004 million (£996 million at 31 March 2021).

## 3. BUSINESS RATE SUPPLEMENT (BRS)

Under the Business Rate Supplement Act 2009, the Greater London Authority (GLA) has introduced a supplement to help towards the financing of the costs of the Crossrail project. The Council collects the supplement on behalf of the GLA.

The Crossrail BRS multiplier for 2021/22 is 2p per pound of rateable value (unchanged from previous years), it is only paid on properties with a rateable value in excess of £70,000.

## PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2020/21 £'000	2021/22 £'000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
Contributions	7	(66,681)	(69,725)
Transfers in	8	(6,512)	(7,041)
Benefits	9	60,989	62,980
Payments to and on account of leavers	10	3,925	5,971
<b>NET (ADDITIONS)/DEDUCTIONS FROM DEALINGS WITH MEMBERS</b>		<b>(8,279)</b>	<b>(7,815)</b>
Management expenses	11	12,812	17,193
<b>NET (ADDITIONS)/DEDUCTIONS INCLUDING FUND MANAGEMENT EXPENSES</b>		<b>4,533</b>	<b>9,378</b>
<b>RETURN ON INVESTMENTS</b>			
Investment Income	12	(21,013)	(27,183)
Taxes on Income		5	0
Change in market value of investments	14a	(420,070)	(49,485)
<b>NET RETURN ON INVESTMENTS</b>		<b>(441,078)</b>	<b>(76,668)</b>
Net increase in the Fund during the year		(436,545)	(67,290)
Add: Opening net assets of the scheme		(1,519,562)	(1,956,107)
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>(1,956,107)</b>	<b>(2,023,397)</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2020/21 £'000	2021/22 £'000
Long Term Investments	14	150	150
Investments Assets	14	1,957,072	2,021,791
Current Assets	21	2,407	3,896
Current Liabilities	22	(3,522)	(2,440)
<b>NET ASSETS</b>		<b>1,956,107</b>	<b>2,023,397</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE FUND

The London Borough of Tower Hamlets Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by London Borough of Tower Hamlets.

### a) General

The LGPS is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Fund is a contributory defined benefit pension scheme administered by London Borough of Tower Hamlets to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies.

Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the London Borough of Tower Hamlets Pension Committee which is a Committee of the London Borough of Tower Hamlets.

### b) Membership of the Fund

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the London Borough of Tower Hamlets Pension Fund include the following:

- „Scheduled bodies, which are automatically entitled to be members of the Fund.
- „Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table sets out the membership of the London Borough of Tower Hamlets Pension Fund as at 31st March 2022

	31st March 2021	31st March 2022
<b>Number of employees in the scheme</b>		
LBTH	6,256	6,608
Other employers	974	1,044
	<b>7,230</b>	<b>7,652</b>
<b>Number of pensioners</b>		
LBTH	6,242	6,490
Other employers	456	489
	<b>6,698</b>	<b>6,979</b>
<b>Number of deferred pensioners</b>		
LBTH	7,455	7,734
Other employers	538	587
	<b>7,993</b>	<b>8,321</b>
<b>Total number of members in pension scheme</b>	<b>22,023</b>	<b>22,952</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE FUND

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial ending 31 March 2021. Employers' contributions are set based on triennial actuarial valuations. The last such valuation was at 31 March 2019 and these rates have been applied from 1 April 2020. Currently, employer contribution rates range from 15.8% to 41.4% of pensionable pay.

### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices. A range of other benefits are also provided including early retirement, disability pensions and death benefits are explained on the LGPS website.

## NOTE 2: BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2021/22 financial year and its financial position at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Pension Fund accounts have been prepared on a going concern basis.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund account – revenue recognition

#### a) Contribution income

Normal contributions from both the members and the employer are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all schemes which rise according to pensionable pay. They are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund's actuary in the rates and adjustment certificate issued to the relevant employing body.

Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Augmentations such as additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

#### b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund. Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

#### c) Investment income

Investment income arising from the underlying investments in pooled funds is either reinvested or taken as a cash dividend to support the Fund's cash requirements.

Interest income from the underlying investments of the Pooled Investment Vehicles are recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund account – expense items

#### d) Benefits payable

Pensions and lump-sum benefits 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, providing that payment has been approved.

#### e) Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

#### f) Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis.

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Investment management expenses include transaction costs and custody fees.

Where an investment manager's fee has not been received by the year end date an estimate is used based upon the market value of the fund.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

#### Administrative expenses

All staff costs of the pensions administration team are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

#### Oversight and governance

All staff costs associated with governance and oversight are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

#### Investment management expenses

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments or to increase income if netted off from income received. Transaction costs met from the net asset value of the fund are also grossed up and reported in Note 11A.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Net assets statement

#### g) Financial assets

Investment assets are included in the financial statements 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 asset are recognised in the fund account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16).

#### h) Freehold and leasehold properties

The Fund has no direct investment in property

#### i) Derivatives

The Fund uses derivative financial instruments as part of its equity protection portfolio managed by Schroders Investment Management to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

#### j) Cash and cash equivalents

Cash comprises cash in hand and internally managed cash and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### k) Financial assets at amortised cost

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e the outstanding principal receivable as at the year-end date plus accrued interest.

#### l) Financial liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **m) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS26) and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

### **n) Additional voluntary contributions**

The London Borough of Tower Hamlets Pension Fund provides an additional voluntary contribution AVC scheme for its members, the assets of which are invested separately from those of the Pension Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 23.

### **o) Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events. A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably. Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

### **p) Recharges from the General Fund**

The LGPS (Management and Investment of Funds) Regulations 2016 permit the council to charge administration costs to the Fund. A proportion of the relevant costs have been charged to the Fund on the basis of time spent on pension fund activity. Costs incurred are shown in Note 25.

### **q) Annual allowance (VSP,MSP) and life time allowance**

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduction in pension.

Where the Fund pays member tax liabilities direct to HMRC, it is treated as a expense in the year in which the payment occurs.



# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

### **Pension Fund liability**

The net Pension Fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted actuarial guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

## NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statements for which there is a significant risk of material adjustment the following year are as follows:

### **a) Actuarial present value of promised retirement benefits**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied

For example:

„a 0.5% decrease in the discount rate used would result in an increase in the pension liability of £247m.

„a 0.5% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £18m.

### **b) Valuation of Investments at Level 3**

The Pension Fund contains investments in unitised pooled property funds and renewable energy infrastructure that are classified within the financial statements as level 3 investments. These funds are valued at £149m according to non-exchange based market valuations. As a result of this, the final realised value of the pooled units may differ from the valuations presented in the accounts.

## NOTE 6: EVENTS AFTER THE REPORTING DATE

### **RUSSIA /UKRAINE CONFLICT**

There has been uncertainty in financial markets as a result of the conflict in Ukraine, and the associated sanctions against Russia which led to volatility in investment markets since February 2022. The Fund engaged with fund managers as events unfolded to ensure they were following guidelines which applied to the portfolios they are responsible for. Exposure across the Fund's assets was very small and managers immediately wrote these investments to nil value.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 7: CONTRIBUTIONS RECEIVABLE

	2020/21 £'000	2021/22 £'000
<b>Employees</b>		
Council Employees' Normal Contributions	(11,460)	(11,813)
Admitted Bodies Employees' Normal Contributions	(147)	(174)
Scheduled Bodies Employees' Normal Contributions	(1,776)	(1,873)
<b>Total</b>	<b>(13,383)</b>	<b>(13,860)</b>
<b>Employers</b>		
Council Employers' Normal Contributions	(33,173)	(33,795)
Admitted Bodies Employers' Normal Contributions	(628)	(882)
Scheduled Bodies Employers' Normal Contributions	(4,839)	(5,214)
<b>Total</b>	<b>(38,640)</b>	<b>(39,891)</b>
Employers' Special Contributions	(980)	(2,296)
Deficit Funding	(13,678)	(13,678)
<b>Total</b>	<b>(6,512)</b>	<b>(15,974)</b>
<b>Grand Total</b>	<b>(58,535)</b>	<b>(69,725)</b>

## NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

	2020/21 £'000	2021/22 £'000
<b>Transfer Values</b>		
Transfer Values Received - Individual	(6,512)	(7,041)
<b>Total</b>	<b>(6,512)</b>	<b>(7,041)</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 9: BENEFITS PAYABLE

	2020/21 £'000	2021/22 £'000
Pensions	49,418	51,057
Lump Sums Retirement Benefits	9,016	10,853
Lump Sums Death Benefits	2,555	1,070
<b>Total</b>	<b>60,989</b>	<b>62,980</b>
By type of employer		
Administering authority	56,028	57,333
Scheduled bodies	2,628	3,382
Admitted bodies	2,333	2,265
<b>Total</b>	<b>60,989</b>	<b>62,980</b>

## NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020/21 £'000	2021/22 £'000
Transfer values paid	3,712	5,709
Refunds to members leaving service	213	262
<b>Total</b>	<b>3,925</b>	<b>5,971</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 11: MANAGEMENT EXPENSES

	2020/21 £'000	2021/22 £'000
Administration	1,465	1,654
Investment management expenses	10,751	15,086
Oversight & Governance	596	453
<b>Total</b>	<b>12,812</b>	<b>17,193</b>

## NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

	Management Fees £'000	Transaction Costs £'000	2021/22 £'000
Pooled Investments	10,746	2,263	13,009
Pooled Property Investments	1,881	123	2,004
	<b>12,627</b>	<b>2,386</b>	<b>15,013</b>
Custody Fees			72
			<b>15,085</b>

	Management Fees £'000	Transaction Costs £'000	2020/21 £'000
Pooled Investments	6,311	2,464	8,775
Pooled Property Investments	1,881	30	1,911
	<b>8,192</b>	<b>2,494</b>	<b>10,686</b>
Custody Fees			65
			<b>10,751</b>

## NOTE 12: INVESTMENT INCOME

	2020/21 £'000	2021/22 £'000
Pooled property Investments	(4,906)	(5,775)
Pooled Investments -unit trusts and other managed fun	(15,574)	(21,374)
Interest on cash deposits	(533)	(34)
	<b>(21,013)</b>	<b>(27,183)</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 13: EXTERNAL AUDIT COSTS

	2020/21 £'000	2021/22 £'000
Audit Fees Payable in respect of external audit	21	18
	<b>21</b>	<b>18</b>

## NOTE 14: INVESTMENTS

	2020/21 £'000	2021/22 £'000
<b>Long Term Investments</b>		
UK unquoted Equities London CIV Ltd	150	150
<b>Total Long Term Investments</b>	<b>150</b>	<b>150</b>
<b>Investment assets</b>	37,283	
Pooled Funds		
Fixed Income	495,076	212,321
Global Equity	874,109	1,139,354
Diversified Growth	397,959	419,463
Property	149,166	190,717
Infrastructure	0	33,199
Sub-Total	<b>1,916,310</b>	<b>1,995,054</b>
<b>Other Investment Balances</b>		
Cash Deposits	37,283	26,053
Amounts Receivable for Sales of Investments	2,814	0
Investment Income Due	665	684
Sub-Total	<b>40,762</b>	<b>26,737</b>
<b>Total Investment Assets</b>	<b>1,957,072</b>	<b>2,021,791</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 31 Mar 2021 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2022 £'000
<b>Investment Assets</b>					
Pooled Investments	1,767,144	263,787	(244,818)	18,224	1,804,337
Pooled Property Investments	149,166	22,967	(12,674)	31,258	190,717
	<b>1,916,310</b>	<b>286,754</b>	<b>(257,492)</b>	<b>49,482</b>	<b>1,995,054</b>
<b>Other Investment Balances</b>					
Cash Deposits	37,283			3	26,053
Amounts Receivable for Sales of Investments	2,814				0
Investment Income Due	665				684
Other	0				0
<b>Net Investment Assets</b>	<b>1,957,072</b>			<b>49,485</b>	<b>2,021,791</b>

	Market Value 31 Mar 2020 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2021 £'000
<b>Investment Assets</b>					
Pooled Investments	1,360,710	68,113	(80,826)	419,147	1,767,144
Pooled Property Investments	147,556	5,457	(4,759)	912	149,166
	<b>1,508,266</b>	<b>73,570</b>	<b>(85,585)</b>	<b>420,059</b>	<b>1,916,310</b>
<b>Other Investment Balances</b>					
Cash Deposits	11,927			11	37,283
Amounts Receivable for Sales of Investments	0			0	2,814
Investment Income Due	734			0	665
Other	(33)				0
<b>Net Investment Assets</b>	<b>1,520,894</b>			<b>420,070</b>	<b>1,957,072</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

All managers have discretion to buy and sell investments within the limits set by the Pensions Committee and their respective Investment Management Agreement. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against the benchmark on the investment manager.

Northern Trust (NT) act as the Fund's global custodian. They are responsible for safe custody and settlement of all investment and collection of income and complete a monthly reconciliation of its own portfolio valuation to external fund manager reports. The bank account for the Fund is held with National Westminster Bank.

	Market value as at 31st March 2021 £'000	% total of fund	Market value as at 31st March 2022 £'000	% total of fund
<b>Investments managed by regional asset pool (London CIV)</b>				
London LGPS CIV Lt Global Alpha Growth A	403,177	20.6%	0	0.0%
London LGPS CIV Lt Global Alpha Growth PARIS aligned	0	0.0%	368,061	18.2%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	205,790	10.5%	220,748	10.9%
London LGPS CIV Lt Diversified Growth A	192,169	9.8%	198,715	9.8%
LCIV CQS Credit Mult Asset-A	117,231	6.0%	120,075	5.9%
LCIV Sustainability Fund	0	0.0%	182,918	9.0%
LCIV Renewables Fund	0		34,825	1.7%
	<b>918,367</b>	<b>46.9%</b>	<b>1,125,342</b>	<b>55.7%</b>
<b>Investments managed outside of regional asset pool</b>				
Schroder	435,766	22.3%	310,724	15.4%
Legal & General	470,932	24.1%	473,869	23.4%
Goldman Sachs	54,792	2.8%	53,015	2.6%
Insight Investment	48,635	2.5%	39,231	1.9%
Legacy	460	0.0%	424	0.0%
Internally managed cash	28,120	1.4%	19,186	0.9%
	<b>1,038,705</b>	<b>53.1%</b>	<b>896,449</b>	<b>44.3%</b>
	<b>1,957,072</b>	<b>100.0%</b>	<b>2,021,791</b>	<b>100.0%</b>

The following investments represent over 5% of the net assets of the fund. All of these companies are registered in the UK Security

Security	Market value as at 31st March 2021 £'000	% total of fund	Market value as at 31st March 2022 £'000	% total of fund
London LGPS CIV Lt Global Alpha Growth A	403,177	21%	0	0.0%
London LGPS CIV Lt Global Alpha Growth Paris aligned	0	0%	368,061	18.8%
Mfo GPCU - Msciworldlowcarbtargetin Dgcurhofc	362,285	19%	361,707	18.5%
LCIV Sustainability Fund	0	0%	182,918	9.4%
Schroder Inv Mg E Bespoke Investment Fund 9 I	274,417	14%	114,514	5.9%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	205,790	11%	220,748	11.3%
London LGPS CIV Lt Diversified Growth A	192,169	10%	198,715	10.2%
LCIV CQS Credit Mult Asset-A	117,231	6%	120,075	6.1%
Gpcl - Msciworldlw Carbontargetindofc	108,646	6%	112,155	0
	<b>1,663,715</b>	<b>85%</b>	<b>1,678,893</b>	<b>85.8%</b>

### NOTE 14C: STOCK LENDING

The fund does not directly participate in stock lending. Investments held in pooled mandates such as LCIV Diversified Growth fund, LCIV Ruffer Absolute Return Funds.

In pooled mandates such as the LCIV Diversified Growth and Absolute return Funds as we just hold units of the Baillie Gifford Diversified Growth Fund and LF Ruffer Absolute Return Fund we do not do stock lending either.

### NOTE 14D: PROPERTY HOLDINGS

The Fund's investment property portfolio does not comprise directly owned properties.

### NOTE 15: ANALYSIS OF DERIVATIVES

#### Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market based information.

Description of asset	Valuation hierarchy 20/21	Valuation hierarchy 21/22	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Quoted UK and Overseas Bonds	Level 2	Level 2	Fixed income securities are priced based on evaluated price provided by independent pricing services	Evaluated price feeds	Not required
Pooled Investments - Property Funds	Level 3	Level 3	Closing bid price where bid and offer prices are published	Adjusted for net capital current assets	Estimated acquisition and disposal costs
Pooled Investments - Multi Asset Credit	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	Evaluated price feeds	Not required
Pooled Investments - Absolute Return	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Pooled Investments - Infrastructure	N/A	Level 3	Latest available fair value provided by the manager, adjusted for cash movements subsequent to that date as required	Manager valuation statements are prepared in accordance with ECVA guidelines	Upward valuations are only considered when there is a validation of the investment objectives and such progress can be demonstrated

#### Fair Value Hierarchy

	Market Value as at 31 Mar 2022	Quoted market price	Using observable inputs			With significant observable inputs	Total
	£'000	Level 1	Level 2		Level 3	£'000	
		£'000	£'000	£'000	£'000		
<b>Financial assets at fair value through profit and loss</b>							
Equities	150			150			150
<u>Pooled investments</u>							
Fixed Income	212,321			212,321			212,321
Global Equity	1,139,354			1,139,354			1,139,354
Diversified Growth	419,463			419,463			419,463
Property	190,717				190,717		190,717
Infrastructure	33,199				33,199		33,199
	<b>1,995,204</b>	<b>0</b>		<b>1,771,288</b>	<b>223,916</b>		<b>1,995,204</b>

	Market Value as at 31 Mar 2021	Quoted market price	Using observable inputs			With significant observable inputs	Total
	£'000	Level 1	Level 2		Level 3	£'000	
		£'000	£'000	£'000	£'000		
<b>Financial assets at fair value through profit and loss</b>							
Equities	150			150			150
<u>Pooled investments</u>							
Fixed Income	495,076			495,076			495,076
Global Equity	874,109			874,109			874,109
Diversified Growth	397,959			397,959			397,959
Property	149,166				149,166		149,166
	<b>1,916,460</b>	<b>0</b>		<b>1,767,294</b>	<b>149,166</b>		<b>1,916,460</b>



## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

There were no transfers in the year.

### NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 Apr 2021 £'000	Transfers in/out of level 3 £'000	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses) £'000	Market Value 31 Mar 2022 £'000
Pooled Property Funds	149,166	0	22,967	(12,674)	34,508	(3,250)	190,717
Infrastructure Funds	0	0	38,362	(5,198)	35	0	33,199
<b>Total</b>	<b>149,166</b>	<b>0</b>	<b>61,329</b>	<b>(17,872)</b>	<b>34,543</b>	<b>(3,250)</b>	<b>223,916</b>

	Assessed valuation range (+/-) %	Value 31 Mar 2021 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled Property Funds	10%	190,717	209,789	171,645
<b>Total</b>		<b>190,717</b>	<b>209,789</b>	<b>171,645</b>

	Market Value 1 Apr 2020 £'000	Transfers in/out of level 3 £'000	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses) £'000	Market Value 31 Mar 2020 £'000
Pooled Property Funds	147,556	0	5,457	(4,759)	637	275	149,166
<b>Total</b>	<b>147,556</b>	<b>0</b>	<b>5,457</b>	<b>(4,759)</b>	<b>637</b>	<b>275</b>	<b>149,166</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2021			Market Value as at 31 Mar 2022		
Designated as fair value through profit and loss £'000	Financial Assets at amortised cost £'000	Financial liabilities at amortised cost £'000	Designated as fair value through profit and loss £'000	Financial Assets at amortised cost £'000	Financial liabilities at amortised cost £'000
<b>Financial assets</b>					
150	0	0	150	0	0
1,767,144	0	0	1,804,337	0	0
149,166	0	0	190,717	0	0
0	9,163	0	0	0	0
0	28,120	0	0	0	0
0	3,479	0	0	26,737	0
0	2,407	0	0	3,896	0
<b>1,916,460</b>	<b>43,169</b>		<b>1,995,204</b>	<b>30,633</b>	<b>0</b>
<b>Financial liabilities</b>					
0	0	(3,522)	0	0	(2,440)
<b>0</b>	<b>0</b>	<b>(3,522)</b>	<b>0</b>	<b>0</b>	<b>(2,440)</b>
<b>1,916,460</b>	<b>43,169</b>	<b>(3,522)</b>	<b>1,995,204</b>	<b>30,633</b>	<b>(2,440)</b>
<b>1,956,107</b>			<b>2,023,397</b>		

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

<b>Financial Assets</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>
Fair value through profit or loss	(49,324)	(49,482)
Amortised cost – realised gains on derecognition of assets	1	0
Amortised cost – unrealised gains	(4)	(3)
<b>Total Financial Assets</b>	<b>(49,327)</b>	<b>(49,485)</b>

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: 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 (i.e. promised benefits payable to members).

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk-management strategy rests with the Pensions Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed by the Pensions Committee and Pensions Board in the light of changing market and other conditions.

### **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 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 Fund employs a custodian to provide secure safe-keeping of the Fund's assets and to ensure that all trades are settled in a timely manner.

### **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 (Northern Trust 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. As at 31 March 2022, liquid assets were £2,021m representing 92.6% of total assets of the Fund assets (£1,956m as at 31 March 2021). The majority of these investments can be in fact liquidated within a matter of days.

### **Currency risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of hedging. The Pensions Committee recognises that a strengthening /weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS cont.

### **Currency risk cont.**

Overseas equities, fixed interest securities and equity protection swaps and some elements of the pooled investment vehicles are exposed to currency risk. The currency risk table demonstrates the change in value of these assets had there been a 10% change strengthening/weakening of the pound against foreign currencies.

### **Market risk**

This is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions.

### **Price risk**

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument or its issuer factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities regardless of being in a pool represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments with the exception of derivatives.

The Fund manages price risk of its portfolio by diversifying its investments across different asset classes and fund managers as required by regulations. Further, the Fund has a long-term investment horizon and can accept the price risk in its portfolio. The Fund can mitigate the price risk by regular reviews of its investment strategy in consultation with its investment advisors.

The price risk table below demonstrates the change in the net assets available to pay benefits if the market price has increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward exchange as these financial instruments are not subject to price risk.

### **Interest rate risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates. The Pensions Committee and its advisors regularly monitor the Fund's interest rate risk exposure during the year.

Fixed interest securities, cash and cash equivalents are exposed to 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.

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

#### OTHER PRICE RISK - sensitivity analysis

Asset type	Market Value as at 31/03/2022	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Cash and cash equivalents</b>	26,053	0.9%	26,287	25,819
<b>Pooled Investments:</b>				
Fixed Income	212,321	6.8%	226,759	197,883
Global Equity	1,139,354	14.8%	1,307,978	970,730
Diversified Growth	419,463	6.4%	446,309	392,617
Property	190,717	4.0%	198,346	183,088
Infrastructure	33,199	6.8%	35,457	30,941
Investment income due	684	0.9%	690	678
Amounts receivable for sales	0	0.9%	0	0
<b>Total investment assets</b>	<b>2,021,791</b>		<b>2,241,826</b>	<b>1,801,756</b>

Asset type	Market Value as at 31/03/2021	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Cash and cash equivalents</b>	37,283	0.8%	37,581	36,985
<b>Pooled Investments:</b>				
Fixed Income	495,076	6.8%	528,741	461,411
Global Equity	874,109	15.7%	1,011,344	736,874
Diversified Growth	397,959	6.5%	423,826	372,092
Property	149,166	2.1%	152,256	146,076
Other	665	0.8%	670	660
Investment income due	2,814	0.8%	2,837	2,791
<b>Total investment assets</b>	<b>1,957,072</b>		<b>2,157,255</b>	<b>1,756,889</b>

#### CURRENCY EXPOSURE - asset type

Asset type	Market Value as at 31/03/2022	Change in year in the net assets available to pay benefits	
	£'000	7.3%	7.3%

#### Overseas Assets

Overseas Fixed Income Funds	377,845	405,428	350,262
Overseas Equity Funds	765,463	821,342	709,584
Overseas Property Funds	30,792	33,040	28,544
<b>Total change in assets available</b>	<b>1,174,100</b>	<b>1,259,809</b>	<b>1,088,391</b>

Asset type	Market Value as at 31/03/2021	Change in year in the net assets available to pay benefits	
	£'000	7.7%	7.7%

#### Overseas Assets

Overseas Fixed Income Funds	377,845	406,947	348,743
Overseas Equity Funds	765,463	824,420	706,506
<b>Total change in assets available</b>	<b>1,143,308</b>	<b>1,231,368</b>	<b>1,055,248</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## INTEREST RATE RISK

Asset type	Market Value as at 31/03/2022	Market Value as at 31/03/2021
	£'000	£'000
<b>Cash and cash equivalents</b>		
Cash	26,053	37,283
<b>Total</b>	<b>26,053</b>	<b>37,283</b>

### Interest rate risk sensitivity analysis

Asset type	Market Value as at 31/03/2022	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000	£'000	£'000
<b>Cash and cash equivalents</b>			
Cash	26,053	261	-261
<b>Total change in assets available</b>	<b>26,053</b>	<b>261</b>	<b>-261</b>

Asset type	Market Value as at 31/03/2021	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000	£'000	£'000
<b>Cash and cash equivalents</b>			
Cash	37,283	373	-373
<b>Total change in assets available</b>	<b>37,283</b>	<b>373</b>	<b>-373</b>

## CREDIT RISK

Summary	Rating	Market Value as at 31/03/2022	Market Value as at 31/03/2021
		£'000	£'000
<b>Money Market Funds</b>			
Schroder special situations sterling liquidity plus	A	4,705	8,922
<b>Bank current accounts</b>			
Northern Trust custody cash account	A	2,161	241
National Westminster Bank Plc	A	19,187	28,120
<b>Total</b>		<b>26,053</b>	<b>37,283</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 19: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation that took place as at 31 March 2019 covered the period up to 31 March 2023. This report details Fund assumptions and employer contributions for the three years covered by the 2019 valuation.

The key elements of the funding policy are:

- 1) to ensure the long-term solvency of the fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment
- 2) to ensure that employer contribution rates are as stable as possible
- 3) to minimise the long-term cost of the LGPS by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- 4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so and
- 5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The triennial valuation undertaken as at 31 March 2019 covers the financial assumptions for 2020/21. The actuary estimated the surplus of the Fund to be £27m and the funding level to be 102%. This compared to a deficit at the previous valuation in 2016 of £235m and a corresponding funding level of 82.8%. The triennial valuation also sets the individual contribution rate to be paid by each employer from 1 April 2020 to 31 March 2023.

The contribution rates are made of two values, the Primary and Secondary rate. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer Secondary rates (before applying any pre-payment or capitalisation of future contributions).

The table below summarises the whole Fund Primary and Secondary Contribution rates at the 2019 triennial valuation:

Primary Rate (% of pay)	2020-21 £'000	2021-22 £'000	2022-23 £'000
19.90%	15,019	15,137	15,103
	<b>15,019</b>	<b>15,137</b>	<b>15,103</b>

50:50 option

It is assumed that 0.5% of members opt into the 50:50 option in the LGPS 2014 scheme.



# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

### Actuarial Value of Promised Retirement Benefits

IAS26 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 £2,435 million (£2,535 million in 2020/21). This includes both vested and non-vested benefits.

Year ended	31 Mar 2021 £m	31 Mar 2022 £m
Active members	1,026	1,033
Deferred members	644	599
Pensioners	865	803
	<b>2,535</b>	<b>2,435</b>

### Assumptions

To assess the value of the employer's liabilities the actuary rolls forward the values from the liabilities calculated from the funding valuation as at March 2019 using financial assumptions that comply with IAS19.

The figures at 31 March 2021 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

### Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund. All other

Average future life expectancies at age 65 years	Male	Female
Current pensioners	21.5	23.7
Future pensioners	22.7	25.5

### Commutation assumptions

It is assumed that future retirees will take 50% of the maximum of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post -April 2008 service.

### Financial assumptions

The financial assumptions used for the purpose of the calculation is set out in the table below

Year ended	31 March 2021	31 March 2022
Inflation/pension increase rate assumption	2.9%	3.2%
Salary increase	3.1%	3.4%
Discount rate	2.0%	2.7%

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 21: CURRENT ASSETS

	2020/21 £'000	2021/22 £'000
Short term debtors		
Contributions due	1,209	2,974
Sundry debtors	869	351
Prepayments	329	571
	<b>2,407</b>	<b>3,896</b>

## NOTE 22: CURRENT LIABILITIES

	2020/21 £'000	2021/22 £'000
Sundry creditors	(1,645)	(1,396)
Transfer values payable (leavers)	0	(371)
Benefits payable	(1,877)	(673)
	<b>(3,522)</b>	<b>(2,440)</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

In accordance with Regulation 4 (1)(b) of the Pension Scheme (Management and Investment of Funds) Regulation 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

	2020/21		2021/22	
	Market Value** £'000	Contributions £'000	Market Value* £'000	Contributions £'000
Aviva	1,251	26	1,286	52
Equitable Life / Utmost Life	708	3	736	3
	<b>1,959</b>	<b>29</b>	<b>2,022</b>	<b>55</b>

Additional voluntary contributions (AVC's) were paid to Aviva and Utmost Life during the year.

\* The market value is as at 5 April for Utmost and 31 March for Aviva.

\*\* The market value is as at 5 April for Utmost and 30 April for Aviva.

### NOTE 24: AGENCY SERVICES

The Fund is fully reimbursed of all agency services costs paid on behalf of the administering authority.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 25: RELATED PARTY TRANSACTIONS

The LBTH pension fund is administered by the LBTH.

The Council incurred costs of £1,241k (£1,227k 2020/21) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. 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 Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £4.4m (£3.9m 2020/21) from this company.

## NOTE 25A: KEY MANAGEMENT PERSONNEL

Key management personnel for the pension fund include pension fund committee members, the Corporate Director of Resources and the Head of Pensions and Treasury.

At 31 March 2022 there was one permanent employee, the Director Finance Procurement & Audit, with short term benefits valued at £23k and long term post retirement benefits valued at £616k).

## NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund may be required by government regulations to increase benefits paid on the guaranteed minimum pension

The Fund has committed £120m to the London CIV Renewable Energy Infrastructure Fund, of this commitment, £86.8m was still outstanding at 31 March 2022.



## GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

### FINANCIAL TERMS

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

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

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

**Accrual** – The recognition of income and expenditure in the year that they occur and not when the 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 who provides advice 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 2019.

**Arms 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 (ie after amortisation).

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

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

**Better Care Fund (BCF)** – A pooled budget between the Council and the local Clinical Commissioning Group, supported by grants from Central Government.





**Billing Authority** – Refers to a local authority that is responsible for the collection of Council Tax and Non-Domestic Rates, both on behalf of itself, Central Government and the Greater London Authority.

**Budget** – A plan of expenditure for a financial year 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 (BRS)** – The Business Rate Supplements Act 2009 enables levying authorities - county councils, unitary 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 receipts that are currently unspent and 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** - This is a potential "one-off" future liability or loss, but the likelihood of the loss incurring is sufficiently low that the establishment of a provision is not appropriate.

**Contingent Asset** - This is a potential "one-off" future receipt or acquisition of an asset, but the likelihood of the gain incurring is sufficiently low that the recognition of it is not appropriate.

**Corporate and Democratic Core** - This is the cost of managing core functions of the Council and includes corporate policy making, activities that relate to the corporate management of the Council and all other member-based activities.

**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 Liabilities** - 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.

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

**Deferred Income - Receipt in Advance** - This represents a cash receipt received in advance of the period of time it relates to. For example a cash receipt may be received as part of entering into a building lease, with the credit then 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 may relate to Private Finance Initiative (PFI) schemes.

**Defined Benefit Scheme** - A pension scheme which pays out pensions or benefits based on final salary or other contractual terms irrespective of the contributions paid. Benefits are not directly related to the investments of the Pension Fund.





**Depreciated Replacement Cost (DRC)** – a valuation method that is based on the cost of recreating the asset in its current condition and use. This can be the cost of creating a modern equivalent asset where appropriate.

**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**– The use of revenue monies to pay for capital expenditure. Also referred to as Revenue Contributions to Capital Outlay.

**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.

**External Audit** – An independent examination by an appointed Auditor (currently Deloitte LLP) of the Council's activities and accounts to ensure that legal requirements have been met, proper practices followed and appropriate arrangements made to secure value for money.

**Fair Value** - It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**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 (FIAA)** - 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.

**Group Accounts** – Where a Council has a material interest in a separate entity, it may be required to combine the entities financial statements with its own to show the consolidated results of the Council and entity as a group.

**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 when purchased 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 the amounts 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 in more than one year.

**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 Strategy (MTFS)** – 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.

**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)** – Local Businesses contribute to Council expenditure based on a rate in the pound decided by Central Government, this is applied to the rateable value of their premises.

**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.

**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.

**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** - 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.

**Section 151 Officer** - The Responsible Finance Officer for the Council as required by Section 151 of the Local Government Act 1972.

**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)
- AVC** – Additional Voluntary Contribution
- BCF** – Better Care Fund
- BRS** – Business Rates Supplement
- BSF** - Building Schools for the Future
- BVIB** – Best Value Improvement Board
- CBS** – Community Benefit Society
- CCG** - Clinical Commissioning Group
- CFR** - Capital Financing Requirement
- CIES** - Comprehensive Income and Expenditure Statement
- CIL** - Community Infrastructure Levy
- CIPFA** - Chartered Institute of Public Finance and Accountancy
- CLG** – Company Limited by Guarantee
- CPB** – Corporate Parenting Board
- CPI** - Consumer Price Index
- DfE** - Department for Education
- DRC** – Depreciated Replacement Cost
- DSG** - Dedicated Schools Grant
- EIR** - Effective Interest Rate
- EUV** – Existing Use Value
- EUV-SH** – Existing Use Value-Social Housing
- FIAA** – Financial Instruments Adjustment Account
- GF** - General Fund
- GLA** - Greater London Authority
- HMT** – HM Treasury
- HRA** - Housing Revenue Account
- IAS** - International Accounting Standard
- IFRS** - International Financial Reporting Standards
- LASAAC** - Local Authority (Scotland) Accounts Advisory Committee
- LBTH** - London Borough of Tower Hamlets
- LGA** – Local Government Association





**LGPS** - Local Government Pension Scheme  
**LOBO** - Lender's Option – Borrower's option  
**LPFA** - London Pensions Fund Authority  
**MHCLG** – Ministry of Housing, Communities & Local Government  
**MRP** - Minimum Revenue Provision  
**MTFS** - Medium Term Financial Strategy  
**NDC** - New Deal for the Community  
**(N)NDR** - (National) Non-Domestic Rates  
**NPV** - Net Present Value  
**PFI** - Private Finance Initiative  
**PMAF** – Performance Management and Accountability Framework  
**PMO** – Project Management Office  
**PPE** - Property, Plant and Equipment  
**PSIAS** – Public Sector Internal Audit Standards  
**PWLB** - Public Works Loans Board  
**REFCUS** - Revenue Expenditure Funded by Capital Under Statute  
**RPI** - Retail Price Index  
**RSG** - Revenue Support Grant  
**SDPS** - Surplus or Deficit on the Provision of Services  
**SEN** – Special Educational Needs  
**SOLACE** – Society of Local Authority Chief Executives  
**TA** – Temporary Accommodation  
**TH** - Tower Hamlets  
**THH** - Tower Hamlets Homes  
**TIB** - Transformation & Improvement Board  
**VFM** - Value For Money



# **Annual Governance Statement**

## **2021/2022**

## Our Annual Governance Statement

The London Borough of Tower Hamlets (the “Council”) is committed to being efficient and effective in delivering improved outcomes for residents of Tower Hamlets. We pride ourselves in doing this in an open and transparent manner, especially when it relates to our continuous improvement journey.

As has been the case in previous years, 2021/22 has been a challenging year, the COVID-19 pandemic continued to have a profound impact on everyone, alongside the backdrop of economic pressures and impact arising from the pandemic, reducing the amount of income that the Council received from business rates and council tax, as well as impairing the forecast income for future years. In response, we have updated both our Strategic Plan and the Medium-Term Financial Strategy to ensure our budget can support delivery of our priorities and address the significant financial challenges facing the Council.

The pandemic required us to govern differently, to adapt and meet the needs of our community. Importantly, our arrangements continued to operate effectively as the organisation continued to deal with the challenges faced. The Council has continued to make progress in addressing areas of improvements previously identified, whether that was from lessons learnt during this period or improvements identified via reviews on our governance arrangements.

2021/22 has been no different than prior years where the Council have been recognised for a number of achievements when externally scrutinised:

- Our Legal Services were re-accredited with the Lexcel Standard.
- The results of our SEND Local Area Inspection, whilst identifying four key areas of weakness, were areas we had identified for improvement, and we had already developed a SEND Improvement Plan to address a number of these issues. Our Written Statement of Action issued in response to the outcome was deemed fit for purpose – demonstrating how we take on board feedback to influence improvements going forward.
- The LGA Corporate Peer Challenge Revisit also provided positive confirmation to the Council on the progress we were making on our improvement journey, that this remained on track and feedback from this visit would help inform future priorities.

Whilst we are pleased with our progress, there remains significant challenges, in addition to the long-term impact of the pandemic, global issues and greater economic pressures which is cultivating in a “cost-of-living crisis” for the entire nation, we still want to address issues around closing our financial accounts, budget management in areas such as Adult Social Care, and SEND performance.

We recognise that good governance requires a culture of continuous improvement and challenge, and we will continue to seek improvement and will be self-critical in doing so to ensure we uphold the highest possible standards of good governance.

We have put action plans in place to address any issues and regularly report progress via the Corporate Leadership Team and relevant Committees.

We are required to report publicly about how the Council has complied with its governance arrangements, including how they have operated over the course of the last year and if any areas require improvement. This Annual Governance Statement reports the outcome of our assessment.



**Signed on behalf of the London Borough of Tower Hamlets**

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Steve Halsey, Chief Executive

Date:

I was elected the Mayor of Tower Hamlets in May 2022, and previous years' financial statements were prepared under the previous Administration. I am aware of the progress made by the Council's finance department and am content that it will continue in a positive manner in future years, with the controls that have now been put in place.

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Lutfur Rahman, Executive Mayor

Date:

## Introduction

All local authorities are required to report publicly about how they have complied with their governance arrangements and do so through an Annual Governance Statement (AGS). Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and responsible manner.

The Council has adopted a Code of Corporate Governance (the Code). The Code is based on the principles of good governance recommended by Chartered Institute of Public Finance and Accountancy (CIPFA) and SOLACE in a joint document entitled *'Delivering Good Governance in Local Government'*.

The Code sets out the commitment of the Council to work to uphold the highest possible standards of good governance. This is essential for ensuring we conduct our business in accordance with the law and proper standards and that public money is properly accounted for. It also includes effective leadership and management, policies, and procedures, to ensure we have a well-run Council that delivers high quality, value for money services to the local community.

To assess the effectiveness of key elements of the governance framework, including partnership arrangements and alternative delivery models, we have reviewed our performance against each of the seven principles of good governance:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimize the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

When evaluating our performance, we have taken into consideration reviews and inspections of the Council by others, as well as the work of internal and external audit. We have also reviewed our progress against improvement actions that were identified as part of the 2020/21 Annual Governance Statement.

In addition, each Corporate Director is required to confirm that their directorates are run efficiently, effectively, and with proper risk management and governance arrangements, including a sound system of internal control. They are required to review internal controls to ensure they are adequate and effective, whilst considering the following:

- Outcomes from risk assessments and evaluations
- Self-assessment of key service areas within the directorate
- Internal audit reports and results of follow ups regarding implementation of recommendations
- Outcomes from reviews of services by other bodies, including inspectorates, external auditors, etc.
- Linkage between business planning and the management of risk

Where areas for improvement are required an action plan must be developed. We have used these returns to further enhance our review of the Council's governance framework.

To conclude the assessment, we have provided an overall view on our governance arrangements and included an action plan to record how we will address any areas requiring improvement.

## Our Assessment

To assess the effectiveness of key elements of the governance framework, including partnership arrangements and Council owned companies, we have reviewed our performance against each of the seven principles of good governance. When evaluating our performance, we have taken into consideration reviews and inspections of the Council by others such as CIPFA, as well as the work of internal and external audit.

<b>Principal</b>	<b>Review of Governance Arrangements</b>
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.</p>	<p>The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent, and accountable to local people, including the Financial Regulations. The Constitution is published on the Council's website. The constitution was last updated and agreed at full Council in March 2022. In addition, there are a range of policies and procedures to direct and guide Members and staff, as well as codes of conduct that set out standards of behaviour expected from Members and staff. We have noted that some of the Council's policies and procedures are overdue for a review, but given the global pandemic, all overdue policies and procedures will be reviewed as soon as practicable.</p> <p>The Council has appointed the required statutory officers which includes the Head of Paid Service (Chief Executive), the Monitoring Officer (Director of Legal Services) and the Chief Finance Officer, also referred to as the Section 151 Officer (Corporate Director, Resources). These three officers meet regularly to discuss governance issues.</p> <p>The Council operates a Standards Advisory Committee to oversee and promote high standards of conduct by the Mayor, Councillors and Co-opted Members of the Council, including in relation to the Code of Conduct and the Register of Interests. Half the Committee membership allocation is for independent Co-opted Members and there are also two separately appointed statutory Independent Persons who advise in relation to alleged breaches of the Code of Conduct. The Committee takes an active role in this work receiving regular reports, monitoring complaints</p>

	<p>against Members, the Register of Interest/Gifts and Hospitality, Member Development, and reports from the work of the Committee on Standards in Public Life amongst other matters. The Committee provides full Council with an annual report on its activities which highlights areas of strength and concern; a report was last taken to full Council in July 2021, with the next expected at the meeting scheduled in July 2022.</p> <p>All members positively acknowledge the Code when they join the Council. A consultation was launched in June 2020 to review the model code of conduct for Members and the new code was approved by Council in November 2021 and came into force following the 5 May 2022 local elections. A reminder of the new Member Code of Conduct was presented, as part of the Council's constitution, to full Council at its meeting held on 25 May 2022.</p> <p>The Council has adopted a whistleblowing policy to guide and support staff about how to raise any concerns. It is readily available on the Intranet. The Monitoring Officer maintains a central record of all whistleblowing concerns and how they have been resolved. In April 2021 the Monitoring Officer reported a summary of concerns raised and their outcomes to the Audit Committee. A similar report will be presented as part of the 2022/23 Audit Committee workplan.</p> <p>Committee reports and key decisions are published online to ensure transparency and Executive decisions made by the Mayor and Cabinet are subject to the 'Call-In' process by backbench Councillors who can raise any concerns they may have.</p> <p>The Council maintains a Register of Interests (for officers and Members) which includes a requirement to declare interests at meetings ensuring that potential issues are recorded, and Members do not take part in meetings in an inappropriate way. This includes the need to leave the room when any items for which they have a Pecuniary Interest are discussed. We will be requiring Members and officers to update their declarations following the 5 May 2022 local elections. A revised guide to declaring interests at meetings has been attached to all meeting agendas since May 2020. During the period when the Council operated using an on-line meeting</p>
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	<p>format (via MS Teams), attendants of the meeting that declare an interest were required to leave the virtual meeting room.</p> <p>The Council also maintains a Gifts and Hospitality register to ensure that Members and officers declare any gifts and hospitality in an open and transparent manner. The Gifts and Hospitality Policy has been reviewed during 2021/22 and has been launched in May 2022. Individual teams have been instructed to adopt the revised policy, hold details of any gifts and hospitality offered, accepted, and declined, whilst reporting up into a Directorate-held registers for completeness. There has been a continued reduction in gifts and hospitality being declared by officers, whilst this is likely to be related to the pandemic (less gifts and hospitality have been offered), there is an expectation that this may increase during 2022/23, therefore, to ensure all gifts and hospitality are recorded we will be promoting the requirements for officers throughout 2022/23.</p> <p>The Council has sought feedback from the public through its complaints and comments procedures and has responded to the outcomes as appropriate.</p> <p>The Council's Audit Committee has met throughout the year and has considered reports from internal and external audit as well as other updates, reports, and advice from the Chief Financial Officer and the Monitoring Officer.</p> <p>The Council routinely provides training for its Members, on numerous topics including financial management, risk, governance, and ethics. Given the results of the 5 May 2022 local elections has resulted in numerous Member changes, member training on ethics and probity, as well as other topics, will be provided during 2022/23.</p>
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<p>B. Ensuring openness and comprehensive stakeholder engagement.</p>	<p>Council meetings and Committees are routinely held in public unless there are good reasons for not doing so on the grounds of confidentiality/disclosure of exempt information which are provided for in statutory provisions.</p> <p>The Council has invested in the technology to facilitate the webcasting of meetings meaning that stakeholders and residents can attend meetings if they wish to or watch them online. This technology has proven particularly effective during the Covid-19 pandemic and enabled critical Committees to continue and be available to the public. As the Council has exited the restrictions enforced by the pandemic, Council meetings and Committees have returned to face-to-face meetings, with the option to attend virtually to observe.</p> <p>An online library of meeting agendas, attendance, supporting papers, decisions and minutes is maintained on the Council’s website. As a result, the decision-making process can be considered and reviewed by stakeholders and the public from inception through to final decision and any ultimate scrutiny.</p> <p>The Council has sought community views on a wide range of issues and has undertaken regular consultation and engagement with citizens and service users. During 2019/20 the Council launched a Consultations Hub to better facilitate consultations. Details of current, planned, and past consultations have been made available on the Council’s website along with information on how the public/stakeholders can put forward their views. The Hub has had a positive impact on consultation resulting in increased transparency and accessibility providing the Council with a more balanced view of public opinion as this has continued throughout 2020/21 and 2021/22.</p> <p>The Council’s Overview and Scrutiny Committee has engaged with stakeholders, residents, and community groups to review services and drive improvement in service delivery. The Overview and Scrutiny Committee includes co-opted residents with relevant knowledge and has encouraged residents to attend its meetings, which are open to the public and webcast. Further,</p>
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	<p>residents, community groups and expert witnesses have been invited to participate in Scrutiny review and challenge sessions so the Committee can hear directly from those whose interests are represented.</p> <p>Social media channels have been used extensively to support the Council's engagement with stakeholders. The Council has adopted a Social Media Policy to provide advice and guidance on the use of social media.</p>
<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	<p>The Strategic Plan is the main business planning document of the Council. It sets out the corporate priorities and outcomes, the high-level activities that will be undertaken to deliver the outcomes, as well as the measures that will help determine whether the Council is achieving the outcomes. The Council has a structured set of plans which turn the vision into actions, through directorate, key council strategies and service plans. The plan is refreshed annually. The latest version has been published on the Council's website which has been updated to reflect the impact of the pandemic.</p> <p>The performance of the Council against measurable outcome-led targets has been assessed through performance monitoring reports that have been considered within directorates, by the Corporate Leadership Team, Overview and Scrutiny Committee, Cabinet and subsequently at other meetings of relevance. Any such reports can also be called in for scrutiny and reviewed by the Audit Committee.</p>
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes.</p>	<p>The Council, Cabinet and Committees have received regular reports on performance monitoring, the strategic plan and other policies and procedures which demonstrate the level to which intended outcomes are being achieved and any interventions planned to address issues.</p> <p>All decisions being considered have been objectively and rigorously analysed by the Monitoring Officer and the Chief Financial Officer and all reports have set sections for legal and finance</p>



	<p>comments to be recorded. Reports have been cleared by finance and legal officers before publication, although on some occasions finance and/or legal are given very little time to review and comment and we will seek to improve lead times.</p> <p>The Council's Performance Management and Accountability Framework (PMAF) sets out how we establish whether performance improvement is necessary. The Performance Improvement Board is the main board responsible for identifying and determining interventions to bring about improvements and this board has met regularly.</p> <p>The Council's Performance Improvement Board challenges services where there are identified concerns, takes a trouble-shooting approach, acts as a "critical friend" to drive improvement in performance, and makes recommendations about where to focus resources to drive improvement.</p>
<p>E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.</p>	<p>The roles of all officers (including statutory roles) have been defined in agreed job descriptions and person specifications. Staff performance is reviewed twice during the year Start (1 April-31 May) and then Mid-Year (1 October to 30 November). An approach called 'My Annual Review (MAR)' was introduced during 2020/21 to improve the process and make it simpler to facilitate a two-way conversation. The MAR process has had a positive impact on staff, as it has become embedded across the Council, with metrics suggesting engagement has increased. Management will continue to monitor compliance with the process and address areas of weakness.</p> <p>The Council has articulated its values and behaviours in 'TOWER values' which includes a behaviours framework to support officers in the MAR process and when recruiting staff.</p> <p>The Council's transformation programme called SMARTER TOGETHER, which is led by CLT, is focussed on ensuring the Council is more agile, leaner, and strategic to achieve the best outcomes with limited resources.</p>

	<p>All members have been provided with a Member Induction Programme and wider Member Development Programme. Members also have an online portal (members hub) to give them access to many useful documents and materials and a weekly Member Bulletin email to keep them updated with the work of the Council.</p> <p>Cabinet Members and the Mayor are held to account through regular attendance at Overview and Scrutiny Committee and Sub-Committee meetings as well as through monthly Portfolio meetings with the Mayor and quarterly performance and budget monitoring meetings.</p> <p>Staff new to the Council are provided with a corporate Induction and provided with additional documents and policies to support their induction, this includes mandatory training in areas such as data protection, anti-fraud and whistleblowing. Completion of the mandatory training programme continues to be monitored, as it was previously low, although there are suggestions this has been improving over the last 12 months. Management will continue to monitor compliance with the process and address areas of non-compliance.</p> <p>Staff are provided with a wide range of development opportunities through the Learning Hub. The Council has adopted a range of supporting plans and strategies including the People and Wellbeing Plan, and the Workforce Development Strategies.</p>
<p>F. Managing risks and performance through robust internal control and strong public financial management.</p>	<p>The Council has adopted a risk management strategy and approach with the main priorities of providing robust systems of identification, evaluation, and control of risks which threaten the Council's ability to meet its objectives to deliver services to the community. The five-year Risk Management Strategy was reviewed and agreed by CLT at the end of 2019/20 and the Audit Committee in July 2020.</p> <p>Risk management is part of the Council's day-to-day activities and decision-making and regular reports have been provided at corporate and directorate level. The Corporate Risk Register is independently reviewed by the Audit Committee. During the Covid-19 pandemic a bespoke risk</p>

	<p>register was created and closely monitored by the Gold and Silver groups to ensure that significant risks were acknowledged and mitigated. Engagement with risk management was much improved at all levels of the business throughout the pandemic and this has continued in 2020/21. This risk register has since been retired, as the risks have been mitigated to an acceptable level as the Council moved out of the pandemic restrictions., and for those risks that have not reduced to an acceptable level, these were transferred over to business-as-usual risk registers to be monitored on an ongoing basis.</p> <p>In July 2021 the Audit Committee received the annual report for risk management for the 2020/21 period. The report concluded that <i>“Risk management remains an important feature of good governance and the Council’s approach to risk management had matured during 2020/21 which has been demonstrated through the proactive risk management during the response to Covid-19 pandemic. The current risk management arrangements are reasonable, but there is some room for improvement to better integrate risk management into the day-to-day operations and culture of the Council and this has been and will continue to be a key focus of work during 2022-23.”</i> An improvement action plan for 2021/22 was agreed by the same Audit Committee.</p> <p>The Corporate Director, Resources is responsible for the proper administration of all aspects of the Council’s financial affairs including ensuring appropriate advice is given to the Council on all financial matters. The Council’s system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability.</p> <p>A Medium-Term Financial Strategy is in place and is refreshed annually. Revenue and capital budget planning based on corporate priorities are led by the Corporate Leadership Team and are presented for approval by the Council. Revenue and Capital Budget Monitoring reports have been presented to the Cabinet on a regular basis, this includes the annual outturn. Members</p>
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	<p>have been able to scrutinise budget monitoring through the relevant Committee to ensure performance and risks are managed.</p> <p>The Council has faced significant financial challenges throughout 2021/22 as costs associated with Covid and losses in income continued to impact the financial position, particularly in the first half of the year. The Council has applied £34m of COVID funding during the year and discharge funding received from the CCG to balance its budget, resulting in a slight underspend at outturn. Continued COVID recovery alongside a spike in inflation, fuel prices and the impacts of these on the cost of living will be key aspects for the Council to consider in its medium-term financial planning going forward.</p> <p>Since 2019/20 Finance has been focussed on rectifying significant issues with the 2018/19 and 2019/20 Statement of Accounts. The Mayor, Cabinet Members, CLT and the Audit Committee have been provided with regular updates on progress to finalise the accounts. The accounts continue to be subject to external audit review (by Deloitte). Further adjustments may be required through the audit process but these in themselves are unlikely to be sufficient to achieve an unqualified audit opinion.</p> <p>Production and publication of the 2020/21 Statement of Accounts was also delayed and the statutory deadline to publish an audited set of accounts was not met (<i>the 2020/21 draft accounts were later published in January 2022</i>). Following sign-off on the 2018/19 and 2019/20 SoA , the 2020/21 and 2021/22 audits are expected to commence in parallel.</p> <p>The Council established a detailed and far reaching Finance Improvement Plan designed to address the significant issues that have been identified from the Independent Review commissioned following the initial production of the 2018-19 Statement of Accounts; the initial external audit feedback from Deloitte's on both outstanding Statement of Accounts; the CIPFA</p>
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	<p>review of Financial Management reported in 2017 and a range of matters identified by officers of the Council that require rectification. Progress has been reported periodically to the Finance Improvement Board introduced to govern such improvements, with necessary reporting shared with the Mayor, Cabinet Members, CLT and the Audit Committee too.</p> <p>The Council has a proactive, holistic approach to tackling fraud, theft, corruption, and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably. The outcomes of ant-fraud work have been reported to, and reviewed by, the Audit Committee.</p> <p>The Covid-19 pandemic significantly impacted on the team’s ability to progress investigations. In line with the Council’s strategy during the pandemic, only essential services were in operation. To minimise the risk to the investigators and the public, interviews, foot patrols and visiting were stopped, although desktop investigations have continued throughout. As a result, outcomes in comparison to previous years were reduced. As restrictions eased during 2021/22, the number of referrals has fluctuated, and the backlog of investigation and Court work continues to be cleared. Most Court cases were relisted for hearings in 2021/22 and continue to be scheduled as we move through 2022/23.</p> <p>The positive outcomes achieved following the investigation of the above matters includes 35 social housing properties being recovered and £38,000 was awarded to the Council in costs and compensation.</p> <p>All reports to Council, Cabinet and Committees are required to set out key implications and information in areas such as risk, equalities, safeguarding and environmental impact.</p> <p>The Audit Committee is responsible for considering the Council’s arrangements for internal governance and financial management and to recommend any actions accordingly. It has</p>
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	<p>received a number of relevant reports such as annual internal audit plans, reports from external audit, anti-fraud and corruption initiatives and risk management.</p> <p>The Council's Internal Audit service undertakes an annual programme of audits which includes providing assurance over the Council's risk management processes. If any areas for improvement are identified Internal Audit makes recommendations for management to consider and implement. Progress against the plan and the outcomes of audits are reported to the Audit Committee.</p>
<p>G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.</p>	<p>The Council has a published constitution setting out how decisions are taken and how the public can get involved in decision making, including access to information, petitions, and ways of getting involved in decision making. The constitution was last agreed by Council and published in March 2022 and subsequently, May 2022 following the results of the 5 May 2022 local elections.</p> <p>The Council seeks to write and communicate reports and other information for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.</p> <p>The Council webcasts it's Council, Cabinet, Strategic Development Committee, Development Committee and Overview and Scrutiny Committee meetings to ensure maximum transparency. As a result of the Covid-19 pandemic the Council introduced virtual meetings and has also webcast all committee meetings including the Licencing Sub Committee and the Audit Committee. As restrictions eased, meetings returned to "in-person" with a virtual option available.</p> <p>The Council maintains an up-to-date website which provides a mechanism for the Council to publish information important in ensuring transparency of its actions.</p>

	<p>The Council's constitution sets out the terms of reference of all Committees to ensure information is presented to the appropriate Committees. Access to Information rules set out how the Council maintains good public access to information and reports.</p> <p>The Council updated its Code of Corporate Governance, and it was presented to the Corporate Leadership Team and the Audit Committee for approval in July 2021.</p> <p>There are governance arrangements for the partnership structure. The Tower Hamlets Plan identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities.</p> <p>The Head of Internal Audit provides an independent and objective annual opinion on the effectiveness of internal control, risk management, and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The Head of Internal Audit delivers a quarterly progress report to the Audit Committee setting out the outcome of Internal Audit and Counter Fraud activity.</p> <p>The Council responds to the findings and recommendations of External Audit, Scrutiny, and Inspection bodies. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control, risk management and governance. However, management's responsiveness to internal audit is inadequate for some audits with the implementation of agreed recommendations taking many months. The Head of Internal Audit has raised these concerns with the senior officers and the Audit Committee and has introduced new procedures to improve engagement with management.</p> <p>As senior Council decision making bodies, the Audit Committee, and any other relevant Non-Executive Committee including Scrutiny, can report any concerns they have regarding actions that have not been undertaken.</p>
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## Internal Audit

The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole of the Council's activities. It is a requirement for the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of governance, risk management and internal controls within the Council. The Head of Internal Audit reported the 2020/21 annual opinion to the Audit Committee in July 2021. The opinion for 2021/22 was provided to the Audit Committee in June 2022.

### 2021/22 Head of Internal Audit Annual Opinion Issued in June 2022

*In reaching my opinion this year I have taken the following into consideration:*

- *Outcomes of the internal audit and anti-fraud activity undertaken during the year, which forms the primary basis for the opinion.*
- *The on-going issues with the Council's Statement of Accounts that have continued during 2021/22 but taking in to account the progress made in getting closer to obtaining external auditor sign-off on the 2018/19 and 2019/20 years.*
- *Assurance from third parties such as the Council's external auditors, and the results of recent external assessments such as Lexcel's Independent Legal Assessment, LGA's Corporate Peer Challenge Revisit, and the SEND Local Area Inspection Review.*
- *The consistent progress in the implementation of management actions that were agreed during the course internal audit activity.*
- *The Council's risk awareness and risk culture which has matured further in 2021-22.*
- *The fact that none of the internal audit assignments were rated as 'No Assurance' for the fourth consecutive year, and the increased use of internal audit as a consultative partner to support the Council on specific areas of concern or proposed change to inform the governance, risk and internal control environment.*



- *The impact on the Council resulting from the continued response to the Covid-19 pandemic during 2021/22, which continued to affect many aspects of service provision, governance, risk management, internal control, financial resilience, and ways of working.*

*Primarily on the basis of the audit and anti-fraud activity undertaken during the year, but also taking into account external assurances and other relevant matters above including the significant issues with the closure of the Council's Statement of Accounts, it is my opinion that I can provide **Limited<sup>1</sup> Assurance** that the Council has adequate systems of governance, risk management and internal control.*

*Interim Head of Internal Audit, Anti-Fraud and Risk.*

The full report from June 2022 is available on the Council's website.

## **External Audit & Inspections**

### External Audit

From 1 September 2018 Deloitte LLP was appointed as the Council's external auditor, this was following the decision of the Council to opt into the Public Sector Audit Appointments Limited (PSAA) arrangement. The PSAA Board appointed Deloitte to audit the accounts of the Council for a period of five years (2018/19 to 2022/23).

Deloitte has been unable to complete its audit of the 2018/19 or 2019/20 financial statements. There have been significant issues with the Council's 2018/19 and 2019/20 statement of accounts, and it has taken many months for these issues to be investigated and resolved with some issues still outstanding.

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<sup>1</sup> A limited assurance opinion means that significant gaps, weaknesses, or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives.

The Council developed an action plan, additional resources were sourced to complete the plan and produce a revised set of accounts, and a dedicated finance improvement team has been created for additional support. To support this improvement, a Finance Improvement Board was created and chaired by the Interim Corporate Director of Resources (s151 Officer). Throughout 2021/22, the Board has monitored, challenged, and supported the delivery of the Finance Improvement Plan. Internal Audit has also been embedded in this process, performing specific reviews over process redesigns and improvements suggested to ensure they mitigate the risks posed and address the recommendations that derived from the initial review. Progress has been regularly reported to the Council's Statutory Officers, the Mayor, Cabinet Members, and the Audit Committee.

*At the time of updating this draft statement and resubmitting it for approval (October 2023), the 2018/19 and 2019/20 audits remain incomplete. Draft accounts for 2020/21 were published in January 2022 and work has been started on the external audit of the 2020/21 statement of accounts.*

#### Other Inspections and Review

##### Lexcel Independent Legal Assessment

The Council were subject to an independent assessment of their legal services during 2021/22. This was conducted against the Lexcel Standards, The Law Society's practice quality mark for client care, compliance and practice management. In order to assess the Council against these, an assessment was conducted via electronic and virtual means, and in accordance with the submitted Assessment Plan, Lexcel Scheme Rules and Assessment Guidance Notes as modified by The Law Society's temporary COVID19 procedures.

The visit covered all sections of the standard were covered and was conducted through three distinct elements, being:

1. A desktop assessment of all management documentation, with all documents supplied securely via electronic means.
2. Case files for review were selected from open and closed matter lists.
3. Interviews were held with key staff members.

The results of this assessment did not highlight any major areas of concern In Legal Services, however, there were some minor areas for improvement, these were around independent fee earner file reviews, Annual Risk Review, HR Induction Records for new staff and Lexcel Compliance training for new staff. The findings indicated a slight slippage in process rather than a fundamental breakdown of quality systems. To counter this, the Assessor recorded a high number of Areas of Good Practice in Legal Services and these are spread across all areas of practice.

As a result, the Assessor recommended that Legal Service be re-accredited with the Lexcel Standard.

#### LGA Corporate Peer Challenge Revisit

Following a full Corporate Peer Challenge (CPC) visit by the LGA in June 2018, a follow up visit was conducted in September 2021. Drawing on their knowledge from the previous CPC, the peer review team met with Members, Officers, Partners, and residents, alongside a review of a range of key documents and information to consider progress since 2018.

The Council saw this time as an opportune moment to ensure its improvement journey remained on track and feedback from such visits would help inform future priorities, especially as the Council was beginning to rebuild from the COVID-19 pandemic.

The peer review team shared their final findings as part of a report shared with the Council in 2021. It acknowledged that the Council continued to make good progress on its improvement journey. It highlighted the Mayor's understanding of community needs and that, alongside Cabinet Members, there was provision of a stable and community focused political leadership. It also acknowledged good member-officer relationships, as well as strong and cohesive Senior Leadership Team.

The peer review team found partners are strongly committed to the ambitions of the borough. The findings recognised how partnership working came to the fore during the pandemic and continues to strengthen for the benefit of residents. The Council's response to the pandemic was praised by the peer review team along with the progress made to improve services for our communities and how the Council continually strive to improve the lives of residents in as many ways as is possible.

The findings also acknowledged several areas of priorities highlighted by stakeholders as important. Taking forward the recommendations of the Black, Asian and Minority Ethnic (BAME) and the Poverty Commissions was highlighted along with community safety, with a focus on dealing with gangs, knife crime, domestic violence, and the safeguarding of children. They also

suggested job opportunities for young people and access to good quality employment at all levels, and the promotion of good employment practices to go with them.

The report stated the need for the Council to continue work to reduce health inequalities such as diabetes, child obesity and mental health and that climate change and pollution needs serious attention due to the rising levels of asthma. They highlighted the benefits of local traffic calming schemes and stated for some there is a perceived lack of youth provision and accommodation. The peer team acknowledged existing plans in place to address these issues.

The report highlighted six key recommendations to shape the future priorities of the Council. These included areas such as: ensuring a clear understanding of the Mayor's priorities for all and focus on delivering within clear timescales; to continue work to close previous years' accounts; to continue to improve and embed Council governance arrangements, including decision-making and scrutiny, the TOWER values and ongoing compliance with the Constitution; and the continued efforts to return to normal working practices following the COVID—19 pandemic.

The LGA Peer Revisit report can be found on the Council's website. And the actions which were outlined to Cabinet at its meeting in February 2022 will continue to be delivered as planned. Delivery against these actions will be monitored through existing boards such as the Performance Improvement Board. If Cabinet identify the need to undertake further work to implement the peer team's recommendations, then this will be taken forward. The Council will then look to undertake a full LGA Corporate Peer Challenge later in 2022 and consideration needs to be given as to how this process can be of most help to the Council's improvement journey.

#### SEND Local Area inspection 2021

During late June and July 2021, Ofsted and the Care Quality Commission (CGC) conducted a joint inspection of the local area of Tower Hamlets to judge the effectiveness of the area in implementing the special education needs and / or disabilities (SEND) reforms as set out in the Children and Families Act 2014.

Inspectors spoke with children and young people with SEND, parents and carers, and local authority and National Health Service (NHS) officers. They visited a range of providers and spoke to leaders, staff, and governors about how they are implementing the SEND reforms. Inspectors looked at a range of information about the performance of the area, including the area's self-evaluation.

Inspectors met with leaders for health, social care, and education. They reviewed performance data and evidence about the local offer and joint commissioning.

As a result of the findings of this inspection and in accordance with the Children Act 2004 (Joint Area Reviews) Regulations 2015, the inspection determined that a Written Statement of Action is required because of significant areas of weakness in the area's practice. HMCI has also determined that the local authority and the area's clinical commissioning group are jointly responsible for submitting the written statement to Ofsted.

Within the findings outlined in the letter issued by DfE following the completion of the inspection, a number of strengths were identified, alongside areas for further improvement, it was fair to say that the DfE considered the self-evaluation completed by the Council and its partners to be an honest assessment of the areas that required improvement.

There were four key areas of weakness highlighted - quality of education, health and care plans, waiting times for speech and language therapy provision, waiting times for ASD assessment and comprehensive engagement and communication with parents and carers were going to be the areas where the partners would be focussing their efforts.

The Council, working with its health colleagues, developed a joint Written Statement of Action, which was submitted to DfE and NHS England prior to the 24 December 2021 deadline. This accepts the findings and outlines the improvement plan to address such weaknesses, with progress already underway. The Written Statement of Action was accepted as "fit-for-purpose" in setting out how the Local Area will tackle the weaknesses identified in the published inspection letter.

A SEND Improvement Board was already operational within the Council prior to the inspection and its results, therefore, progress against this plan has been, and will continue to be regularly reviewed by the Board. Further reporting will be escalated up to the Children and Education Scrutiny Sub-Committee as required.

## Companies, Arms-Length Management Organisations and Charities

The Council is involved in a number of companies as well as an Arms-Length Management Organisations and Charities, the significant ones of which are detailed below.

### Tower Hamlets Homes

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

The Council's Internal Audit team provides internal audit services to THH. In keeping with the Public Sector Internal Audit Standards, the Head of Internal Audit issued an annual opinion for 2021/22 about the governance, risk management and internal control arrangements. The opinion was as follows:

*Primarily on the basis of the internal audit and anti-fraud activity undertaken during the year, but also taking into account external assurances and other relevant matters, it is my opinion that I can provide **Reasonable** assurance that Tower Hamlets Homes has adequate systems of governance, risk management and internal control. This is based on one of the eight core audits receiving Substantial assurance and seven audits receiving Reasonable assurance. Two audits were advisory audits and as such had no audit opinions attached to them.*

*Interim Head of Internal Audit, Anti-Fraud and Risk.*

Furthermore, in 2020/21, limited assurance was attributed to THH's Risk Management systems, however, through the internal audit work performed in 2021/22, it has enabled us to confirm identified improvements have been taken forward by THH to aid the maturity of such systems.

### King George's Field Trust

The Council serves as sole trustee of the King George's Field, Mile End charity. The charity is governed by a Trust Deed, and is unincorporated, being established by a Scheme of the Charity Commission dated 28th February 2000. The Charity's objectives are set out in Trust Deeds, which are as follows "To preserve in perpetuity the covenanted land and to apply the land to such charitable purposes as are set out in the Recreational Charities Act 1958, including the construction of indoor recreational facilities, subject to the approval of the National Playing Fields Association and the Charity Commission in respect of any additional purposes".

The Trust has no employees of its own and is dependent on staff of the Council for its operations; its standing orders with respect to controls for procurement, expenditure and income are aligned to those of the Council.

### **Significant Governance Issues**

Corporate Directors are required to consider whether there have been any significant governance issues. For the purposes of this review, we have defined a significant governance issue as something that:

- Seriously prejudiced or prevented achievement of one or more principal objectives.
- Resulted in the need to seek additional funding to resolve the issue.
- Required a significant diversion of resources.
- Had a material impact on the accounts.
- Resulted in significant public interest or has seriously damaged the reputation of the Council.
- Resulted in formal actions by the Section 151 (Corporate Director, Resources) or Monitoring Officer (Corporate Director, Governance).
- Received significant adverse commentary in an external inspection report and was not or cannot be addressed in a timely manner.

Progress against Significant Governance Issues Identified in 2020/21

The 2020/21 AGS included 13 significant governance issues which needed to be addressed. A summary of progress/outcomes against these actions follows:

No.	Issue	Action	Progress / Outcome
1	<p>Issues have been identified with the 2018/19 and 2019/20 Statement of Accounts (SoA) and reflected in the 2018/19 and 2019/20 AGS respectively. These significant issues continue to be addressed. The SoAs continue to be subject to external audit review (by Deloitte). Further adjustments may be required through the audit process but these in themselves may not be sufficient to achieve an unqualified audit opinion.</p>	<p>The Council has established a detailed and far-reaching Finance Improvement Plan designed to address the significant issues that have been identified from the Independent Review commissioned following the initial production of the 2018-19 SOA; the initial external audit feedback from Deloitte’s on both outstanding SOAs; the CIPFA review of Financial Management reported in 2018 and a range of matters identified by officers of the Council that require rectification.</p>	<p>Draft audit reports (known as ISA 260 reports) were presented by Deloitte for both 2018/19 and 2019/20 to Audit Committee in January 2022. The Council is restating the SoA for those two years by the end of May 2022 for final external audit review. The authority sign-off the final versions of the SoAs upon completion of agreed amendments has been delegated to the Chair of Audit Committee and the s151 Officer (with the only exception being if, subsequent to the January 2022 meeting, significant and material matters arise).</p> <p>Deloitte will then issue a final ISA 260 report to the Council.</p> <p>The Audit Certificates for those years will only be released (which is the final stage in the Audit process) after KPMG carry out a review and release their Audit Certificates for the two previous years, 2016/17 and 2017/18, as the Certificates for both of those years remain outstanding. The Council is actively working with KPMG to expedite that process.</p>



No.	Issue	Action	Progress / Outcome
			<p>The Council will then re-present the 2020/21 SoA to Deloitte to include Group Accounts. The External Audit will commence when Deloitte resources become available.</p> <p>The Council is on track to produce the 2021/22 SoA as per its internal timetable, but the External Audit will take place after the External Audit for the 2020/21 SoA has been completed, so there is a high probability that the Council will still miss the statutory deadlines for 2021/22. There is a national context regarding delayed completion of audits, where 91% of Local Authorities did not have audited accounts by the statutory deadline for the 2020/21 financial year.</p> <p>The Council has completed most of the actions identified in the Finance Improvement Plan (FIP) and will update the Audit Committee in a separate report on 28th June 2022. It is planned that future Audit Committee FIP reports will contain an update only for those actions not yet complete by that point.</p> <p><i>At the time of updating this draft statement and resubmitting it for approval (October 2023), the 2018/19 and 2019/20 audits remain incomplete. Draft accounts for 2020/21 were published in January 2022 and work has been started on the external audit of the 2020/21 statement of</i></p>

No.	Issue	Action	Progress / Outcome
			<i>accounts.</i>
2	Budget management – there is a persistent overspend in adult social care and budget management (including the closure of account process) needs further strengthening across the directorate.	<p>Implement savings programme and the recommendations in the forthcoming report by SCIE/CIPFA (this action sits alongside the practice recommendations and work on quality).</p> <p>All budget managers and senior staff to work with and support Finance Team to deliver an accurate and timely outturn and closure of account process with a particular focus on accruals.</p> <p>Reduce levels of debt including charges for care services and NHS debt (including implement recommendations in the internal audit of the Financial Assessments of Contributions to Social Care).</p> <p>Further strengthen budget management across the directorate and particularly in Adult Social Care with a particular focus on the quality and accuracy of forecasting.</p>	<p>The Council has continued to focus their efforts on addressing adult social care budget challenges, and work has continued throughout 2021/22 in monitoring performance against financial targets, which has been helped through short term and one-off grant funding, including COVID-19 related grants.</p> <p>However, there is recognition that work still needs to continue to address underlying budget pressures and overspends, that will require the actions outlined in 2020/21 to continue as an action from 2021/22.</p>
3	Impact of Covid-19 pandemic	Public Health continue to focus on response to the pandemic and this will continue for some time – manage the risk to business-as-usual activity alongside	The Council proactively responded to all aspects of the pandemic, but since infections fell and restrictions have eased, working and living with

No.	Issue	Action	Progress / Outcome
		<p>response to the pandemic and recovery from the pandemic.</p> <p>Manage increases in demand caused by the pandemic including in Adult Social Care, substance misuse services and commissioned domestic violence services.</p>	<p>Covid-19 has transitioned into business-as-usual activity.</p> <p>Specific Covid-19 governance and risk management structures and mechanisms have retired and consumed into the Council's standard governance and monitoring arrangements.</p>
4	Commissioning, re-procurement and contract management of domiciliary care services	<p>Consider future options in relation to electronic home care monitoring.</p> <p>Re-procure domiciliary care services worth c£30m p.a. and deliver savings opportunity identified within SCIE/CIPFA report.</p>	<p>Future options in relation to the electronic home care monitoring have been assessed during the period April 2021 to June 2021, and subsequently, a programme of work to replace the current systems has been added to the capital programme for 2022/23 and beyond.</p> <p>At the time of publishing this report, the re-procurement of the domiciliary care services contract was underway, with learnings taken from the SCIE/CIPFA report built into the specification and procurement approach accordingly.</p>
5	Compliance with standards in relation to video surveillance systems across the Council.	Continue with project (led within directorate but covering systems across the whole Council) to ensure compliance with standards.	Recognising this was a Council-wide issue, a two-year programme commenced in 2021/22 to complete an action plan to address areas of non-compliance. As progress continues, this action has been carried forward as outlined in the action plan for 2021/22 below.

No.	Issue	Action	Progress / Outcome
6	Improvements in consistency and quality of work in Adult Social Care.	<p>Implement improvements identified in forthcoming SCIE/CIPFA report regarding practice (alongside financial/savings opportunities) as part of a comprehensive transformation and improvement programme.</p> <p>Implement further development to Mosaic (IT system) and improve the quality of data on the system as part of the above programme.</p> <p>Implement the recommendations in the internal audit of Client Financial Affairs (service managed within Resources Directorate).</p>	<p>Improvement plan has been developed following the SCIE/CIPFA report regarding practice, is funded and underway, with progress reported periodically. This, alongside implementing specific internal audit recommendations for audits conducted previously, and throughout the year, is contributing to significant improvements.</p> <p>Whilst progress has seen significant improvement in the areas of consistency and quality, there is recognition that data quality issues do remain, especially as further development to Mosaic is needed.</p> <p>As a result, work will remain in progress and therefore, this action has been carried forward as outlined in the action plan for 2021/22 below.</p>
7	SEND performance – weaknesses in performance and provision. Will be subject to a Local Area Inspection by Ofsted and CQC.	SEND Improvement Board driving detailed SEND Improvement Plan.	The SEND Improvement Plan was developed, monitored and delivered throughout 2021/22, however, following the SEND Local Area Inspection, whilst the content of this improvement plan covered a number of the areas identified, further work has been added, and will continue to be an area of focus for 2022/23, as such, an action remains to be followed up as outlined in the action plan for 2021/22 below.

No.	Issue	Action	Progress / Outcome
8	King George Fields Trust – Charities Commission investigation into delayed submission of accounts.	Urgent resolution of accounts. Review of governance arrangements.	<p>The 2018/19 and 2019/20 accounts and annual reports have now been filed with the Charity Commission satisfied.</p> <p>The 20220/21 accounts and annual report remain on track to filed by July 2022, which will be late, but the Charity Commission remain aware.</p> <p>These remain an area of focus, along with ongoing governance improvements, and as such, an action remains to be followed up as outlined in the action plan for 2021/22 below.</p>
9	Ensure the Council is well prepared to meet the provisions contained within the Building Safety Bill to ensure Fire Safety in residential dwelling.	<p>Review the Council’s Management Agreement (MA) with THH and ensure clear delegated functions are in place with THH including Fire Safety responsibilities.</p> <p>Put in place a shadow structure to meet provisions contained within the bill in advance of legislation.</p> <p>Put in place adequate resources, including ICT infrastructure to meet the demands of the Building Safety Bill and mitigate any risks reading THH housing stock.</p>	<p>The LBTH/THH MA sets out THH’s responsibilities to ensure that the Council meets all its regulatory and statutory duties including building and fire safety duties. Schedule 1 of the MA sets out THH’s repairs and maintenance duties (including fire safety).</p> <p>The MA states:</p> <p>In section 25.1 ‘THH will comply with all relevant legislation (including but not limited to legislation relating to health and safety, fire safety and equality and diversity)</p> <p>In Section 26.2 ‘THH and the Council acknowledge that following the Government’s 2019 publication (Building a Safe Future), new legislation is expected to be brought into force which will change the regulatory framework and statutory requirements for the maintenance and</p>

No.	Issue	Action	Progress / Outcome
			<p>management of residential premises of 18 metres (six stories) or more.'</p> <p>The shadow structure was approved by Cabinet on 24 November 2021. The new Council role of Building Safety Lead was appointed to on 23 May 2022, with THH appointing their interim Fire Safety Manager on March 2022. Further recruitment at THH is underway; a Fire Safety officer and Building Safety Officers. There have been some delays in recruitment due to a wider restructuring underway in Asset Management.</p> <p>There are roles for 7 Building Safety Officers and 1 Building Safety Team leader that are due to be filled.</p> <p>Meetings have been held with LBTH ICT and the LBTH's Building Safety Lead to look at resourcing adequate ICT to support delivery of the building safety regime. The required ICT is pending secondary legislation being published.</p> <p>THH have procured a 12-month contract with 'Active Plan' for the storage of key building information and the 'Golden Thread' this has allowed time for a more permanent solution.</p> <p>As part of preparing for the requirements of the Building Safety Act a growth bid was submitted to build a Building Control Team that is fit for purpose to deal with the new requirements and responsibilities. While some growth has been</p>

No.	Issue	Action	Progress / Outcome
			<p>approved, the level of funding will be insufficient to deal with the full requirements of the Act in relation to building control functions. A phased approach will be taken, with the new structure developed and put in place in 2023/4 and additional growth funding bid for in year two, informed by up to date understanding of the cost recovery process and any new burdens funding from government.</p>
10	<p>Continue to progress remedial fire safety measures for residents in tower blocks in the borough to improve fire safety.</p>	<p>Monitor, report and continue to progress ACM remediation with London Fire Brigade, GLA, MHCLG.</p> <p>Continue to collect information on External Wall Systems, working with stakeholders (LBF, GLA, MHCLG) to identify and mitigate buildings identified as high risk.</p> <p>Put in place adequate resource, including ICT infrastructure to support fire safety within the private sector.</p>	<p>Monthly meeting with DLUHC, LFB, GLA continue as an exchange of information and to inform enforcement action. The Council recently hosted a visit from the Director General from DLUHC, further visits are scheduled. Each visit focusses on buildings that need remediation and the cause of the delay.</p> <p>The Council attends and inputs into DLUHC meetings on specific issues such as EWS collection, Delta Updates, BSF application. As well as exploring different ways of working. For example, DLUHC will hold an all-day case conference at Tower Hamlets on the 17<sup>th</sup> of January to look at new ways of working and collaborating to speed up remediation, how to get information on hard-to-reach building owners, enforcement and data collection and address the shortage of qualified building control surveyor and environmental health and enforcement officers for us to complete this work.</p>

No.	Issue	Action	Progress / Outcome
			<p>Database project in progress. Estimate Live date: April 2023</p> <p>Recruitment for Environmental Health and Housing Officers and Building Control Surveyors are in progress. These posts will increase our ability to carry out inspections.</p> <p>Joint working with LFB continues buildings that still have waking watch. A letter was recently has been sent to all private and housing providers who still have a waking watch to enquire about remediation timelines.</p>
11	Continue to review the stock condition of community shops portfolio and undertake any necessary repairs and maintenance.	<p>Undertake a programme of reviews of community shops, including tenant's fire and safety management, property owner's liability guidance and maintenance.</p> <p>Put in place protection measures for unoccupied units and undertake valuations on buildings ensuring the correct level of cover.</p> <p>Undertake communications to make tenants aware of risks and obligations around fire safety and the terms of their lease, taking action on shop tenants who fail to adhere to their lease.</p>	<p>A programme of Fire Risk Assessment of the shops was undertaken and largely completed in 2022. A routine inspection is carried out by the Estate Officer and Management surveyors to ensure compliance of tenant lease obligation. A planned programme of annual inspection of the shop units is currently being put together to ensure continued inspection of tenant's repairs and maintenance obligation of the units, health and safety including FRA documentation.</p> <p>Unoccupied properties are secured and safeguarded from vandalism and illegal occupiers. Fortnightly inspections are carried out to ensure security measures put in place are intact.</p>



No.	Issue	Action	Progress / Outcome
			<p>Reinstatement valuations across the portfolio for insurance purposes are carried out on an on-going basis in liaison with the Insurance team.</p> <p>Tenants are made aware and advised of the general risks and obligations around fire safety and the terms of their lease at the start of a tenancy and during routine inspection by officers. Persistent breach of tenant lease obligations could lead to forfeiture of the lease.</p>
12	<p>In its annual letter, relating to 2020/21, the LGSCO stated some positive elements relating to its interaction with the Council such as its satisfaction that the Council complied with 95% of recommendations within a set timeframe. However, the LGSCO also highlighted some negative elements such as 83% of complaints against the Council it investigated resulted in the complaints being upheld and in only 4% of upheld complaints, it found the Council had provided a satisfactory remedy before the complaint reached the LGSCO.</p> <p>The number of LGSCO cases is reducing and the numbers are less than most of our neighbouring councils. The performance rate of</p>	<p>Work is ongoing with services to ensure cases are dealt with sensitively and effectively. The improvement work mentioned below will continue at pace with individuals, teams and services. More emphasis has been put on the fact that if the Council wishes to challenge the LGSCO, extensions must be agreed with the LGSCO, and appropriate reasons given for the challenge in consultation with Senior Management.</p> <ul style="list-style-type: none"> <li>• Better use of technology</li> <li>• IG Service is actively encouraging all services to set up their own reporting mechanisms from iCasework.</li> <li>• A new outcome based LGSCO Protocol has been initiated by the IG Service.</li> </ul>	<p>A review of the Information Governance service commenced in January 2022 and is nearing completion by the end of July 2022. Improvement work has continued to take place and the service will be restructured in accordance with the findings of the review and analysis of demand.</p> <p>We have had no further cause to challenge any LGSCO cases and can report a reduction in cases being investigated by the LGSCO.</p> <p>Specifically in response to the action areas identified in the AGS in 2020/21:</p> <ul style="list-style-type: none"> <li>• <u>Better use of technology</u> – The iCasework System has now been upgraded and rolled out. The upgrade consisted of improved functionality and users are seeing the benefits of this. Discussions are taking place with the supplier to enhance and improve the system further in line with our local requirements</li> </ul>

No.	Issue	Action	Progress / Outcome
	<p>percentage of cases responded to on time has also continued to increase year on year, however, the response on time performance rate of 69% needs to improve further.</p>	<ul style="list-style-type: none"> <li>Improved reporting for Directorate Leadership Teams.</li> <li>Improved functionality in iCasework.</li> <li>Targeted internal training programmes.</li> </ul>	<ul style="list-style-type: none"> <li><u>IG Service is actively encouraging all services to set up their own reporting mechanisms from iCasework</u> – Work is in progress to support better reporting from the system and will form part of the Council’s wider Business Intelligence and reporting roll out.</li> <li><u>A new outcome based LGSCO Protocol has been initiated by the IG Service</u> – This has been completed and is live.</li> <li><u>Improved reporting for Directorate Leadership Teams</u> – This is in progress as per bullet point 2 above.</li> <li><u>Improved functionality in iCasework</u> – Completed per update provided to bullet point 1 above.</li> <li><u>Targeted internal training programmes</u> – IG is part of the Mandatory training all staff are required to undertake. There has also been specific training provided on the system where requested.</li> </ul>
13	<p>Contemporaneously acknowledged (rather than in the earlier drafts of this document), an audit of Risk Management in 2019/20 identified that whilst the framework, strategy and procedures were well documented, directorate and service level</p>		<p><b>In progress</b></p> <p>At the last update provided to Audit Committee, in November 2022, it was stated that some progress had been made in identification and review of risks, but also that some of the underlying processes that underpin a robust risk register are targeting a delivery date of June 2023.</p>

No.	Issue	Action	Progress / Outcome
	compliance with the procedures was variable. The audit also found that, for the Corporate Risk Register, there was insufficient management review and challenge by the Corporate Leadership Team.		

Significant Governance Issues Identified in 2021/22

All four Corporate Directors submitted their returns for 2021/22 to the Chief Executive. The following table summarises the most significant issues raised and the proposed actions to address them:

No.	Issue	Action	Responsible	Timescale
1	Issues have previously been identified with both the 2018/19 and 2019/20 Statement of Accounts (SoA) and reflected in the 2018/19, 2019/20 and 2020/21 AGS' respectively. These significant issues continue to be addressed. The SoA's continue to be subject to external audit review (by Deloitte). Further adjustments may be required through the audit process but these in themselves may not be sufficient to achieve an unqualified audit opinion.	Through the completion of the Council's Finance Improvement Plan (FIP), the Finance Team's ongoing work to address audit queries, and finalise the 2018/19 and 2019/20 SoAs audits.  Build on learnings from the process, and implement the effective improvements from the FIP, prepare draft versions and complete the audits of both 2020/21 and 2021/22 SoAs.	Interim Corporate Director of Resources	Ongoing
2	Financial sustainability and budget management – there is a persistent underlying overspend in adult social care	Implement the Adult Social Care Improvement Programme (this programme covers finances, practice, and quality (and	Corporate Director, Health, Adults & Community and	2022/23 and 2023/24

No.	Issue	Action	Responsible	Timescale
	and budget management (including the closure of account process) needs further strengthening	<p>includes re-procurement of domiciliary care services (underway) and implementation of electronic home care monitoring)</p> <p>Reduce levels of debt, including charges for care services and NHS debt (including implement recommendations in the internal audit of the Financial Assessments of Contributions to Social Care internal audit). Progress in 2021/22 and work ongoing.</p> <p>Further strengthen budget management across the directorate and particularly in Adult Social Care with a particular focus on the quality and accuracy of forecasting and the outturn and closure of accounts process. Significant progress in 2021/22 – focus on adult social care continues.</p>	<p>Divisional Director, Adult Social Care and Joint Director of Integrated Commissioning</p> <p>Corporate Director, Health, Adults &amp; Community, Divisional Directors, Financial Assessment Team, Finance Business Partners (Corporate Director, Resources)</p> <p>Corporate Director, Health, Adults &amp; Community and all Divisional Directors and budget holders in the directorate, Finance Business partners (Corporate Director, Resources).</p>	<p>2022/23</p> <p>Ongoing</p>
3	Compliance with standards in relation to video surveillance systems across the Council	Continue with project (led within the directorate but covering systems across the	Divisional Director, Community Safety, Head of Information	2022/23

No.	Issue	Action	Responsible	Timescale
		whole Council) to ensure compliance with standards	Governance & all Divisional Directors across the Council with responsibility for the use of surveillance systems	
4	Quality Assurance in Adult Social Care	Implement further developments to Mosaic (IT system) and improve the quality of data on the system as part of the Adult Social Care Improvement Programme  Strengthen the governance in relation to implementation of recommendations from Safeguarding Adults Reviews.	Divisional Director, Adult Social Care and Divisional Director, IT  Divisional Director, Adult Social Care	2022/23  2022/23
5	SEND Local Area Inspection 2021 – requirement of the Council and the CCG for a Written Statement of Action in relation to four areas of weakness	Written Statement of Action approved by Department for Education (DfE) and NHS England – to be termly monitored  SEND Improvement Plan overseen by SEND Improvement Board	Director of Education  Corporate Director, Children’s & Culture	Termly Monitoring  Ongoing – bi-monthly throughout 2022/23
6	King George Fields Trust – Charities Commission investigation into delayed submission of accounts – continued action to submit accounts and annual report in a timely manner.	Urgent resolution of 2020/21 accounts and annual report.	Director of Commissioning & Culture	July 2022

No.	Issue	Action	Responsible	Timescale
	2020/21 accounts and annual report on track to file by July 2022, however, notification this will be late, with Charities Commission aware of progress.	Completion of review of governance arrangements.		
7	Contemporaneously acknowledged (rather than in the earlier drafts of this document), an audit of Risk Management in 2019/20 identified that whilst the framework, strategy and procedures were well documented, directorate and service level compliance with the procedures was variable. The audit also found that, for the Corporate Risk Register, there was insufficient management review and challenge by the Corporate Leadership Team.	At the update provided to Audit Committee, in November 2022, it was stated that some progress had been made in identification and review of risks, but also that some of the underlying processes that underpin a robust risk register require further work.	Head of Audit, Anti-fraud, and Risk	Ongoing

## Conclusion for 2021/22

As has been the case in previous years, 2021/22 has been a challenging year, the COVID-19 pandemic continued to have a profound impact on everyone. The pandemic required us to govern differently in order to adapt and meet the needs of our community. Importantly, our governance arrangements continued to operate effectively as we continued to deal with the challenges the pandemic brought, especially as an organisation, but also, the wider borough learned to live and work with the COVID-19 pandemic as restrictions were eased and it became a more “business-as-usual” environment.

During this difficult time there have been governance and leadership opportunities which we are keen to hold onto, and we are committed to delivering better outcomes for residents by using the opportunities from new ways of working and the efficiency and effectiveness learnt through our emergency response. The pandemic has compounded our financial challenges. The economic impact has reduced the amount of income that the Council receives from business rates and council tax in 2021-22 and the forecast income for following years. The Council has also incurred significant costs for the pandemic response, a decrease in income from fees and charges and slippage in previously planned savings. In response, we have updated both our Strategic Plan and the Medium-Term Financial Strategy to ensure our budget can support delivery of our priorities and address the significant financial challenges facing the Council.

Whilst we have been able to quickly adapt our governance arrangements, there remains significant challenges, in addition to the long-term impact of the pandemic, which has included closing our financial accounts, budget management in areas such as Adult Social Care, and SEND performance. We recognise that good governance requires a culture of continuous improvement and challenge, we will continue to seek improvement and will be self-critical in doing so to ensure we uphold the highest possible standards of good governance.

We have put action plans in place to address any issues and regularly report progress via the Corporate Leadership Team and relevant Committees.

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# LONDON BOROUGH OF TOWER HAMLETS

**DRAFT**

**ANNUAL FINANCIAL REPORT 2022/23**

**UNAUDITED**



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# Narrative Report - 2022/23

## Introduction

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2022/23, which reports our financial results for the year.

The primary purpose of the Narrative Report is to provide information on the Local Authority, its objectives and strategies and the principal risks that it faces. The Report also provides a commentary on how the Local Authority has used its resources to achieve its intended outcomes, as identified through the development of its local objectives and strategies.

The council's Statement of Accounts for the year 2022/23 has been prepared in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for 2022/23.

Julie Lorraine,

Corporate Director of Resources (Section 151 Officer)

## Introduction to Tower Hamlets

Tower Hamlets offers the best of London in one borough and is unparalleled in its history of diversity and growth. Situated at the edge of the City and on the River Thames, it has long been a centre of industry, migration and culture. From its internationally significant docks that brought maritime trade to London, to the clothing industry through the industrial ages, to a global financial powerhouse today.

In recent times Tower Hamlets has experienced the largest growth in the country and has been the focal point of regeneration in London. The richness of Tower Hamlets is also evident in its physical and cultural assets. The borough's diverse history is reflected in the collection of hamlets that grew along and around the trade and movement routes between the City of London and the hinterlands of Essex.

Tower Hamlets boasts extensive waterways, Victoria and Mile End Park, an assortment of markets, and the Tower of London from which it derives its name. A rich cultural scene consisting of community and music festivals, a vibrant gallery sector and museums, including the Museum of London in Docklands and the Museum of Childhood, reflect the historical and contemporary cultural diversity of the East End.

All of these contribute to the borough's unmatched sense of place and identity and makes Tower Hamlets one of the most popular places to live, work, study and visit.

Some key facts about the borough include:

### **We are one of the fastest growing and most densely populated places in the UK**

- Tower Hamlets has the fastest growing population of any Local Authority area across England and Wales. Between 2011 and 2021 the population in Tower Hamlets increased by 22%, from 254,0961 to 310,300.
- Tower Hamlets is also the most densely populated borough in England with 15,695 residents per square kilometre compared to an average of 424 per square kilometre in England.
- Tower Hamlets added an additional 19,200 households between 2011 and 2021 with the total number of households increasing from 101,257 to 120,500. This represented a 19% increase, the largest increase in households in the country.
- There were slightly more persons per household than in 2011 with the average household size moving from 2.51 in 2011 to 2.58 in 2021.
- We have fantastic transport links – 26 London Underground and DLR stations serving seven lines, including the Elizabeth Line, the second highest number of any London borough.
- More homes are built here than almost anywhere else. We are expected to accommodate a further 35,000 homes by 2028.
- The median age in the borough in 2021 was 30 years of age, making Tower Hamlets the youngest borough by median age in England and Wales.

## **We are home to international business districts which generate the third highest economic output in the UK**

- Canary Wharf remains one of the most important business districts in the country with 40 office buildings, 332 shops, cafés and restaurants. 191 art events held in 2022/23.
- The City Fringe includes Whitechapel, Aldgate and Spitalfields. It is being developed to support London's financial sector and the growing digital-creative businesses in Tech City. Plans for a world-class life science centre were submitted in 2021 with further amendments submitted in September 2023.

## **We host some of London's best destinations**

- Historic attractions include the Tower of London, the V&A Museum of Childhood, the Museum of London, Docklands and Tower Bridge.
- There are over 120 parks including Victoria Park, voted London's most-loved park, and parts of Queen Elizabeth Olympic Park.
- World famous markets include Spitalfields, Columbia Road and Petticoat Lane. Brick Lane is a melting pot of food and culture - everything from renowned curry houses and Jewish beigel shop to the Old Truman Brewery, with its own market.
- Major music festivals and events such as All Points East and the London Marathon happen here.
- World class culture is part of our fabric with 22 art galleries, including the Whitechapel Gallery, amazing street art and venues such as Wilton's Music Hall and Rich Mix.

## **We are a centre for world-class learning and innovation**

- Queen Mary University of London, one of the top Russell Group universities in the country.
- Barts NHS Trust hospitals train more than 4,000 people at any one time for medical careers.
- The Government Digital Service is driving cutting-edge innovation from its headquarters in Whitechapel.
- The London Metropolitan University School of Art, Architecture and Design is based in Aldgate.

## **We are a world borough with a proud history of diversity and equality**

- 46.8% of residents in Tower Hamlets were born outside of the UK.
- The most common countries of birth other than the UK were: Bangladesh, Italy, India, China and France. 14% of residents were born in a current European Union country.
- Data from the recent 2021 Census reveals that 73% of residents in Tower Hamlets reported that English is their main spoken language.
- The Office of National Statistics published data found that after English, Bengali is the most commonly spoken language in Tower Hamlets (11%) followed by Italian (2.2%), Spanish (1.7%), French 1.2% and Portuguese (1%).
- The May 2023 Annual Resident Survey data indicate that 87% of our residents feel that people from different backgrounds get on well together.
- Our residents fought fascism in the Battle of Cable Street and the roots of the Suffragette movement are in Roman Road.
- The London Docks were the drop-off point for many immigrants to the UK as well as being the centre of world trade.

## Organisational Context and Challenges

The Strategic Plan is the main strategic business planning document of the council and a central part of our Performance Management and Accountability Framework. It sets out the corporate priorities and outcomes, high-level activities that will be undertaken to improve the quality of life, as well as the measures that will help us determine whether we are achieving our goals set out in the priority themes.

Following the election of a new Executive Mayor in May 2022, a new Strategic Plan set out its vision for the next four years within eight new thematic priorities, providing a framework for action to improve services and bring about strategic change for Tower Hamlets. Since May 2022, the council has focussed on supporting residents and businesses through the current cost of living crisis and the aftermath of the Covid-19 pandemic and welcomed a new political administration. Our new Strategic Plan 2022-26 is designed to improve outcomes for residents as summarised below:

### Priority 1 – Tackling the current Cost of Living crisis

*Our ambition: No child will go hungry, and no pensioner will go cold for the next four years.*

Some of our actions include:

- Establish an Education Maintenance Allowance (EMA) and the University Bursary Award (UBA) to support young people into post-16 education.
- Support low-income residents through the current cost of living crisis.
- Freeze Council Tax to protect the poorest from rising living costs.
- Offer free school meals to every secondary school pupil up to the age of 16.

### Priority 2 – Homes for the future

*Our ambition: Everyone in Tower Hamlets lives in a good quality home that they can afford.*

Some of our actions include:

- Build more homes and tackle overcrowding.
- Increase one-hour free parking spaces near our nine local markets.
- Tackle homelessness and rough sleeping.
- Bring housing management services in-house.

### Priority 3 – Accelerate education

*Our ambition: Every child achieves their best in education.*

Some of our actions include:

- Increase the number of youth workers and safe spaces within the borough through a new Youth Service Model.
- Deliver school holiday services for young people.
- Protect the space in our Idea Stores where young people can study.
- Work with the voluntary sector to increase the provision of devices and internet access to reduce digital exclusion.

#### Priority 4 - Boost culture, business, jobs and leisure

*Our ambition: Residents from all backgrounds benefit from thriving sports, the arts and local businesses, education.*

Some of our actions include:

- Promote female sports sessions.
- Convene a sports summit to promote participation in sport and physical activity.
- Protect and support our markets.
- Deliver a programme of job enablement schemes.

#### Priority 5 – Invest in public services

*Our ambition: Residents have access to high quality council-run public services, including Idea Stores and libraries, public health, social care, and waste and recycling services.*

Some of our actions include:

- Add further residents' hubs to provide face to face one stop council services.
- Implement the waste improvement plan.
- Deliver high quality care and support services in line with statutory duties.
- Introduce a Public Health Service that is Covid-ready.

#### Priority 6 – Empower communities and fight crime

*Our ambition: Residents, workers, and visitors of all backgrounds feel safe and welcome in Tower Hamlets.*

Some of our actions include:

- Work with the police and other bodies to tackle drug-related crime.
- Support events which celebrate the culture of our different communities and promote better understanding.
- Support those in poverty and those suffering from social isolation.
- Work to put more uniformed police officers on the streets, as part of our Community Constabulary.

#### Priority 7 – A clean and green future

*Our ambition: Cleanliness & air quality improve, emissions & noise nuisance reduce, and everybody benefits from parks & more trees.*

Some of our actions include:

- Make council carbon net zero.
- Support schemes to teach cycling and bike proficiency and safety.
- Work with Transport for London to improve public transport.
- Look after our parks and other open spaces.

#### Priority 8 – A council that listens and works for everyone

*Our ambition: Residents benefit from accessible, high-quality services and are involved in decisions that affect them.*

Some of our actions include:

- Agree a Tower Hamlets Partnership Plan with partners and stakeholders to develop plans and ideas together.
- Complete Corporate Peer Challenge and implement its recommendations.



Alongside this refreshed Strategic Plan we also updated our Medium Term Financial Strategy to ensure our budget can support the delivery of our priorities and address the financial challenges facing the council. Through ongoing engagement with our partners we re-focused our priorities to ensure we could collectively support the recovery of the borough and empower our partners to take a greater lead on delivering our collective priorities following the challenging years in the aftermath of Covid-19 pandemic and in the midst of the cost of living crisis.

## **Monitoring Performance**

This year we had 51 performance measures in our new Strategic Plan, which was developed based on the new political administration's manifesto, in place at Tower Hamlets from May 2022. Our performance in 2022/23 has been positive overall.

At the end of quarter 4 2022 to 2023, 25 performance measures had been met or were exceeding their target, 5 were between the target and the minimum target, while 9 were falling short. 4 measures were awaiting monitoring data, 6 were reported as data only, and 2 were unavailable because they related to the universal free school meals service which was yet to be in place at secondary schools.

## Key Achievements

A year on from the new political administration coming into power in May 2022, the council continues to oversee delivery of day-to-day services across key areas. The Strategic Plan sets out a four-year vision, with eight priorities, and in the last year made progress in:

### 1. Priority One: Tackling the cost-of-living crisis

- ✓ Created 2.2 million free meals from 940 tonnes of food supplied to organisations.
- ✓ Allocated and distributed £6m in payments to our most vulnerable residents from council and government funds.
- ✓ 35,172 resident accounts benefitted from £31.5m Council Tax reduction payments.
- ✓ 22,343 visited six warm hubs across the borough during the winter months, where tea, coffee and healthy snacks were provided. These hubs also helped to tackle loneliness and offered advice services. 750 energy packs were distributed to residents in partnership with Tower Hamlets Volunteer Centre.
- ✓ 19,772 payments of £100 to help vulnerable families.

### 2. Priority Two: Homes for the future

- ✓ Almost 22,000 properties brought back in-house.
- ✓ 277 homeless people supported into sustainable accommodation.
- ✓ Rehoused 31 families into wheelchair accessible homes via our flagship Project 120 scheme.
- ✓ Worked on delivery of 4,000 affordable homes by 2026.

### 3. Priority Three: Accelerate education

- ✓ Daily free school meal for primary and school children, with roll-out underway for secondary schools.
- ✓ 400 young people received a Mayor's University Bursary (£600k).
- ✓ 803 young people received a Mayor's Education Maintenance Allowance (£321k).
- ✓ 17,783 children were supported by the Early Help Children and Family Service.
- ✓ Provision for special educational needs and disability (SEND) children increased by £730k.

### 4. Priority Four: Boost culture, business, jobs and leisure

- ✓ £800k investment in community language provision.
- ✓ Rates relief for 834 businesses (£2m).
- ✓ £40m invested in leisure facilities, including bringing leisure centres under council management.
- ✓ 3866 jobs, training and apprenticeships opportunities delivered.
- ✓ 919 enterprises were supported by the council's business programme.

## **5. Priority Five: Invest in public services**

- ✓ £13.7m invested in youth services, including one in every ward.
- ✓ £4.5m for local voluntary and community sector through Mayor's Community Grants.
- ✓ £2.5m to support free homecare for vulnerable adults.
- ✓ £1.1m investment in Resident Hubs.

## **6. Priority Six: Empower communities to fight crime**

- ✓ 289 CCTV cameras upgraded to help capture evidence of crime and ASB.
- ✓ 7,779 additional uniformed police patrol hours, funded by the council.
- ✓ Recruited 41 enforcement officers to protect the public (£2.9m).
- ✓ £1.6m approved to fund additional police and bring back a community constabulary.

## **7. Priority Seven: A clean and green future**

- ✓ £185k to support local businesses to be more energy efficient.
- ✓ £5m for electric waste vehicles and EV charging points and £180k for low carbon fuel supply.
- ✓ £2.1m to improve recycling on housing estates.
- ✓ 972 trees planted.

## **8. A council that works and listens for everyone**

- ✓ £487k invested to reopen Watney Market Idea Store.
- ✓ Around 500 people seen a month at twice weekly Mayor's Surgeries.
- ✓ You said, we did: Life-saving equipment installed around the borough.
- ✓ Over 11k participants took part in 80 consultations.

## Key Strategic Risks

It is essential to the good governance of the Council that risks are managed thoroughly and appropriately. The Council has in place a formally approved risk management strategy, which clarifies the corporate risk appetite, seeks to support decision making that considers threats and identifies mitigating actions. This allows the Council to ensure opportunities are seized and delivered.

The Council uses a corporate risk management system to identify all relevant corporate risks. Through this system, the Council identifies and proactively manages its key risks and governance challenges.

In reflection of the dynamic nature of the Council's operating environment, risks evolve and change over time and whilst the narrative report is chiefly a backward look at 2022/23, we consider it more useful to stakeholders to highlight the risks present on the Council's Corporate Risk Register at the time of publication of this report.

### Summary of Corporate Risks (January 2024)

1. Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency
2. Major health and safety incident
3. The Council may overspend its budget, fail to deliver savings, and rely on reserves
4. There is a risk that historical errors in Pension Scheme member data will lead to materially incorrect calculation of the Pension's liability figure in the Council's annual Statement of Accounts
5. There is an ongoing risk of a cyber-attack and/or major loss of IT
6. There is a risk that the statement of accounts will receive a qualified opinion for 2020/21, 2021/22 and 2022/23, which is dependent upon the completion of the audits and expected future legislation from the Government relating to the backlog of accounts.
7. Following the Grenfell Fire tragedy residents of tower blocks in the borough are not safe or do not feel safe from fire
8. Regulatory censure and Safeguarding failure arising from deficient process for new and ongoing employee vetting
9. There is a risk that the Council will fail to comply with its obligations in relation to the Protection of Freedoms Act 2012
10. The risk of being unable to reclaim VAT from HMRC owing to weaknesses in accounting for VAT and underlying non-compliance with HMRC requirements
11. There is a risk the Council will be unable to deliver critical and essential services
12. Failure to prepare and take action in relation to the proposed Building Safety Act
13. Exploitation of supply chain security vulnerability impacting vendors/partners/service

## Financial Overview and Annual Governance Statement

The previous multi-year funding settlement agreed with the Government expired at the end of the 2019/20 financial year. Single year settlements have been announced since. The Government's 2021 Spending Review provided resource budgets for Government departments for the three years 2022/23 to 2024/25. However, the Government again published a single year settlement for 2024/25. The absence of a long-term settlement hinders the ability of local authorities to plan for the medium-term effectively and drives us to make assumptions and judgements about future years. All such assumptions and judgements are underpinned where possible by third party reference sources, for example, the Office of Budget Responsibility (OBR), and the Bank of England (BOE).

The one-year provisional Local Government Finance Settlement (LGFS) for 2024/25 rolled forward a number of funding streams for an additional year. The latest MTFS also includes another year of business rates growth that Tower Hamlets has been able to retain since the baselines were set in 2013/14. Reform is now not expected before 2026/27.

This one-year settlement marks the end of the current Spending Review period. In the Autumn Statement, announced on 22 November 2023, departmental resource spending for the years beyond the current Spending Review period (2025/26 to 2028/29) are indicated to continue to grow at 1% a year on average in real terms, which implies real terms cuts for 'unprotected departments' like Local Government.

Reforms of local government funding, including a 'fair funding' review of the needs assessment formula and a reset of business rates baselines, have been announced in past years but never implemented. This remains a risk to the Council and the reset of business rates baselines has the potential to wipe out growth since 2013/14. In early 2021 the Government also consulted on altering New Homes Bonus funding.

Any proposed changes could have significant implications for Tower Hamlets over the medium term. Retained business rates above the Council's baseline accounts for approximately £18.8m of the Council's funding. If these funding sources under the current mechanisms are changed and removed or reduced, it is not clear how the money would be redistributed across local government, and this remains a significant future funding risk for the Council.

In addition to funding uncertainties in the medium term, the Council continues to face increases in demand for services, inflationary cost increases, and demographic cost pressures, particularly in Childrens' Social Care, Special Educational Needs and Disabilities (SEND), Adult Social Care and temporary accommodation. The budget for 2024/25 will be presented to Council for approval in February 2024.

The Annual Governance Statement sets out the Council's governance framework, how it has reviewed governance arrangements as well as any actions proposed or taken to deal with any significant governance issues arising during 2022/23. The statement is included within the Statement of Accounts.

## Revenue Outturn for the Year

### General Fund

The General Fund is the primary revenue fund through which the Council pays for its services.

Ongoing reductions in mainstream government grant funding over the last decade and a long-term continuing upward trend in the demand for key front line services, only exacerbated by the cost of living crisis and the aftermath of the Covid-19 pandemic, in adult social care, children's services and for housing services, particularly homelessness, have collectively created a challenging financial environment for the Council.

The overall outturn position for General Fund services, after the application of Covid grants, and contributions to/from reserves, is a net underspend of £0.5m, a relatively small variance and a reasonably good outcome for the Council in a very unpredictable year. There are significant savings to be delivered, so strategically these are still very challenging circumstances. The underspend at the year-end will be transferred to General Fund reserves, which will stand at £20.9m as at 31 March 2023. This position has been managed by the use of reserves. There have also been one-off corporate movements, which have arisen as part of the process of improving the financial management and accounting of the organisation. The revenue outturn position is summarised below:

	Annual Budget and Reserve Transfers	Outturn	Outturn Variance
	£m	£m	£m
	A	B	= B - A
Children's and Culture	79.3	81.1	1.8
Health, Adults and Communities	168.5	168.7	0.2
Place	78.6	81.6	3.0
Chief Executive's Office	15.7	15.6	(0.1)
Resources	43.5	43.6	0.1
Corporate Costs and Central Items (including Core Funding)	(385.6)	(391.1)	(5.5)
<b>Total</b>	<b>0.0</b>	<b>(0.5)</b>	<b>(0.5)</b>
<b>Outturn Variance Transfer to GF Reserves</b>			<b>0.5</b>
<b>Council Outturn</b>			<b>0.0</b>

## **Revenue Reserves**

The table below presents the movement on the Councils revenue reserves for the last year:

	31 March 2022	31 March 2023
	£m	£m
General Fund balances	(20.4)	(20.9)
HRA balances	(52.9)	(38.5)
Dedicated Schools Grant (surplus)/deficit	-	(1.2)*
Schools balances	(35.6)	(35.3)
GF earmarked reserves (Reserves without Restrictions)	(87.4)	(92.4)
GF earmarked reserves (Restricted Reserves)	(135.2)	(108.0)
<b>Total</b>	<b>(331.5)</b>	<b>(296.3)</b>

\*In accordance with regulations, the 2022/23 in-year (£1.2m) underspend on DSG has been transferred to earmarked reserves. However, the deficits carried forward from prior years, totalling £14.3m, is still held within the dedicated schools grant adjustment account, an unusable reserve, resulting in a net deficit carry forward of £13.1m at 31 March 2023.

The notable decreases in earmarked reserves at 31 March 2023 is mainly contained within GF earmarked reserves (Restricted Reserves) (£27.2m), which largely composed of the transfer and utilisation of reserves brought forward to fund liabilities and Collection Fund deficits that had arisen in prior years as a consequence of the pandemic, and within HRA balances (£14.4m), which largely related to the use of these balances to fund in-year overspends within revenue and to fund the new council HRA new council home capital programme.

We are in a hugely unpredictable environment, and we are facing significant challenges over the medium-term, potential changes to local government funding and service demand. Thus, it is important to maintain reserves at an adequate level to help mitigate and manage these significant risks and ensure the Council remains on a sustainable footing.

## **Housing Revenue Account**

The Housing Revenue Account (HRA) records expenditure and income on running the Council's own housing stock and closely related services or facilities. The HRA is ring-fenced within the General Fund and primarily supports management and maintenance costs. The HRA outturn finalised at a £4.7m overspend on revenue and also utilised £9.7m to fund the HRA new council home capital programme, resulting in a net reduction in HRA balances of £14.4m at year-end.

## **Dedicated Schools Budget**

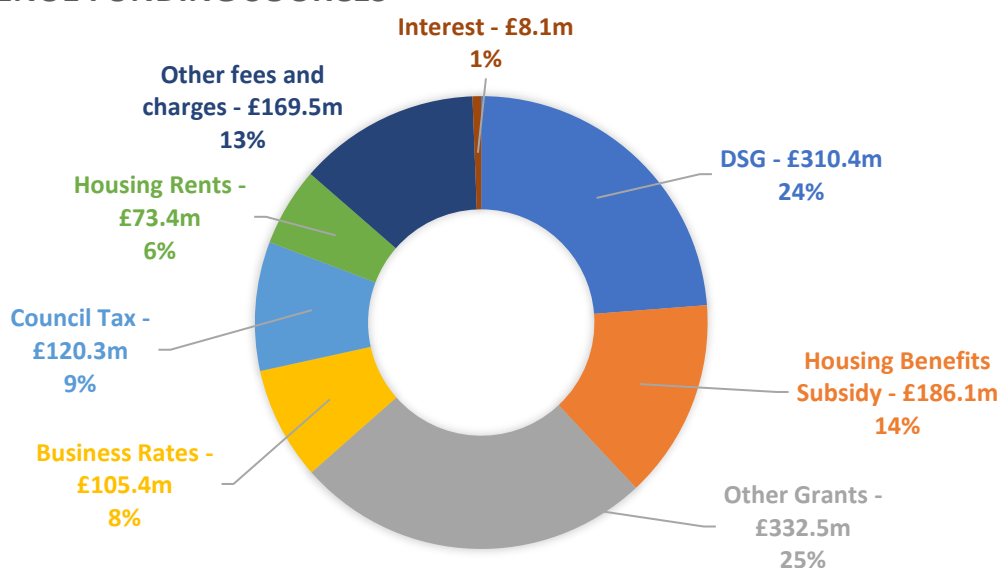
This budget records the expenditure and income on the ring-fenced schools' budgets and related services. The outturn finalised at an in-year underspend on Dedicated Schools Grant of £1.2m, with the Dedicated Schools Grant now having a cumulative deficit of £13.1m at 31 March 2023.

## Revenue Income

Government grants and subsidies continue to be the main sources of revenue funding, although with not inconsiderable revenues from fees and charges, business rates, council tax and housing rents.

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

### REVENUE FUNDING SOURCES



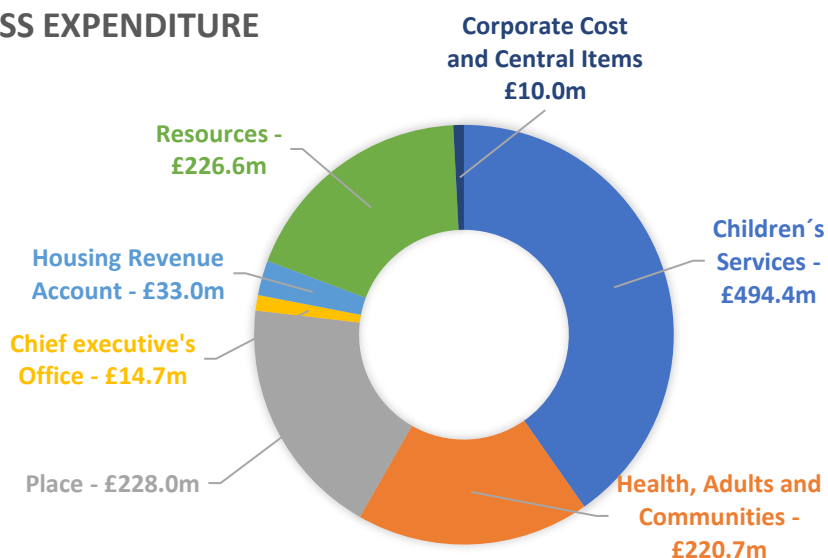
The diagram shows where the Council's expenditure is funded from. Government grants and subsidies are the main source of the £1.306bn revenue funding at £0.829bn, along with revenues from fees and charges, business rates, council tax and housing rents. The largest service grant is the Dedicated Schools Grant of £0.310bn which can only be used to fund education services and is largely 'passported' directly to schools.



## Expenditure on Services

The service with the largest gross expenditure is Children's and Culture, which includes schools and social care for children.

### GROSS EXPENDITURE



The diagram shows where the Council's gross expenditure of £1.227bn is spent by services area. The largest gross expenditure of £0.494bn is spent on the Children's and Culture service, which includes schools and social care for children.

## Capital Investment and Funding

### *Capital Investment*

The Council has continued to invest in its infrastructure with £137.3m spent on its capital programme. Within the General Fund, the main area of investment was in Place with £21.7m spent on the Town Hall and £10.7m on Public Realm Improvements. In Childrens and Culture, £24.7m was invested in improving schools of which £14.2m was spent on the new Mulberry Academy London Dock. Within the HRA, over £31.2m was spent on building new homes. Furthermore, £2.9m was spent under the devolved schools budgets.

### *Capital Funding*

A significant part of the capital programme was financed by borrowing £49.0m. This was “internal borrowing” against the Council’s own internal resources.

Capital grants and contributions financed £53.2m of expenditure with capital receipts of £11.3m being another significant source of funding.

Capital spending and financing for 2022/23 is shown in the following table:

	31 March 2022	31 March 2023
	£m	£m
<b><i>Capital Investment</i></b>		
Children and Culture	24.6	30.4
Health, Adults and Communities	9.0	10.0
Place	71.7	49.0
Resources	1.1	3.4
Local Authority Housing (Housing Revenue Account)	52.0	44.5
<b>Total</b>	<b>158.4</b>	<b>137.3</b>
<b><i>Capital Funding</i></b>		
Borrowing	64.7	49.0
Capital Grants and Contributions	57.8	53.2
Capital Receipts	21.6	11.3
Major Repairs Reserve	11.9	13.2
Direct Revenue / Reserves Funding	2.4	10.6
<b>Total</b>	<b>158.4</b>	<b>137.3</b>

## **Borrowing and Investments**

Long-term borrowing for the Council remained the same at £68.7m. Short-term borrowing arising from repayment liabilities associated with loans decreased from £1.6m to £0.3m during the year.

Long-term Investments for the Council also largely remained steady, falling from £56.2m to £52.3m. Short-term Investments decreased from £115.4m to £50.7m during the year.

## **Pensions**

The Council's Pension Fund's income originates from employee contributions and existing assets (investments). This income is compared with the estimated cost of pensions payable in the future to determine the Council's Pension Asset or Liability. The net amount is included in the accounts as the Council's pension net surplus or liability.

The net liability at the end of 2021/22 of £478.0 million moved to a net asset position of £7.4million in 2022/23 after applying the effects of the 'asset ceilings', shown as a pension asset of £17.5m (with regard to the Local Government Pension Scheme) and a pension liability of £10.1m (with regard to the London Pension Fund Authority and the liability attributable to historical discretionary awards made to members of the Teachers' Pension Scheme). This change is attributable in large part to changing assumptions used by the actuary; of particular note, that the rate of discount for scheme liabilities increased to 4.8%, which is significantly higher than the previous year.

Although this sum has a significant impact on the net worth of the Council (as shown in its Balance Sheet) contributions to the Pension Fund are set by the actuary's triennial valuation, which concluded in March 2023, and provides for stable trends in contributions.

## **Statement of Responsibilities for the Statement of Accounts**

### **The Council's responsibilities**

The Council is required:

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

### **The responsibilities of the Corporate Director of Resources**

The Corporate Director of Resources (Section 151 Officer) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice").

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

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

The Corporate Director of Resources has also:

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

### **Certificate of the Corporate Director of Resources**

I certify that the Statement of Accounts 2022/23 presents a true and fair view of the financial position of the Council in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice") as at 31 March 2023 and its income and expenditure for the year ended 31 March 2023, except for:

- The possible effect of issues relating to the quality of pension scheme membership data including prior year comparator data (as described under Note 4 to the main accounts – Assumptions Made About the Future and Other Sources of Estimation Uncertainty) on the pension liability at 31 March 2023 and related entries;

- The possible effect of issues relating to the lack of group accounts including prior year comparator data (as described under Note 41 to the main accounts – Group Accounts);
- Not having fully complied with the disclosure requirements in relation to officers' remuneration (as presented in Note 30 to the main accounts – Officers' Remuneration);
- Not having fully complied with the disclosure requirements in relation to related parties including prior year comparator data (as presented under Note 35 to the main accounts – Related Parties);
- Not having complied with the disclosure requirements in relation to revenue from contracts with customers including prior year comparator data.

**Julie Lorraine**

Corporate Director of Resources

Date:

### **Approval of the accounts**

I certify that the audited Statement of Accounts has been approved by resolution of the Audit Committee of the London Borough of Tower Hamlets in accordance with the Accounts and Audit Regulations 2015.

**Councillor Harun Miah**

Chair of the Audit Committee

Date:

## Auditor's Reports

This section is left intentionally blank subject to the completion of the audit.

## 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	
		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	POOLED INVESTMENT FUND ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	DEDICATED SCHOOLS ADJUSTMENT ACCOUNT £'000		TOTAL UNUSABLE RESERVES £'000
<b>Balance as at 1 April 2021</b>		(24,375)	(214,910)	(50,765)	(74)	(138,959)	(199,774)	<b>(628,857)</b>	(703,310)	(1,535,633)	614,324	49,616	16,547	102	7,884	11,174	<b>(1,539,296)</b>	<b>(2,168,153)</b>
<b>Movement in reserves during 2021/22</b>																		
Surplus or (Deficit) on the Provision of Services		(6,713)	-	25,676	-	-	-	<b>18,963</b>	-	-	-	-	-	-	-	-	-	<b>18,963</b>
Other comprehensive expenditure and income		-	-	-	-	-	-	-	(149,996)	-	(183,070)	-	-	-	-	-	<b>(333,066)</b>	<b>(333,066)</b>
<b>Total Comprehensive Expenditure and Income</b>		<b>(6,713)</b>	<b>-</b>	<b>25,676</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,963</b>	<b>(149,996)</b>	<b>-</b>	<b>(183,070)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(333,066)</b>	<b>(314,103)</b>
Adjustments between accounting basis and funding basis under regulations		(32,643)	-	(27,804)	(5,413)	(420)	2,692	<b>(63,588)</b>	14,294	15,610	46,697	(13,428)	-	(288)	(2,391)	3,094	<b>63,588</b>	-
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>(39,356)</b>	<b>-</b>	<b>(2,128)</b>	<b>(5,413)</b>	<b>(420)</b>	<b>2,692</b>	<b>(44,625)</b>	<b>(135,702)</b>	<b>15,610</b>	<b>(136,373)</b>	<b>(13,428)</b>	<b>-</b>	<b>(288)</b>	<b>(2,391)</b>	<b>3,094</b>	<b>(269,478)</b>	<b>(314,103)</b>
Transfers to or from earmarked reserves	9	43,802	(43,802)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to or from school reserves	9	(423)	423	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Increase or (Decrease) in 2021/22</b>		<b>4,023</b>	<b>(43,379)</b>	<b>(2,128)</b>	<b>(5,413)</b>	<b>(420)</b>	<b>2,692</b>	<b>(44,625)</b>	<b>(135,702)</b>	<b>15,610</b>	<b>(136,373)</b>	<b>(13,428)</b>	<b>-</b>	<b>(288)</b>	<b>(2,391)</b>	<b>3,094</b>	<b>(269,478)</b>	<b>(314,103)</b>
<b>Balance as at 31 March 2022 carried forward</b>		<b>(20,352)</b>	<b>(258,289)</b>	<b>(52,893)</b>	<b>(5,487)</b>	<b>(139,379)</b>	<b>(197,082)</b>	<b>(673,482)</b>	<b>(839,012)</b>	<b>(1,520,023)</b>	<b>477,951</b>	<b>36,188</b>	<b>16,547</b>	<b>(186)</b>	<b>5,493</b>	<b>14,268</b>	<b>(1,808,774)</b>	<b>(2,482,256)</b>
<b>Movement in reserves during 2022/23</b>																		
Surplus or (Deficit) on the Provision of Services		19,696	-	(84,965)	-	-	-	<b>(65,269)</b>	-	-	-	-	-	-	-	-	-	<b>(65,269)</b>
Other comprehensive expenditure and income		-	-	-	-	-	-	-	(187,419)	-	(531,926)	-	-	-	-	-	<b>(719,345)</b>	<b>(719,345)</b>
<b>Total Comprehensive Expenditure and Income</b>		<b>19,696</b>	<b>-</b>	<b>(84,965)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(65,269)</b>	<b>(187,419)</b>	<b>-</b>	<b>(531,926)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(719,345)</b>	<b>(784,614)</b>
Adjustments between accounting basis and funding basis under regulations		1,217	-	99,311	(2,553)	(16,757)	6,661	<b>87,879</b>	6,221	(125,906)	46,595	(18,502)	(435)	3,845	303	-	<b>(87,879)</b>	-
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>20,913</b>	<b>-</b>	<b>14,346</b>	<b>(2,553)</b>	<b>(16,757)</b>	<b>6,661</b>	<b>22,610</b>	<b>(181,198)</b>	<b>(125,906)</b>	<b>(485,331)</b>	<b>(18,502)</b>	<b>(435)</b>	<b>3,845</b>	<b>303</b>	<b>-</b>	<b>(807,224)</b>	<b>(784,614)</b>
Transfers to or from earmarked reserves	9	(21,086)	21,086	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to or from school reserves	9	(362)	362	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Increase or (Decrease) in Year</b>		<b>(535)</b>	<b>21,448</b>	<b>14,346</b>	<b>(2,553)</b>	<b>(16,757)</b>	<b>6,661</b>	<b>22,610</b>	<b>(181,198)</b>	<b>(125,906)</b>	<b>(485,331)</b>	<b>(18,502)</b>	<b>(435)</b>	<b>3,845</b>	<b>303</b>	<b>-</b>	<b>(807,224)</b>	<b>(784,614)</b>
<b>Balance as at 31 March 2023</b>		<b>(20,887)</b>	<b>(236,841)</b>	<b>(38,547)</b>	<b>(8,040)</b>	<b>(156,136)</b>	<b>(190,421)</b>	<b>(650,872)</b>	<b>(1,020,210)</b>	<b>(1,645,929)</b>	<b>(7,380)</b>	<b>17,686</b>	<b>16,112</b>	<b>3,659</b>	<b>5,796</b>	<b>14,268</b>	<b>(2,615,998)</b>	<b>(3,266,870)</b>



## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2021/22			Note	2022/23		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
<b>Continuing Operations</b>						
472,671	(373,547)	99,124	Children's and Culture	494,433	(400,686)	93,747
201,613	(128,896)	72,717	Health, Adults and Communities	220,663	(117,287)	103,376
221,018	(146,941)	74,077	Place	228,002	(140,607)	87,395
17,010	(2,704)	14,306	Chief Executive's Office	14,711	(3,158)	11,553
141,228	(98,185)	43,043	Local Authority Housing (Housing Revenue Account)	33,027	(103,365)	(70,338)
238,564	(188,122)	50,442	Resources	226,542	(171,943)	54,599
11,563	(4,859)	6,704	Corporate Cost and Central Items	9,982	(2,704)	7,278
<b>1,303,667</b>	<b>(943,254)</b>	<b>360,413</b>	<b>NET COST OF SERVICES</b>	<b>1,227,360</b>	<b>(939,750)</b>	<b>287,610</b>
		1,890	Other Operating Expenditure			(15,172)
		19,659	Financing and Investment Income and Expenditure			20,070
		(362,999)	Taxation and Non-Specific Grant Income			(357,777)
		<b>18,963</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>(65,269)</b>
			<b>Other Comprehensive Income and Expenditure</b>			
		(149,996)	(Surplus)/Deficit on revaluation of non-current assets			(187,419)
		(183,070)	Remeasurement of the net defined benefit pensions liability			(531,926)
		<b>(333,066)</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(719,345)</b>
		<b>(314,103)</b>	<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(784,614)</b>

# BALANCE SHEET

31 March 2022 £'000		Notes	31 March 2023 £'000
<b>Long-term Assets</b>			
2,871,631	Property, plant and equipment	14	3,214,214
19,067	Heritage Assets	15	19,153
2,338	Intangible Assets		3,271
56,186	Long-term investments	16	52,340
-	Pension Asset	38	17,495
2,173	Long Term Debtors		2,095
<b>2,951,395</b>	<b>Total Long-term assets</b>		<b>3,308,568</b>
<b>Current Assets</b>			
115,371	Short-term investments	16	50,703
213	Assets held for sale		-
213,536	Short-term debtors	18	168,662
250,546	Cash and cash equivalents	19	228,790
<b>579,666</b>	<b>Total Current Assets</b>		<b>448,155</b>
<b>Current liabilities</b>			
(45,963)	Cash and cash equivalents	19	(37,970)
(1,557)	Short-term borrowing	16	(333)
(287,925)	Short-term creditors	20	(204,779)
(5,730)	Provisions	21	(7,126)
<b>(341,175)</b>	<b>Total Current liabilities</b>		<b>(250,208)</b>
<b>Long Term Liabilities</b>			
(5,966)	Provisions	21	(5,038)
(68,709)	Long-term borrowing	16	(68,709)
(477,951)	Liability related to defined benefit pension schemes	38	(10,115)
(104,917)	Capital grants receipts in advance	34	(109,762)
(50,087)	Deferred liabilities	36, 37	(46,021)
<b>(707,630)</b>	<b>Total Long-Term Liabilities</b>		<b>(239,645)</b>
<b>2,482,256</b>	<b>NET ASSETS</b>		<b>3,266,870</b>
<b>Reserves</b>			
(673,482)	Usable Reserves	22	(650,872)
(1,808,774)	Unusable Reserves	23	(2,615,998)
<b>(2,482,256)</b>	<b>TOTAL RESERVES</b>		<b>(3,266,870)</b>

I certify that the statement of accounts presents a true and fair view of the financial position of the Council as at 31 March 2023 and its income and expenditure for the year then ended.



**Julie Lorraine - Corporate Director of Resources**

Date 31/01/2024

## 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.

2021/22 £'000		Notes	2022/23 £'000
(18,963)	Net surplus or (deficit) on the provision of services		65,269
188,319	Adjustments to net surplus or deficit on the provision of services for non cash movements	24	(63,229)
(78,883)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(74,982)
<b>90,473</b>	<b>Net cash flows from Operating Activities</b>		<b>(72,942)</b>
(49,655)	Investing Activities	25	18,229
29,502	Financing Activities	26	40,950
<b>70,320</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>(13,763)</b>
134,263	Cash and cash equivalents at the beginning of the reporting period		204,583
<b>204,583</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>190,820</b>

## 1 Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31st March 2023. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003.

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

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 going concern concept assumes that the Council will continue in operational existence for the foreseeable future.

### 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 contracts with service recipients, whether for services or the provision of goods, is recognised as the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract,
- 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, and
- the Council operates a de minimis of £10,000 for revenue and £25,000 for capital below which items of income and expenditure are not required to be accrued.

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

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

### **4. Exceptional items**

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

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

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparatives amounts for the prior period.

### **6. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service,

- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off, and
- amortisation of intangible assets attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the general fund balance, Minimum Revenue Provision (MRP), by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

The Council has also decided to make a voluntary MRP contribution for HRA properties equal to 100% over the life of the asset as recommended in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

## **7. Council Tax and Non-domestic Rates (England)**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

## **8. Accounting for Council Tax and NDR**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income 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 as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

## 9. Employee Benefits

### ***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.

### ***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 in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. 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.

### ***Post-Employment Benefits***

Employees of the Council are members of four 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), and
- The NHS Pension Scheme, administered by NHS Business Services Authority on behalf of the Department of Health and Social Care.

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' and NHS schemes mean that liabilities for these benefits cannot be identified to the Council. The schemes are therefore accounted for as if they were defined contributions schemes – no liability for future payments of benefits is recognised in the Balance Sheet. The Children's Services line in the Comprehensive Income

and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year, and Health, Adults and Communities charged for the contributions to the NHS Pension Scheme.

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

The Local Government scheme is a defined benefits scheme.

The net pension asset or liability of the pension scheme attributable to the Council is 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 (based on the constituents of the iBoxx AA corporate bond) as at 31st March 2023.

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 asset or liability is analysed into the following 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 a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services,
- net 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. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments,
- return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as Other Comprehensive Income and Expenditure,
- 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, and



- effect of the asset ceiling – the limitation on the Council’s ability to realise pensions assets through reductions in future employer’s contributions as a result of minimum funding requirements.

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 or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in 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 balance that arises on the Pensions Reserve thereby measures the beneficial impact (when the balance is a deficit) 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.

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 not incorporated THH’s pension liabilities and assets that have arisen into its pension obligations into the net pension asset or liability as presented within the single entity balance sheet; this is due to the Council not indemnifying THH for all pension costs.

### ***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.

## **10. Financial Instruments**

### ***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.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance or the Housing Revenue Account 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.

### ***Financial Assets***

Financial assets are classified based on a consideration of the business model for holding the asset, along with analysis of their cashflow characteristics. There are three main classes, measured at:

- Amortised Cost,
- Fair Value through Profit or Loss, and
- Fair Value through other Comprehensive Income and Expenditure (none currently held by the Council).

#### *Financial Assets Measured at Amortised Costs*

Financial assets measured at amortised cost 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 subsequently 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 financial assets held by the Council, 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.

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.

#### *Expected Credit Loss Model*

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has calculated the expected credit loss on non-housing trade debtors and housing related rent arrears. The expected lifetime credit loss is calculated in the first instance upon historic payment information.

The Council's treasury advisors provide details of potential 12-month credit losses on treasury deposits, with deposits to other Councils having no default risk, the remaining deposits to banks had no known credit losses. This is borne out by the Council not having a treasury

counterparty default on a deposit in recent years. The Council has not purchased any credit impaired investments.

### *Financial Assets Measured at Fair Value through Profit or Loss*

Financial Assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

Where unrealised fair value gains and losses are recognised in the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be reversed. The Council implements this reversal by a transfer to or from the Pooled Investment Fund Adjustment Account in the Movement in Reserves Statement.

## **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 Council does not actively acquire or dispose of heritage assets as part of its normal day to day business and where the Council holds heritage assets, these have usually been donated. The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £19.2 million at 31 March 2023. This valuation is based on valuations for Works of

Art and Civic Regalia. The local history collection is not included on the balance sheet as valuations are not available due to the unique nature of the assets. Valuations are made by what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous.

Most heritage assets owned by the council have an historical interest to the Borough but would not have material market value.

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. 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. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

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

##### *Finance Leases*

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

- 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).

##### *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:

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.

### **14. 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 Council's arrangements for accountability and financial performance. 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.

### **15. 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 minimis level above which expenditure on tangible property, plant and equipment assets is classified as capital is £10,000 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, and
- 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.

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

- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH),
- Other Land and Buildings – current value, determined as the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value – this is the case in particular for the valuation of schools,
- Vehicles, Plant, Furniture and Equipment, and Infrastructure – depreciated historical cost,
- Community Assets, and Assets Under Construction – historical cost, and
- Surplus Assets – fair value, estimated at highest and best use from a market perspective.

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

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

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

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated in to 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), or

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

### ***Depreciation***

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

- Dwellings - straight-line allocation over the useful life of the property as estimated by the valuer,
- Other Buildings – straight-line allocation over the useful life of the property as estimate by the valuer,
- Vehicles, Plant, Furniture and Equipment – straight-line allocation over varying useful asset lives depending on the detailed nature of the asset, or
- Infrastructure – straight-line allocation over varying useful asset lives depending on the detailed nature of the asset.

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.

### ***Disposals (other than Infrastructure Assets) 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.

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

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

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



- lifecycle replacement costs – recognised as long-term assets on the Balance Sheet if capital in nature.

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. 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.

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

### ***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 the authority has an 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.

### ***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.

### ***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.

## **18. Reserves**

The Council sets aside specific amounts as revenue reserves for future policy purposes or to cover contingencies; these are earmarked reserves. In addition, there are some capital reserves which are used to hold the capital resources of the Council separately from revenue reserves. Collectively, these are all presented on the Balance Sheet, together with General Fund Balances and HRA Balances, as Usable Reserves.

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. Collectively, these are presented as Unusable Reserves on the Balance Sheet.

## **19. 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.

## **20. Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and assets held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date,
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, or
- Level 3 – unobservable inputs for the asset or liability.

## **21. Value Added Tax (VAT)**

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

## **22. Community Infrastructure Levy**

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure.

## **23. Schools**

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

## 2 Accounting Standards that have been Issued but not yet Adopted

At the balance sheet date the following new standards and amendments to existing standards have been introduced in the 2023/24 Code of Practice of Local Authority Accounting in the United Kingdom; they are not expected to have any significant impact on the 2022/23 accounts.

- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

In addition, CIPFA/LASAAC have deferred implementation of IFRS16 Leases for local government to 1 April 2024. IFRS 16 will require local authorities to review all their lessor and lessee accounting arrangements to comply with the new financial reporting standard, with potential balance sheet implications, and the initial assessment should be completed by the council during 2024-25. The key aspect is for lessees to recognise appropriate leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition of de minimus thresholds for low-value and short-term leases).

## 3 Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the authority has not had to make any critical judgements other than to deem the arrangements for the Local Government Pension Scheme impose a minimum funding requirement on the Council, with consequences as set out below.

In calculating the net pensions asset and liability, the Council has made a judgement that the statutory framework for setting employer's contributions under the Local Government Pension Scheme (LGPS) constitutes a minimum funding requirement. As a result, the Council's ability to realise the full economic benefits of the net pensions assets of £28.0m and £23.3m respectively for the London Pension Fund Authority (LPFA) and the Council's share of its local LGPS fund, as calculated under the Accounting Code's provisions for post-employment benefits through reductions in future employer's contributions is limited. An asset ceiling therefore applies.

The fact that the Council has a commitment under the current funding strategy for both schemes means that the asset ceiling has reduced what would otherwise be the net pensions asset of £28m to a deficit of £2.1m in the case of the LPFA scheme, and the net pension asset of £23.3m to £17.5m in the case of the local LGPS fund.

The practical effect of this is to move the basis of measurement for the net pensions asset/liability closer to the assumptions made in the triennial valuation of the schemes under which the employer's contributions were set by the schemes' actuaries. It does not indicate that the Council has paid excess amounts into the schemes that it will never be able to recover.

## 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 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 the assumptions and estimates.

The items in the authority's Balance Sheet at 31 March 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

### ***Pensions Asset/Liability***

Estimation of the net pension asset attributable to the local LGPS fund, of £17.5m, and of the net pension liability attributable to the LPFA scheme, of £2.1m, 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. Two firms of consulting actuaries (Hymans Robertson LLP) and Barnett Waddingham LLP are engaged to provide the Council with expert advice about the assumptions to be applied.

With regard to the locally administered scheme the actuaries provide the following sensitivity analysis:

- a 0.1% decrease in the real discount rate would lead to an increase of approximately £27.4m in the scheme liabilities;
- a 0.1% increase in the rate of pension increase (taken as CPI) would lead to an increase of £25.7m;
- a 0.1% increase in salaries would result in an increase of £2.1m; and
- an increase of 1 year in life expectancy would increase the liabilities in the range £49.7m - £82.8m.

With regard to the LPFA scheme, the liabilities would increase by:

- £0.5m for a reduction of 0.1% in the discount rate;
- less than £0.1m for increases to long term salaries of 0.1%;
- £0.5m for 0.1% increase in pensions and deferred revaluations;
- £2.7m for a one-year increase in life expectancy.

The valuation of the pension liability and related entries relies on information about scheme members, such as their age and current salary or annual pension. Errors were identified in the information provided by the council to the actuary for the purpose of the valuation of the liability at 31 March 2023 and 31 March 2022. It has not been practicable to check and correct all errors in view of the volume of records involved.

### ***Property, Plant and Equipment Valuations***

Assets at carrying value of £2,884.0m are valued in accordance with the professional standards set by the Royal Institution of Chartered Surveyors and valuations are prepared by the Council's external specialists. Property, plant and equipment are subject to full valuation by a qualified valuer under a rolling programme at least once every five years. The valuation in 2022/23 was conducted by Wilks Head and Eve LLP.

The total net book value of assets valued as part of the valuation process for 2022/23 amounted to £2,707.1m. A 0.1% variation in valuation would lead to a movement of approximately £27.1m in the total net book value of assets.

The Housing Revenue Account (HRA) residential portfolio was valued utilising a beacon methodology. In order to value the whole portfolio, it was necessary to research a number of information sources. These include sales of directly comparable property, changes of income flow for non-residential HRA property, information available at a local level showing house price movement plus regional and National Indices.

## 4 Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty (Continued)

The valuation of schools in particular is subject to the application of estimates. Schools are classified as specialised assets because there are no ready made market transactions to validate their value, and they are therefore valued on a Depreciated Replacement Cost basis, with the two components of buildings, and land, valued separately, as explained below.

School buildings have been valued on a "modern equivalent asset" basis, whereby the cost of rebuilding each building in its current size has been calculated, and this Gross Replacement Cost has been adjusted to reflect obsolescence factors. The approach to obsolescence is based on an initial assumption of an asset life of 60 years, combined with a hybrid use of straight-line and reducing balance obsolescence factors, as follows: straight-line obsolescence is applied over the first 25 years of the asset life from construction date (with no deferral period), and then after the first 25 years the obsolescence factor is applied at a reducing balance rate. (The application of the 'soft' threshold is a result of public sector building assets generally lasting much longer than the 60-year target life so it would not be appropriate to continue applying obsolescence at the same rate resulting in 100% obsolescence for a building when it is 60 years old. This is evident within many Local Authority portfolios which include properties that are significantly older than 60 years and are still fully operational and providing the service they were initially constructed to do.) School buildings are valued at £495.2m as at 31 March 2023 (£442.2m at 31 March 2022).

The land valuation applied to schools' sites has been adjusted to reflect the principle market for the land type being residential, and that an element of any residential site would be adopted for social or affordable housing, which therefore gives rise to a significant discount on the raw land values; the net land value applied is an estimated £15.6m per hectare (£15.6m in 2021/22). The land the schools sit on is valued at £435.2m as at 31 March 2023 (£444.8m at 31 March 2022).

There has been a recent revision of guidance by government regarding the use of reinforced autoclaved aerated concrete (RAAC) to suggest that in some instances it may be unsafe and require remedial action. The Council has reviewed its portfolio of properties, performing both desktop evaluation based on age and style of build, and on-site inspection where there was uncertainty as to whether RAAC was present or not, and is satisfied that across the board there is no material impact arising from possible usage of RAAC.

## 5 Material Items of Income and Expenditure

A material item is an item of expenditure or income that is unusual in scale and non-recurring. For 2022/23, the items of this nature are listed below:

- The revaluation movements applied to the CIES resulted in the reversal of previous charge of £88.3m, of which £68.1m applied to the Housing Revenue Account (in 2021/22 a net charge of £50.1m was applied, with the HRA receiving £50.3m).
- The sale proceeds generated from the disposal of assets amounted to £28.1m in 2022/23 (£23.7m in 2021/22).

## 6 Events after the Balance Sheet Date

Since the Balance Sheet date of 31 March 2023, there have been no material events that would necessitate amendments to these accounts.

## 7 Expenditure and Funding Analysis

This statement shows the reconciliation between the net expenditure in the Comprehensive Income and Expenditure Account and the expenditure chargeable to the General Fund and Housing Revenue Account balances.

Expenditure Chargeable to GF and HRA balances	2021/22		Net Expenditure in the CIES		2022/23		Net Expenditure in the CIES
	£'000	Adjustments between funding and accounting basis £'000			£'000	Expenditure Chargeable to GF and HRA balances £'000	
74,012	25,112	99,124	Children and Culture	81,093	12,654	93,747	
63,551	9,166	72,717	Health, Adults and Communities	96,902	6,474	103,376	
56,705	17,372	74,077	Place	75,027	12,368	87,395	
17,706	(3,400)	14,306	Governance	15,618	(4,065)	11,553	
(6,607)	49,650	43,043	Local Authority Housing (Housing Revenue Account)	12,437	(82,775)	(70,338)	
38,114	12,328	50,442	Resources	43,602	10,997	54,599	
58,130	(51,426)	6,704	Corporate Cost and Central Items	(6,838)	14,116	7,278	
<b>301,611</b>	<b>58,802</b>	<b>360,413</b>	<b>NET COST OF SERVICES</b>	<b>317,841</b>	<b>(30,231)</b>	<b>287,610</b>	
(299,716)	(41,734)	(341,450)	Other Income and Expenditure	(304,030)	(48,849)	(352,879)	
<b>1,895</b>	<b>17,068</b>	<b>18,963</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>13,811</b>	<b>(79,080)</b>	<b>(65,269)</b>	
(75,140)			Opening General Fund and HRA balances	(73,245)			
1,895			Plus Deficit/(Surplus) on General Fund and HRA Balance in Year	13,811			
<b>(73,245)</b>			<b>Closing General Fund and HRA Balances</b>	<b>(59,434)</b>			

## 7a Note to the Expenditure and Funding Analysis

This statement shows the adjustments from the net chargeable amounts to the General Fund and Housing Revenue Account to arrive at the Comprehensive Income and Expenditure Statement amounts:

Adjustments for Capital Purposes	2021/22						2022/23				
	Transfers (to)/from Earmarked Reserves	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments	Adjustments for Capital Purposes		Transfers (to)/from Earmarked Reserves	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments	
	£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	
13,248	423	9,696	1,745	25,112	Children and Culture	4,948	362	9,617	(2,273)	12,654	
4,494	-	5,038	(366)	9,166	Health, Adults and Communities	1,154	-	5,217	103	6,474	
8,206	-	10,574	(1,408)	17,372	Place	670	-	11,213	485	12,368	
-	-	4,064	(7,464)	(3,400)	Governance	-	-	2,529	(6,594)	(4,065)	
53,114	-	(1,886)	(1,578)	49,650	Local Authority Housing (Housing Revenue Account)	(79,155)	-	(1,886)	(1,734)	(82,775)	
5,720	-	6,722	(114)	12,328	Resources	4,219	-	6,796	(18)	10,997	
(7,427)	(43,802)	-	(197)	(51,426)	Corporate Cost and Central Items	(6,771)	21,086	-	(199)	14,116	
<b>77,355</b>	<b>(43,379)</b>	<b>34,208</b>	<b>(9,382)</b>	<b>58,802</b>	<b>NET COST OF SERVICES</b>	<b>(74,935)</b>	<b>21,448</b>	<b>33,486</b>	<b>(10,230)</b>	<b>(30,231)</b>	
(47,720)	-	12,489	(6,503)	(41,734)	Other income and expenditure from the Expenditure and Funding Analysis	(54,436)	-	13,109	(7,522)	(48,849)	
<b>29,635</b>	<b>(43,379)</b>	<b>46,697</b>	<b>(15,885)</b>	<b>17,068</b>	<b>Difference between Surplus or Deficit and the the Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(129,371)</b>	<b>21,448</b>	<b>46,595</b>	<b>(17,752)</b>	<b>(79,080)</b>	

### Adjustments for Capital Purposes

This column includes the following adjustments:

- Services – depreciation and impairment and revaluation gains and losses are added back in as these are not in the net chargeable amounts but are chargeable under generally accepted accounting practices. Capital expenditure financed by revenue and statutory charges for capital financing (Minimum Revenue Provision) are removed as these is not chargeable to the Comprehensive Income and Expenditure Statement.

- Other income and expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets and also adjusts for the share of housing capital receipts paid to central government under a pooling arrangement. Capital grants are adjusted for income not chargeable under generally accepted accounting practices. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### Transfers (to)/from Earmarked Reserves

This column adjusts for the application of earmarked reserves against expenditure and the transfer of any balances to earmarked reserves which are not included in the Comprehensive Income and Expenditure Statement as they are not chargeable under generally accepted accounting practices.

### Net Change for Pensions Adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- Services - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- Other income and expenditure – the net interest on the defined benefit liability is charged to Financing and Investment Income and Expenditure.

### Other Adjustments

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- Services – adjustments in this column include the timing differences for premia and discounts; interest payable, interest receivable, levies and trading account surplus/deficit moved out of service expenditure to be recognised as part of Other Income and Expenditure within the Surplus or Deficit on the Provision of Services; recognising the accrual of employee annual leave in the Comprehensive Income and Expenditure Statement; also adjusting revenue grants to include those receivable without conditions or for which conditions were satisfied throughout the year.

- Other income and expenditure – this column represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.



## 8 Adjustments between Accounting Basis and Funding Basis under Regulations

2022/23	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES £'000
<b>Adjustments involving the Capital Adjustment Account</b>							
<u>Reversal of items debited or credited to the CIES</u>							
Charges for depreciation and impairment of non current assets	(30,114)	-	(15,739)	-	-	(45,853)	45,853
Charges for amortisation of intangible non-current assets	(616)	-	-	-	-	(616)	616
Revaluation movements on PPE (charged to SDPS) reversed	20,225	68,086	-	-	-	88,311	(88,311)
Capital grants and contributions applied	17,749	500	-	-	34,921	53,170	(53,170)
Revenue expenditure funded from capital under statute	(11,121)	(1,150)	-	-	-	(12,271)	12,271
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(661)	(10,219)	-	-	-	(10,880)	10,880
<u>Inclusion of items not debited or credited to the CIES</u>							
Statutory provision for the financing of capital investment	10,542	2,191	-	-	-	12,733	(12,733)
Capital expenditure charged against the General Fund and HRA balances	870	9,692	-	-	-	10,562	(10,562)
<b>Adjustments involving the Capital Receipts Reserve</b>							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	812	27,288	-	(28,100)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	11,343	-	11,343	(11,343)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-	-	-	-	-	-	-
<b>Adjustment involving the Major Repairs Reserve</b>							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	13,186	-	-	13,186	(13,186)
<b>Adjustments involving the Financial Instruments Adjustment Account</b>							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	435	-	-	-	435	(435)
<b>Adjustment involving the Pensions Reserve</b>							
Reversal of items relating to retirement benefits debited or credited to the CIES	(91,823)	-	-	-	-	(91,823)	91,823
Employer's pensions contributions and direct payments to pensioners payable in the year	43,342	1,886	-	-	-	45,228	(45,228)
<b>Adjustments involving the Collection Fund Adjustment Account</b>							
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	18,502	-	-	-	-	18,502	(18,502)
<b>Adjustments involving the Pooled Investments Adjustment Account</b>							
Amount by which changes in the value of pooled investments charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	(3,845)	-	-	-	-	(3,845)	3,845
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Capital grants and contributions unapplied credited to CIES when receivable	27,658	602	-	-	(28,260)	-	-
<b>Adjustments involving the Accumulated Absences Account</b>							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(303)	-	-	-	-	(303)	303
<b>Adjustments primarily involving the Dedicated Schools Adjustment Account:</b>							
Movement of negative Dedicated schools grant reserve to the DSG adjustment account	-	-	-	-	-	-	-
<b>Total Adjustments</b>	<b>1,217</b>	<b>99,311</b>	<b>(2,553)</b>	<b>(16,757)</b>	<b>6,661</b>	<b>87,879</b>	<b>(87,879)</b>

## 8 Adjustments between Accounting Basis and Funding Basis under Regulations (Continued)

2021/22	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments involving the Capital Adjustment Account</b>							
<u>Reversal of items debited or credited to the CIES</u>							
Charges for depreciation and impairment of non current assets	(28,757)	-	(17,349)	-	-	(46,106)	46,106
Charges for amortisation of intangible non-current assets	(457)	-	-	-	-	(457)	457
Revaluation movements on PPE (charged to SDPS) reversed	219	(50,299)	-	-	-	(50,080)	50,080
Capital grants and contributions applied	22,189	1,115	-	-	34,549	57,853	(57,853)
Revenue expenditure funded from capital under statute	(12,355)	(4,926)	-	-	-	(17,281)	17,281
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(16,393)	(5,512)	-	-	-	(21,905)	21,905
<u>Inclusion of items not debited or credited to the CIES</u>							
Statutory provision for the financing of capital investment	9,961	2,202	-	-	-	12,163	(12,163)
Capital expenditure charged against the General Fund and HRA balances	2,408	-	-	-	-	2,408	(2,408)
<b>Adjustments involving the Capital Receipts Reserve</b>							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	386	23,336	-	(23,722)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	21,565	-	21,565	(21,565)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,737)	-	-	1,737	-	-	-
Unattached capital receipts	-	-	-	-	-	-	-
<b>Adjustment involving the Major Repairs Reserve</b>							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	11,936	-	-	11,936	(11,936)
<b>Adjustments involving the Financial Instruments Adjustment Account</b>							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-
<b>Adjustment involving the Pensions Reserve</b>							
Reversal of items relating to retirement benefits debited or credited to the CIES	(91,156)	-	-	-	-	(91,156)	91,156
Employer's pensions contributions and direct payments to pensioners payable for the year	42,573	1,886	-	-	-	44,459	(44,459)
<b>Adjustments involving the Collection Fund Adjustment Account</b>							
from council tax income calculated in accordance with statutory requirements	13,428	-	-	-	-	13,428	(13,428)
<b>Adjustments involving the Pooled Investments Adjustment Account</b>							
Amount by which changes in the value of pooled investments charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	288	-	-	-	-	288	(288)
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Capital grants and contributions unapplied credited to CIES when receivable	27,463	4,394	-	-	(31,857)	-	-
<b>Adjustments involving the Accumulated Absences Account</b>							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2,391	-	-	-	-	2,391	(2,391)
<b>Adjustments primarily involving the Dedicated Schools Adjustment Account:</b>							
Movement of negative Dedicated schools grant reserve to the DSG adjustment account	(3,094)	-	-	-	-	(3,094)	3,094
<b>Total Adjustments</b>	<b>(32,643)</b>	<b>(27,804)</b>	<b>(5,413)</b>	<b>(420)</b>	<b>2,692</b>	<b>(63,588)</b>	<b>63,588</b>

## 9 Transfers to / from Earmarked Reserves

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

	BALANCE AT 31 MARCH 2021 £'000	TRANSFERS OUT 2021/22 £'000	TRANSFERS IN 2021/22 £'000	BALANCE AT 31 MARCH 2022 £'000	TRANSFERS OUT 2022/23 £'000	TRANSFERS IN 2022/23 £'000	BALANCE AT 31 MARCH 2023 £'000
1 Schools Balances	(36,035)	7,650	(7,227)	(35,612)	6,498	(6,136)	(35,250)
2 DSG	-	-	-	-	-	(1,200)	(1,200)
3 Insurance	(9,966)	-	(200)	(10,166)	2,247	-	(7,919)
4 Parking Control	(3,295)	-	(2,835)	(6,130)	624	(3,289)	(8,795)
5 Transformation	(3,613)	-	-	(3,613)	535	-	(3,078)
6 Collection Fund Smoothing Reserve	(59,345)	-	(4,993)	(64,338)	20,902	-	(43,436)
7 ICT / Finance Systems	(9,623)	501	-	(9,122)	-	(216)	(9,338)
8 Mayor's Tackling Poverty Reserve	(3,366)	-	-	(3,366)	1,750	-	(1,616)
9 Free School Meals	(6,000)	2,000	-	(4,000)	2,200	-	(1,800)
10 Mayor's Investment Priorities	(4,972)	-	-	(4,972)	2,086	(45,014)	(47,900)
11 Risk Reserve	(2,919)	1,051	(793)	(2,661)	800	(14,000)	(15,861)
12 MTFS Smoothing Reserve	(40,558)	-	(3,654)	(44,212)	44,212	-	-
13 Adults, Health & Wellbeing (including Public Health)	(3,321)	-	(3,658)	(6,979)	1,000	(1,182)	(7,161)
14 Services Reserve	(5,363)	1,029	(11,999)	(16,333)	8,175	(6,415)	(14,573)
15 Revenue Grants	(8,843)	523	(2,226)	(10,546)	733	(2,409)	(12,222)
16 Covid-19 Grant	(3,479)	-	(4,934)	(8,413)	4,360	-	(4,053)
17 Ringfenced Developers' Contributions	(3,124)	-	-	(3,124)	-	(2,967)	(6,091)
18 CIL	(7,840)	2,069	-	(5,771)	2,093	-	(3,678)
19 Council Tax Hardship	(2,448)	-	-	(2,448)	-	-	(2,448)
20 Local Elections Reserve	(800)	-	(150)	(950)	377	-	(573)
21 Mayors Covid Recovery Fund	-	894	(3,000)	(2,106)	316	-	(1,790)
22 Black, Asian and Minority Ethnic	-	-	(1,000)	(1,000)	247	-	(753)
23 HAC Joint Fund	-	-	(12,427)	(12,427)	5,121	-	(7,306)
<b>Earmarked Reserve Total</b>	<b>(214,910)</b>	<b>15,717</b>	<b>(59,096)</b>	<b>(258,289)</b>	<b>104,276</b>	<b>(82,828)</b>	<b>(236,841)</b>

### Corporate Reserves

- Reserves held by schools under the scheme of delegation. This balance can only be used by the Schools and is not available to the Council
- In accordance with regulations, in-year deficits on DSG budgets are transferred to the DSG adjustment account, an unusable reserve; however, in-year surpluses on are held within earmarked reserves.
- 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.
- Parking control reserve.
- Reserve created to support the delivery of the Council's transformation programme.
- Collection Fund Smoothing Reserve - used to manage fluctuations in Business Rates income.
- Reserve to support the planned investment in Council's finance systems.
- Contribution toward funding of welfare reform programme.
- Reserve to fund free school meals programme.
- Reserve to fund Mayor's Investment Priority schemes.
- Risk Reserve to manage funding of risks arising.
- Unspent element of the New Homes Bonus Grant which will to be used to fund housing schemes.
- Reserves held for Adults, Health and Wellbeing and Public Health services.
- Includes Building Control, Land Charges, and Planning reserves.
- Unspent revenue grants without repayment conditions.
- Grant received to fund Covid-19 related expenditure.
- This balance consists of developers' contributions which are ringfenced for specific purposes.
- Community Infrastructure Levy.
- Council Tax Hardship Relief.
- Contribution for future Local Election Costs.
- Mayors Covid Recovery Fund.
- Black, Asian and Minority Ethnic (BAME) reserve to support delivery of Inequalities Commission recommendations.
- Health, Adults and Communities (HAC) Joint Funding.

## 10 Other Operating Expenditure

2021/22 £'000		2022/23 £'000
1,970	Levies	2,048
1,737	Payments to Housing Capital Receipts Pool	-
(1,817)	Net (gain) / loss on disposal of non-current assets	(17,220)
<b>1,890</b>	<b>Total</b>	<b>(15,172)</b>

## 11 Financing and Investment Income and Expenditure

2021/22 £'000			2022/23 £'000
9,559	Interest payable and similar charges		13,052
12,489	Net interest on the net defined benefit liability/(asset)		13,109
(1,785)	Interest receivable and similar income	16	(8,129)
(604)	Net (gains)/losses on financial assets at fair value through profit and loss		2,038
<b>19,659</b>	<b>Total</b>		<b>20,070</b>

## 12 Taxation and Non Specific Grant Income

2021/22 £'000			2022/23 £'000
(113,667)	Council Tax income		(120,252)
(108,592)	Non domestic rates		(105,412)
(93,100)	Non-ringfenced Government grants	34	(94,895)
(47,640)	Capital grants and contributions	34	(37,218)
<b>(362,999)</b>	<b>Total</b>		<b>(357,777)</b>

## 13 Income and Expenditure Analysed by Nature

2021/22 £'000			2022/23 £'000
521,994	Employee benefits expenses		551,092
685,029	Other service expenses		718,108
96,643	Depreciation, amortisation and impairment		(41,842)
9,559	Interest payments		13,052
12,489	Net interest on the net defined benefit liability/(asset)		13,109
(604)	Net (gains)/losses on financial assets at fair value through profit and loss		2,038
1,970	Precepts and levies		2,048
1,737	Payments to housing capital receipts pool		-
(1,817)	Gains and losses on disposal of non-current assets		(17,220)
<b>1,327,000</b>	<b>TOTAL EXPENDITURE</b>		<b>1,240,385</b>
(236,463)	Fees, charges and other service income		(242,855)
(1,785)	Interest and investment income		(8,129)
(222,259)	Income from council tax and non-domestic rates		(225,664)
(847,530)	Government grants and contributions		(829,006)
<b>(1,308,037)</b>	<b>TOTAL INCOME</b>		<b>(1,305,654)</b>
<b>18,963</b>	<b>(Surplus) or Deficit on the Provision of Services</b>		<b>(65,269)</b>

## 14 Property, Plant and Equipment

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The authority has determined in accordance with Regulation 30M England of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

The totality of Property, Plant and Equipment is provided in the first table below, with details of in-year movements within each sub-section provided in the tables thereafter.

2021/22 £'000	Total PPE	2022/23 £'000
144,031	Infrastructure assets (net book value) - 31 March	147,228
2,727,600	Other PPE - 31 March	3,066,986
<b>2,871,631</b>	<b>Total PPE - 31 March</b>	<b>3,214,214</b>

2021/22 £'000	Infrastructure Assets	2022/23 £'000
133,010	Infrastructure assets (net book value) - 1 April	144,031
21,368	Additions in-year	14,331
(10,347)	Depreciation charge in-year	(11,134)
<b>144,031</b>	<b>Infrastructure Assets (Net Book Value) - 31 March</b>	<b>147,228</b>

## 14 Property, Plant and Equipment (Continued)

MOVEMENTS IN 2022/23	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	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
<b>Cost or Valuation</b>								
<b>At 1 April 2022</b>	<b>1,118,581</b>	<b>1,342,009</b>	<b>53,068</b>	<b>36,576</b>	<b>21,369</b>	<b>196,171</b>	<b>2,767,774</b>	<b>251,730</b>
Additions	14,909	12,216	8,682	1,113	149	74,646	111,715	1,721
Revaluation increases/(decreases) recognised in the Revaluation Reserve	19,883	143,519	-	-	(6,173)	-	157,229	10,579
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	67,533	21,691	-	-	(914)	-	88,310	3,829
Derecognition - Disposals	(10,137)	-	-	-	(700)	-	(10,837)	-
Derecognition - Other	(41)	(19)	(1)	(111)	(13)	(2,487)	(2,672)	-
Assets Reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Other Reclassification of Assets	4,857	127,219	-	-	15,403	(147,479)	-	-
<b>At 31 March 2023</b>	<b>1,215,585</b>	<b>1,646,635</b>	<b>61,749</b>	<b>37,578</b>	<b>29,121</b>	<b>120,851</b>	<b>3,111,519</b>	<b>267,859</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2022</b>	<b>-</b>	<b>8,128</b>	<b>31,982</b>	<b>-</b>	<b>27</b>	<b>37</b>	<b>40,174</b>	<b>3,610</b>
Depreciation charge	14,500	14,045	6,062	-	111	-	34,718	2,273
Depreciation written out to the Revaluation Reserve	(14,383)	(15,139)	-	-	(667)	-	(30,189)	(2,183)
Derecognition - Disposals	(131)	-	-	-	(39)	-	(170)	-
Derecognition - Other	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Other Reclassification of Assets	14	(583)	-	-	577	(8)	-	-
<b>At 31 March 2023</b>	<b>-</b>	<b>6,451</b>	<b>38,044</b>	<b>-</b>	<b>9</b>	<b>29</b>	<b>44,533</b>	<b>3,700</b>
<b>Net Book Value</b>								
<b>At 31 March 2023</b>	<b>1,215,585</b>	<b>1,640,184</b>	<b>23,705</b>	<b>37,578</b>	<b>29,112</b>	<b>120,822</b>	<b>3,066,986</b>	<b>264,159</b>
<b>At 31 March 2022</b>	<b>1,118,581</b>	<b>1,333,881</b>	<b>21,086</b>	<b>36,576</b>	<b>21,342</b>	<b>196,134</b>	<b>2,727,600</b>	<b>248,120</b>

## 14 Property, Plant and Equipment (Continued)

MOVEMENTS IN 2021/22	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	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
<b>Cost or Valuation</b>								
<b>At 1 April 2021</b>	<b>1,097,416</b>	<b>1,280,833</b>	<b>49,081</b>	<b>36,274</b>	<b>26,407</b>	<b>113,989</b>	<b>2,604,000</b>	231,938
Additions	12,502	15,909	3,987	1,341	508	84,795	119,042	4,413
Revaluation increases/(decreases) recognised in the Revaluation Reserve	58,959	59,068	-	-	(1,830)	-	116,197	16,917
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(47,070)	(461)	-	-	(2,549)	-	(50,080)	(1,538)
Derecognition - Disposals	(4,673)	(15,795)	-	-	-	-	(20,468)	-
Derecognition - Other	-	(704)	-	-	-	-	(704)	-
Assets Reclassified (to)/from Held for Sale	-	-	-	-	(213)	-	(213)	-
Other Reclassification of Assets	1,447	3,159	-	(1,039)	(954)	(2,613)	-	-
<b>At 31 March 2022</b>	<b>1,118,581</b>	<b>1,342,009</b>	<b>53,068</b>	<b>36,576</b>	<b>21,369</b>	<b>196,171</b>	<b>2,767,774</b>	<b>251,730</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2021</b>	-	<b>11,634</b>	<b>26,746</b>	-	-	<b>82</b>	<b>38,462</b>	3,410
Depreciation charge	16,034	14,335	5,236	-	153	-	35,758	2,241
Depreciation written out to the Revaluation Reserve	(15,985)	(17,695)	-	-	(119)	-	(33,799)	(2,041)
Derecognition - Disposals	(68)	(152)	-	-	-	-	(220)	-
Derecognition - Other	-	(27)	-	-	-	-	(27)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Other Reclassification of Assets	19	33	-	-	(7)	(45)	-	-
<b>At 31 March 2022</b>	<b>-</b>	<b>8,128</b>	<b>31,982</b>	<b>-</b>	<b>27</b>	<b>37</b>	<b>40,174</b>	<b>3,610</b>
<b>Net Book Value</b>								
<b>At 31 March 2022</b>	<b>1,118,581</b>	<b>1,333,881</b>	<b>21,086</b>	<b>36,576</b>	<b>21,342</b>	<b>196,134</b>	<b>2,727,600</b>	<b>248,120</b>
<b>At 31 March 2021</b>	<b>1,097,416</b>	<b>1,269,199</b>	<b>22,335</b>	<b>36,274</b>	<b>26,407</b>	<b>113,907</b>	<b>2,565,538</b>	<b>228,528</b>

## 14 Property, Plant and Equipment (Continued)

### Depreciation

The following useful lives have been used in the calculation of depreciation, applied on a straight line basis:

- Council Dwellings – 50 years
- Other Land and Buildings – 50 years for schools, libraries and offices; 54 years for temporary accommodation; 53 years for garages; 41 years for community buildings
- Vehicles, Plant & Equipment - 5 years on a straight line basis, or as advised by the service
- Infrastructure assets - 25 years for roads, footways, street furniture, traffic management systems and other highway-related assets, and street lighting installed before 2018/19; 12 years for new LED lanterns, and 50 years for columns, for streetlighting installed from 2018/19 onwards, 100 years for tunnels, and 120 years for bridges

### Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million at 31 March 2023 as below:

	Committed sum at 31 March 2023 £'000	Costs to 31 March 2023 £'000	2023/24 onwards £'000
Whitechapel Civic Centre	124,750	121,370	3,380
Barnsley Street	20,925	18,473	2,452
St Pauls Way	9,049	7,897	1,152
Mellish Street	8,265	8,106	159
Keats House	3,693	3,367	326
Norman Grove	6,444	4,069	2,375
Shetland Road	5,689	4,379	1,310
London Dock School	23,264	17,817	5,447
Heylyn	10,725	2,581	8,144
Arnold	24,496	935	23,561
Wood Wharf (GF)	6,350	2,503	3,847
<b>Total</b>	<b>243,650</b>	<b>191,497</b>	<b>52,153</b>

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million at 31 March

	Committed sum 31 March 2022 £'000	Costs to 31 March 2022 £'000	2022/23 onwards £'000
Whitechapel Civic Centre	117,268	96,835	20,433
New Housing - Infill sites	36,931	32,845	4,086
Barnsley Street	18,097	12,110	5,987
St Pauls Way	7,793	7,733	60
Mellish Street	7,168	4,560	2,608
Lowder House Garage site	5,262	5,506	-
Keats House	3,034	1,360	1,674
Strahan Road	2,535	1,558	977
Hanbury St Garage site	2,305	2,291	14
Norman Grove	6,444	1,202	5,242
Shetland Road	5,689	1,372	4,317
London Dock School	11,085	1,793	9,292
<b>Total</b>	<b>223,611</b>	<b>169,165</b>	<b>54,690</b>



## 14 Property, Plant and Equipment (Continued)

### Revaluations

In 2022/23, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2016'.

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 31 March in the year of valuation. In 2022/23, school assets held at depreciated replacement cost (DRC) were also subject to a desktop valuation as at 31 March 2023. A summary of total valuation per asset category is shown below.

ANALYSIS OF ROLLING REVALUATION PROGRAMME	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRA-STRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	-	869	23,705	147,228	37,578	-	120,822	330,202
Valued at current value in:								
2022/23	1,215,585	1,462,939	-	-	-	28,610	-	2,707,134
2021/22	-	42,789	-	-	-	-	-	42,789
2020/21	-	67,959	-	-	-	502	-	68,461
2019/20	-	53,860	-	-	-	-	-	53,860
2018/19	-	11,768	-	-	-	-	-	11,768
<b>31 March 2023</b>	<b>1,215,585</b>	<b>1,640,184</b>	<b>23,705</b>	<b>147,228</b>	<b>37,578</b>	<b>29,112</b>	<b>120,822</b>	<b>3,214,214</b>

### 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 above reconciling the movement over the year in the Property, Plant and Equipment balances. An impairment review was carried out by qualified valuers at 31st March 2023 and Bentworth Court under Council Dwellings damaged by fire was impaired resulting in impairment loss of £8.655 million.

### Fair Value Measurement – Surplus Assets

Surplus assets have been valued using the Fair Value approach, and the Valuer has advised that Level 2 inputs have been employed (and the definition of this is explained below). The objective of this measurement approach is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under the current market conditions.

- Level 2 inputs are quoted prices other than quoted prices in Level 1 that are observable for the asset.
- Significant Observable Inputs as used for the valuation of Surplus Assets are such things as current market conditions (based on recent sales prices), and size, location and condition of property, along with other relevant factors.
- The level of inputs has not changed from the previous balance sheet date.

## 15 Heritage Assets

The Council holds a number of heritage assets. These include civic regalia, works of art across the borough (one of which is a sculpture valued at £18m which was relocated to the borough during 2017/18) 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.

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.

## 16 Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are classified into one of three categories based on the business model for holding the instruments and their expected cashflow characteristics as follows:

**Amortised Cost** - where cash flows are solely for payments of principal and interest and the Council's business model is to collect those cash flows. For borrowing, this means that the amount in the balance sheet is the remaining principal and the accrued interest. Financial assets include cash in hand, bank current and deposit accounts, fixed term deposits.

**Fair Value Through Other Comprehensive Income (FVOCI)** - Fair value is defined as the amount for which an asset or a liability could be exchanged between market participants in an arm's length transaction. Where held as fair value through other comprehensive income, the cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows and sell the instruments, including equity investments that the Council has elected into this category).

**Fair Value Through Profit and Loss (FVTPL)** - These assets are measured and carried at fair value and all gains and losses due to changes in fair value (both realised and unrealised) are recognised in the Comprehensive Income & Expenditure Statement as they occur.

The Council holds some assets at fair value through profit or loss - the Council's investments in pooled funds have been classified as such, as well as holdings in money market funds. The former are long-term strategic holdings whose changes in fair value are not considered to be part of the Council's annual financial performance. The fair values for these investments have been mostly derived from "Level 1 inputs" (where the fair values are only derived from quoted prices in active markets for identical assets or liabilities).

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet.

Financial Instrument Categories	Non-Current		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2022	2023	2022	2023	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000
<b><u>Financial Assets</u></b>						
<b>Financial Assets - Fair Value through profit and loss*</b>						
Investments	56,186	52,340	20,000	20,000	76,186	72,340
Cash Equivalents	-	-	115,200	110,950	115,200	110,950
<b>Financial Assets at Amortised Cost</b>						
Investments	-	-	95,371	30,703	95,371	30,703
Trade Debtors	2,173	2,095	77,207	55,400	79,380	57,495
Cash and Cash Equivalents	-	-	135,346	117,840	135,346	117,840
<b>Total Financial Assets</b>	<b>58,359</b>	<b>54,435</b>	<b>443,124</b>	<b>334,893</b>	<b>501,483</b>	<b>389,328</b>
<b><u>Financial Liabilities</u></b>						
<b>Financial Liabilities at Amortised Cost</b>						
Cash and Cash Equivalents	-	-	(45,963)	(37,970)	(45,963)	(37,970)
Borrowing	(68,709)	(68,709)	(1,557)	(333)	(70,266)	(69,042)
Trade Creditors	-	-	(94,155)	(102,159)	(94,155)	(102,159)
Service Concessions and Finance Leases	(50,087)	(46,021)	(3,396)	(4,066)	(53,483)	(50,087)
<b>Total Financial Liabilities</b>	<b>(118,796)</b>	<b>(114,730)</b>	<b>(145,071)</b>	<b>(144,528)</b>	<b>(263,867)</b>	<b>(259,258)</b>

\*The valuation basis is Level 1 classification, where fair value is determined by unadjusted quoted prices in active markets, but subject to the further detail provided in the text above the table.

## 16 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 as follows:

	2021/22			2022/23		
	Financial Liabilities measured at amortised cost	Financial Assets measured at amortised cost	Financial Assets measured at FVPL*	Financial Liabilities measured at amortised cost	Financial Assets measured at amortised cost	Financial Assets measured at FVPL*
	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	9,559	-	-	13,052	-	-
Loan repayment penalty	-	-	-	-	-	-
Interest income	-	(1,785)	-	-	(8,129)	-
Money Market Funds (Cash Equivalents)	-	-	(68)	-	-	(1,435)
Pooled Funds	-	-	(536)	-	-	3,473
<b>Net Gain/(Loss) for the year</b>	<b>9,559</b>	<b>(1,785)</b>	<b>(604)</b>	<b>13,052</b>	<b>(8,129)</b>	<b>2,038</b>

\*Fair Value through Profit and Loss

### Fair Values of Financial Instruments carried at Amortised Cost

The fair value of each class of financial instruments which are carried in the balance sheet at amortised cost is disclosed in the table below. Some classes of instrument (namely cash and cash equivalents, trade debtors and creditors, and investments which are predominantly fixed-term deposits of maturity under 12 months) have been assessed as having carrying values which are not materially different from fair values, and so are not disclosed in the table below.

	Fair Value Valuation Basis	31 March 2022 Carrying Amount £'000	31 March 2022 Fair Value £'000	31 March 2023 Carrying Amount £'000	31 March 2023 Fair Value £'000
Borrowing held at amortised cost					
<i>Public Works Loans Board</i>	Level 2	(52,692)	(50,448)	(51,523)	(30,230)
<i>Market Loans - Fixed Interest</i>	Level 2	(17,574)	(26,162)	(17,519)	(16,256)
Service Concessions	Level 2	(26,655)	(37,932)	(23,457)	(29,558)
Finance Leases	Level 2	(26,828)	(51,924)	(26,630)	(39,622)
<b>Financial Liabilities</b>		<b>(123,749)</b>	<b>(166,466)</b>	<b>(119,129)</b>	<b>(115,666)</b>

The fair value valuation bases are as follows:

Level 1 - unadjusted quoted prices in active markets for identical instruments that the Council can access at the balance sheet date.

Level 2 - using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - using unobservable inputs for the asset or liability.

The fair value of borrowings is higher 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.

The fair values of borrowings are estimated as the price the lender would receive to sell the loans to another market participant on 31 March, based on observable market rates for similar transactions, including local authority bonds in issue. Where there is no directly comparable bond in issue, the market rate is derived from observed interest rate swap rates plus an interpolated credit spread. Ultimately, if prevailing interest rates were lower, then the fair values of the Council's borrowings would increase. The fair values quoted for borrowings include accrued interest as at 31 March in order to enable direct comparison with the carrying amounts (which, being valued at amortised cost, also include accrued interest).

The fair values of service concessions and finance leases are estimated as the price the Council would pay to transfer the liability to another market participant on 31 March, and the underlying methodology is a discounted cash flow analysis. The key input involved is the discount factor, and that has been assessed as the yields on AA corporate bonds. Ultimately, if prevailing bond yields were lower, then the fair values would increase, all other factors being equal.

## 16 Financial Instruments (Continued)

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

The council is exposed to a variety of risks in providing its services and as such, seeks to minimise the potential adverse effects on the resources available to fund services. These risks include:

- Credit risk - the possibility that counterparties might fail to pay amounts due to the council
- Liquidity risk - the possibility that the Council might not have access to cash to meet its liabilities as they fall due
- Market risk - the possibility that financial loss may arise as a result of changes in such measures as interest rates

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.

### **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 financial institutions as shown below which is further detailed in the Treasury Management Strategy.

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities (subject to checks on their balance sheet position depending on duration)	25 years	£30m	Unlimited
Secured investments	25 years	£30m	Unlimited
Banks (unsecured)	13 months	£15m	Unlimited
Building societies (unsecured)	13 months	£15m	£30m
Registered providers (unsecured)	5 years	£15m	£75m
Money market funds	n/a	£30m	Unlimited
Strategic pooled funds	n/a	£30m	£150m
Real estate investment trusts	n/a	£30m	£75m
Other investments	5 years	£15m	£30m

### *Credit Risk Exposure on Treasury Management Activities*

As at the balance sheet date investments of principal are analysed as follows, and the credit-worthiness of the investment portfolio is rated at AA- (rated AA- in 2021/22).

Financial Asset Class	31 March 2022 £'000	31 March 2023 £'000
<b>Long-term Investments</b>		
Pooled investment funds with financial institutions	56,186	52,340
<b>Short-term investments</b>		
Fixed-term deposits with other local authorities	55,000	-
Fixed-term/call account deposits with financial institutions	40,000	30,000
Pooled investment funds with financial institutions	20,000	20,000
<b>Cash Equivalents</b>		
Fixed-term deposits with central government agency	-	20,000
Fixed-term/call account deposits with financial institutions	35,000	1,000
MMFs with financial institutions	115,200	110,950
<b>TOTAL</b>	<b>321,386</b>	<b>234,290</b>

The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits, and has no historical experience of defaults on any of its investments.

## 16 Financial Instruments (Continued)

### Credit Risk Exposure on Trade Debtors

Where the Council provides services to customers or has contractual arrangements in place with other organisations, there is the possibility that outstanding monies will not be repaid. The table below shows the gross amounts outstanding and the expected lifetime credit loss (using the simplified approach).

	31 March 2022		31 March 2023	
	Gross debtors £'000	Loss allowance £'000	Gross debtors £'000	Loss allowance £'000
Long-term trade debtors	2,173	-	2,095	-
NHS	22,573	-	5,553	-
Tower Hamlets Homes	4,266	-	1,767	-
Leaseholders	39,539	(2,402)	37,893	(3,379)
Tenants (HRA and temporary accommodation)	20,404	(18,474)	22,281	(20,004)
Other	17,908	(6,607)	18,418	(7,129)
<b>TOTAL</b>	<b>106,863</b>	<b>(27,483)</b>	<b>88,007</b>	<b>(30,512)</b>

For Leaseholders, the loss allowance is a reflection of the time-value of money, being calculated by means of a discounted cash flow of the expected collection time profile.

For Tenants, the loss allowance is calculated at nearly full coverage of the gross receivable, reflecting the difficulties of collection, especially from those housed in temporary accommodation. In 2022/23, £0.277m was written off (£0.316m in 2021/22).

For others, the loss allowance is calculated by means of mostly reviewing outstanding debts and assessing on an individual basis, but using collective assessment in the segment of adult social care customers; no component element of the loss allowance is significant. In the year, £1.480m was written off (£0.306m in 2021/22).

With the exception of leaseholders, who are permitted to pay for the costs of major works incurred on their accommodation blocks by means of payment plans over a number of years, the Council does not provide credit to customers.

### Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council has ready 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; and the Council uses money market funds to provide liquidity.

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

Loans outstanding	31 March 2022 £'000	31 March 2023 £'000
Public Works Loans Board	112,677	110,182
Market debt	59,644	58,885
PFI / Finance Leases	117,162	107,502
<b>Total</b>	<b>289,483</b>	<b>276,569</b>
Less than 1 year	12,914	11,924
Between 1 and 2 years	11,924	12,020
Between 2 and 5 years	36,072	32,596
Between 5 and 10 years	28,095	24,231
More than 10 years	200,478	195,798
<b>Total</b>	<b>289,483</b>	<b>276,569</b>

## 16 Financial Instruments (Continued)

### Market Risk - Interest rate:

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements

- borrowings at variable rates - the interest expense charged to the surplus or deficit on the provision of services will rise
- borrowings at fixed rates - the fair value of the liabilities will fall
- investments at variable rates - the interest income credited to the surplus or deficit on the provision of services will rise
- investments at fixed rates - the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 75% of its net debt in variable rate loans and to prioritise use of cash balances and temporary borrowing over new variable rate loans. The Council's Strategy is that new variable rate loans from the Public Works Loans Board are to be for periods up to ten years.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

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

According to this assessment, at 31 March 2023, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as follows:

Interest Rate Risk	2021/22 £'000	2022/23 £'000
Increase in interest payable on variable rate borrowings	-	-
Increase in interest receivable on variable rate investments	(1,052)	(480)
<b>Impact on Income and Expenditure Account</b>	<b>(1,052)</b>	<b>(480)</b>

Fair Value Movements	2021/22 £'000	2022/23 £'000
Decrease in fair value of fixed rate investments	246	30
Decrease in fair value of fixed rate borrowing liabilities	(16,603)	(8,038)
<b>Impact on Income and Expenditure Account</b>	<b>(16,357)</b>	<b>(8,008)</b>

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

### Market Risk - Price

The market prices of the Council's pooled funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices and its investments in pooled equity funds is also subject to the risk of falling share prices. This price risk is minimised by limiting the Council's maximum exposure to property and equity investments.

### Foreign Exchange Risk

The council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

## 17 Non-Financial Assets

Where monies are collectible due to statutory powers rather than contractual arrangements, these are classified as non-financial assets. Receivables past due and not impaired as at the balance sheet date are as per the table below.

Balances at 31 March 2023	0-1 year old £'000	1-2 years old £'000	2+ years old £'000
Council Tax and Court Costs	7,190	2,957	3,085
National Non Domestic Rates	6,269	1,552	1,453
Housing Benefits Overpayments	2,774	1,303	6,424
Community Infrastructure Levy	1,459	-	-
Parking	1,607	-	-
<b>Total</b>	<b>19,299</b>	<b>5,812</b>	<b>10,962</b>

Balances at 31 March 2022	0-1 year old £'000	1-2 years old £'000	2+ years old £'000
Council Tax and Court Costs	8,405	1,779	1,350
National Non Domestic Rates	6,737	1,612	479
Housing Benefits Overpayments	1,843	1,543	7,577
Community Infrastructure Levy	2,943	-	-
Parking	1,441	-	-
<b>Total</b>	<b>21,369</b>	<b>4,934</b>	<b>9,406</b>

## 18 Short Term Debtors

	31 March 2022 £'000	31 March 2023 £'000
National Health Service	22,573	5,553
HM Revenue & Customs	28,520	28,861
Other Central Government Bodies	33,980	25,423
Other Local Authorities	40,555	16,324
Tower Hamlets Homes	4,266	1,767
Council Tax	9,822	11,087
National Non Domestic Rates	8,828	9,274
Housing and Tenants Rents	50,200	47,085
Other Entities & Individuals	12,063	20,895
Payments in Advance	2,729	2,393
<b>Total</b>	<b>213,536</b>	<b>168,662</b>

## 19 Cash and Cash Equivalents

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

	31 March 2022 £'000	31 March 2023 £'000
Cash held by the Council	100,346	96,840
Short-term deposits with banks, building societies and local authorities	35,000	21,000
Money Market Funds	115,200	110,950
Cash overdraft	(45,963)	(37,970)
<b>Total Cash and Cash Equivalents</b>	<b>204,583</b>	<b>190,820</b>



## 20 Short-term Creditors

	31 March 2022 £'000	31 March 2023 £'000
National Health Service	(6,644)	(4,164)
HM Revenue & Customs	(9,396)	(8,667)
Other Central Government Bodies	(102,504)	(15,284)
Other Local Authorities	(7,477)	(10,030)
Council Tax	(9,684)	(11,059)
National Non Domestic Rates	(10,219)	(9,915)
Housing and Tenants Rents	(2,008)	(1,503)
Other Entities & Individuals	(85,503)	(96,492)
Receipts in advance	(54,490)	(47,665)
<b>Total</b>	<b>(287,925)</b>	<b>(204,779)</b>

## 21 Provisions

Short-term Provisions*	Balance at 31 March 2021 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2022 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2023 £'000
(a) Business rates appeals	(4,064)	1,595	(1,582)	(4,051)	2,931	(4,850)	(5,970)
(b) Insurance Fund	(1,014)	709	(1,374)	(1,679)	597	(74)	(1,156)
<b>Total</b>	<b>(5,078)</b>	<b>2,304</b>	<b>(2,956)</b>	<b>(5,730)</b>	<b>3,528</b>	<b>(4,924)</b>	<b>(7,126)</b>

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

Long-term Provisions	Balance at 31 March 2021 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2022 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2023 £'000
(b) Insurance Fund	(3,083)	-	665	(2,418)	-	(163)	(2,581)
(c) Water Charges	(9,000)	6,452	-	(2,548)	1,091	-	(1,457)
(d) Disrepairs	(200)	-	-	(200)	-	-	(200)
(e) Employment Disputes	(800)	-	-	(800)	-	-	(800)
<b>Total</b>	<b>(13,083)</b>	<b>6,452</b>	<b>665</b>	<b>(5,966)</b>	<b>1,091</b>	<b>(163)</b>	<b>(5,038)</b>

- (a) Council share of provision for business rates appeals has significantly increased due to the material change in circumstance
- (b) 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.
- (c) A High Court ruling in 2016 established that another London Borough had not passed on discounts from a water supplier to its tenants. The discounts were given as part of the agreement with the water company as an administration fee for collection of charges from tenants. As a result of this ruling the Council may receive claims from tenants for overpaid water charges as a similar agreement was in place with the water company.
- (d) Provision for legal costs relating to the disrepair of Council properties
- (e) Provision for settlements or costs incurred in employment disputes



## 22 Usable Reserves

31 March 2022 £'000		31 March 2023 £'000
(20,352)	General Fund	(20,887)
(52,893)	Housing Revenue Account	(38,547)
(258,289)	Earmarked Reserves	(236,841)
(139,379)	Capital Receipts Reserve	(156,136)
(197,082)	Capital Grants Reserve	(190,421)
(5,487)	Major Repairs Reserve	(8,040)
<b>(673,482)</b>	<b>Total Usable Reserves</b>	<b>(650,872)</b>

More details regarding the movements in the Council's General Fund and Housing Revenue Account are detailed in the Movement in Reserves Statement and in Note 8. Details regarding the movement in Earmarked Reserves can be found in Note 9. Details of the Major Repairs Reserve can be found under the Notes to the Housing Revenue Account.

### Capital Receipts Reserve

2021/22 £'000		2022/23 £'000
(138,959)	Balance at 1 April	(139,379)
(23,722)	Capital Receipts in year	(28,100)
1,737	Capital Receipts Pooled	-
21,565	Capital Receipts used for financing	11,343
<b>(139,379)</b>	<b>Balance at 31 March</b>	<b>(156,136)</b>

### Capital Grants Reserve

2021/22 £'000		2022/23 £'000
(199,774)	Balance at 1 April	(197,082)
(6,923)	Community Infrastructure Levy (CIL) recognised in year	(3,714)
(24,934)	Other Capital grants recognised in year	(24,546)
9,226	CIL applied	20,913
25,323	Other Capital grants and contributions applied	14,008
<b>(197,082)</b>	<b>Balance at 31 March</b>	<b>(190,421)</b>

Of the Capital Grants Reserve balance above, CIL balances as at 31 March 2022 and 2023 are £97.928m and £80.729m respectively.

### Major Repairs Reserve

2021/22 £'000		2022/23 £'000
(74)	Balance at 1 April	(5,487)
(17,349)	Transfer from Capital Adjustment Account - depreciation	(15,739)
11,936	Financing of capital expenditure	13,186
<b>(5,487)</b>	<b>Balance at 31 March</b>	<b>(8,040)</b>

## 23 Unusable Reserves

31 March 2023 £'000		31 March 2023 £'000
(839,012)	Revaluation Reserve	(1,020,210)
(1,520,023)	Capital Adjustment Account	(1,645,929)
16,547	Financial Instruments Adjustment Account	16,112
477,951	Pensions Reserve	(7,380)
36,188	Collection Fund Adjustment Account	17,686
5,493	Accumulating Compensated Absences Adjustment Account	5,796
(186)	Pooled Investment Fund Adjustment Account	3,659
14,268	Dedicated Schools Adjustment Account	14,268
<b>(1,808,774)</b>	<b>Total Unusable Reserves</b>	<b>(2,615,998)</b>

### Revaluation Reserve

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

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

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

2021/22 £'000		2022/23 £'000
<b>(703,310)</b>	<b>Balance at 1 April</b>	<b>(839,012)</b>
(173,591)	Upward revaluation of assets	(197,447)
23,595	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	10,028
<b>(149,996)</b>	<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>(187,419)</b>
5,509	Difference between current value depreciation and historical cost depreciation	5,239
8,785	Accumulated gains on assets sold or scrapped	982
<b>14,294</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>6,221</b>
<b>(839,012)</b>	<b>Balance at 31 March</b>	<b>(1,020,210)</b>

## 23 Unusable Reserves (Continued)

### Capital Adjustment Account

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

The Account 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 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2021/22 £'000		2022/23 £'000
<b>(1,535,633)</b>	<b>Balance at 1 April</b>	<b>(1,520,023)</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
46,106	<i>Charges for depreciation and impairment of non current assets</i>	45,853
457	<i>Charges for amortisation of intangible non-current assets</i>	616
50,080	<i>Revaluation losses and reversals on Property, Plant and Equipment</i>	(88,311)
17,281	<i>Revenue expenditure funded from capital under statute</i>	12,271
21,905	<i>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</i>	10,880
<b>135,829</b>		<b>(18,691)</b>
(14,294)	Adjusting amounts written out of the Revaluation Reserve	(6,221)
<b>121,535</b>	<b>Net written out amount of the cost of non current assets consumed in the year</b>	<b>(24,912)</b>
	Capital financing applied in the year:	
(21,565)	<i>Use of the Capital Receipts Reserve to finance new capital expenditure</i>	(11,343)
(11,936)	<i>Use of the Major Repairs Reserve to finance new capital expenditure</i>	(13,186)
(57,853)	<i>Application of grants and contributions to capital financing from the Capital Grants Unapplied Account</i>	(53,170)
(12,163)	<i>Statutory provision for the financing of capital investment charged against the General Fund and HRA balances</i>	(12,733)
(2,408)	<i>Capital expenditure charged against the General Fund and HRA balances</i>	(10,562)
<b>(105,925)</b>		<b>(100,994)</b>
<b>(1,520,023)</b>	<b>Balance at 31 March</b>	<b>(1,645,929)</b>

## 23 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 HRA Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the HRA 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.

A £60m LOBO loan was repaid prematurely in November 2018. The premium is being charged to revenue over the remaining life of the loan.

2021/22 £'000		2022/23 £'000
<b>16,547</b>	<b>Balance at 1 April</b>	<b>16,547</b>
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(435)
<b>16,547</b>	<b>Balance at 31 March</b>	<b>16,112</b>

### Pensions Reserve

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

2021/22 £'000		2022/23 £'000
<b>614,324</b>	<b>Balance at 1 April</b>	<b>477,951</b>
(183,070)	Actuarial (gains) or losses on pensions assets and liabilities, including the effect of the asset ceiling	(531,926)
91,156	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	91,823
(44,459)	Employer's pensions contributions and direct payments to pensioners payable in the year	(45,228)
<b>477,951</b>	<b>Balance at 31 March</b>	<b>(7,380)</b>

## 23 Unusable Reserves (Continued)

### 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.

2021/22 £'000		2022/23 £'000
<b>49,616</b>	<b>Balance at 1 April</b>	<b>36,188</b>
(13,428)	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 accordance with statutory requirements	(18,502)
<b>36,188</b>	<b>Balance at 31 March</b>	<b>17,686</b>

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2021/22 £'000		2022/23 £'000
<b>7,884</b>	<b>Balance at 1 April</b>	<b>5,493</b>
(7,884)	Settlement or cancellation of accrual made at the end of the preceding year	(5,493)
5,493	Amounts accrued at the end of the current year	5,796
<b>(2,391)</b>	<b>Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements</b>	<b>303</b>
<b>5,493</b>	<b>Balance at 31 March</b>	<b>5,796</b>

### Pooled Investment Fund Adjustment Account

The Pooled Investment Fund Adjustment Account contains the gains/losses made by the authority arising from increases/decreases in the value of its investments that are measured at fair value through profit and loss. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

2021/22 £'000		2022/23 £'000
<b>102</b>	<b>Balance at 1 April</b>	<b>(186)</b>
(288)	Upward revaluation of investments	-
-	Downward revaluation of investments	3,845
<b>(288)</b>		<b>3,845</b>
<b>(186)</b>	<b>Balance at 31 March</b>	<b>3,659</b>

### Dedicated Schools Adjustment Account

The Local Authorities (Capital Finance and Accounting) regulations were amended on 29 November 2020. New accounting treatment is required for local authorities' schools budget deficits relating to its accounts for a financial year beginning 1 April 2021, 1 April 2022 and 1 April 2023. Local authorities are not permitted to charge the value of the deficit to the general fund. Any historical deficit and in year deficit is to be recorded in a dedicated schools grant adjustment account, a newly created unusable reserve.

2021/22 £'000		2022/23 £'000
<b>11,174</b>	<b>Balance at 1 April</b>	<b>14,268</b>
3,094	In year dedicated schools grant deficit	-
<b>14,268</b>	<b>Balance at 31 March</b>	<b>14,268</b>

## 24 Notes to the Cashflow Statement - Operating Activities

The cash flows for operating activities include the following items:

2021/22 £'000		2022/23 £'000
1,822	Interest received	7,797
(9,568)	Interest paid	(13,114)
<b>(7,746)</b>		<b>(5,317)</b>

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2021/22 £'000		2022/23 £'000
46,106	Depreciation	45,853
457	Amortisation	616
50,080	Impairment and Downward valuations	(88,311)
10,658	Increase/(Decrease) in Creditors	(80,447)
19,166	(Increase)/Decrease in Debtors	(2,726)
46,697	Movement in Pension Liability	46,595
21,905	Carrying amount of non-current assets sold (property, plant and equipment and intangible assets)	10,880
(6,750)	Other non-cash items charged to the net surplus or deficit on the provision of services	4,311
<b>188,319</b>		<b>(63,229)</b>

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2021/22 £'000		2022/23 £'000
-	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(373)
(23,722)	Proceeds from the sale of property plant and equipment and intangible assets	(28,100)
(55,161)	Any other items for which the cash effects are investing or financing cash flows	(46,509)
<b>(78,883)</b>		<b>(74,982)</b>

## 25 Notes to the Cashflow Statement - Investment Activities

2021/22 £'000		2022/23 £'000
(133,865)	Purchase of property, plant and equipment and intangible assets	(132,511)
(105,000)	Purchase of short-term and long-term investments	(130,000)
23,722	Proceeds from the sale of property, plant and equipment and intangible assets	28,100
112,000	Proceeds from short-term and long-term investments	195,373
53,488	Other receipts from investing activities	57,267
<b>(49,655)</b>	<b>Net cash flows from investing activities</b>	<b>18,229</b>

## 26 Notes to the Cashflow Statement - Financing Activities

2021/22 £'000		2022/23 £'000
34,036	Other receipts from financing activities	45,511
(2,873)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,398)
(1,661)	Repayments of short- and long-term borrowing	(1,163)
<b>29,502</b>	<b>Net cash flows from financing activities</b>	<b>40,950</b>

## 27 Reconciliation of Financial Liabilities from Financial Activities

2022/23	Balance at 1 April 2022 £'000	Cash Flows £'000	Non Cash Changes £'000	Balance at 31 March 2023 £'000
Long-Term Borrowings	(68,709)	-	-	(68,709)
Short-Term Borrowings	(1,557)	1,224	-	(333)
Lease Liabilities	(26,828)	198	-	(26,630)
PFI Liabilities	(26,655)	3,198	-	(23,457)
<b>Total</b>	<b>(123,749)</b>	<b>4,620</b>	<b>-</b>	<b>(119,129)</b>

2021/22	Balance at 1 April 2021 £'000	Cash Flows £'000	Non Cash Changes £'000	Balance at 31 March 2022 £'000
Long-Term Borrowings	(69,874)	-	1,165	(68,709)
Short-Term Borrowings	(2,066)	1,674	(1,165)	(1,557)
Lease Liabilities	(27,009)	181	-	(26,828)
PFI Liabilities	(29,348)	2,693	-	(26,655)
<b>Total</b>	<b>(128,297)</b>	<b>4,548</b>	<b>-</b>	<b>(123,749)</b>

## 28 Pooled Budgets

Under the terms of a Section 75 Agreement (National Health Service Act 2006), the Council has one Pooled Budget and Lead Commissioning agreement with the Tower Hamlets Clinical Commissioning Group for the Better Care Fund (BCF). This provides a single framework partnership agreement relating to the commissioning of health and social care services to deliver the Tower Hamlets BCF plan, incorporating the Integrated Community Equipment Service and the Improved Better Care Fund.

The Council manages and delivers statutory functions, alongside the Clinical Commissioning Group, to collaboratively deliver efficient, joined up health and social care services to residents.

A summary memorandum Income and Expenditure Account for the pooled budget is shown below. The Council's contribution to the pool is included in the Adult Social Care gross expenditure figure disclosed in the Comprehensive Income and Expenditure Statement. The Council received income of £9.935m in 2022/23 from the Minimum CCG Contribution to Adult Social Care.

	2021/22 £'000	2022/23 £'000
<b>Income</b>		
The Council	(28,818)	(29,841)
Tower Hamlets Clinical Commissioning Group (CCG)	(27,109)	(27,053)
	<b>(55,927)</b>	<b>(56,894)</b>
<b>Expenditure</b>	<b>55,927</b>	<b>56,894</b>
<b>Surplus/(Deficit) for the year</b>	<b>-</b>	<b>-</b>

## 29 Members' Allowances

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

	2021/22 £'000	2022/23 £'000
Allowances	1,024	961
<b>Total</b>	<b>1,024</b>	<b>961</b>

## 30 Officers' Remuneration

### Senior Employees

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

2022/23	Salary, Fees and Allowances £	Taxable Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive <sup>1</sup>	200,862	-	217,844	36,768	28,668	484,142
Mr S Halsey - Chief Executive <sup>2</sup>	44,079	-	-	-	-	44,079
<b>Corporate Directors</b>						
Mr J Thomas - Children's and Culture <sup>3</sup>	155,326	-	-	29,261	5,447	190,034
Health, Adults and Communities <sup>4</sup>	115,169	-	-	20,929	-	136,098
Health, Adults and Communities <sup>5</sup>	9,248	-	-	1,677	-	10,925
Place	149,705	-	-	27,202	-	176,907
Resources <sup>6</sup>	119,119	-	-	-	-	119,119
Resources <sup>7</sup>	39,820	-	-	-	-	39,820
<b>Other Directors</b>						
Monitoring Officer	113,231	-	-	21,061	-	134,292
Public Health	122,330	-	-	16,784	-	139,114
Strategy Transformation & Improvement	113,231	-	-	21,061	-	134,292
Communications & Marketing	113,231	-	-	21,061	-	134,292

<sup>1</sup> Left 02/03/23 - Other is annual leave

<sup>2</sup> Started 13/02/23

<sup>3</sup> Other is market supplement payment

<sup>4</sup> Unpaid leave with effect from 07/01/23

<sup>5</sup> Acting up with effect from 07/03/23

<sup>6</sup> Left 29/01/23

<sup>7</sup> Started 09/01/23

2021/22	Salary, Fees and Allowances £	Taxable Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive	215,860	-	-	41,004	-	256,864
<b>Corporate Directors</b>						
Mr J Thomas - Children's and Culture <sup>1</sup>	152,844	-	-	29,893	5,447	188,184
Health, Adults and Communities <sup>2</sup>	144,969	-	-	27,804	2,500	175,273
Place	147,675	-	-	27,844	-	175,519
Mr K Bartle - Resources	172,371	-	-	-	-	172,371
<b>Other Directors</b>						
Monitoring Officer	111,306	-	-	21,482	-	132,788
Public Health	111,306	-	-	16,006	-	127,312
Strategy Transformation & Improvement	111,306	-	-	21,482	-	132,788
Communications & Marketing	111,306	-	-	21,482	-	132,788

<sup>1</sup> Other payment relates to market supplement

<sup>2</sup> Other payment relates to honoraria



## 30 Officers' Remuneration (Continued)

### Other Employees

Numbers of the Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contribution) are provided below; only officers whose full remuneration is reflected in the preceding Senior Employees note have been excluded from this note. Please note that remuneration for the purposes of this note has been defined by statute (the Accounts and Audit Regulations 2015) and as such also includes payments arising from compensation for loss of office and wrongful dismissal.

Remuneration band (£)	2021/22 Number of employees	2022/23 Number of employees
50,000 - 54,999	527	526
55,000 - 59,999	353	411
60,000 - 64,999	150	249
65,000 - 69,999	103	115
70,000 - 74,999	38	73
75,000 - 79,999	37	35
80,000 - 84,999	68	57
85,000 - 89,999	14	23
90,000 - 94,999	22	14
95,000 - 99,999	8	8
100,000 - 104,999	8	4
105,000 - 109,999	5	6
110,000 - 114,999	5	7
115,000 - 119,999	1	4
120,000 - 124,999	4	5
125,000 - 129,999	3	1
130,000 - 134,999	1	1
135,000 - 139,999	1	1
140,000 - 144,999	1	-
170,000 - 174,999	-	1
185,000 - 189,999	2	-
290,000 - 294,999	1	-
	<b>1,352</b>	<b>1,541</b>

### Exit Payments

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

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£'000)	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
0 - 20,000	33	1	152	37	185	38	1,385	191
20,001 - 40,000	7	2	69	20	76	22	2,103	601
40,001 - 60,000	1	-	19	8	20	8	962	405
60,001 - 80,000	1	-	13	3	14	3	972	215
80,001 - 100,000	1	-	9	2	10	2	867	189
100,001 - 150,000	-	-	7	-	7	-	839	-
150,001 - 200,000	-	-	1	-	1	-	161	-
200,001 - 250,000	-	-	-	1	-	1	-	218
<b>Total</b>	<b>43</b>	<b>3</b>	<b>270</b>	<b>71</b>	<b>313</b>	<b>74</b>	<b>7,289</b>	<b>1,819</b>

The above table includes any compensation for loss of office payments included within the senior officer remuneration note on a previous page.

## 31 Capital Expenditure and 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 following table shows how capital expenditure was financed in the year.

	2021/22 £'000	2022/23 £'000
<b>Expenditure</b>		
Property, Plant and Equipment	140,410	123,374
Heritage Assets	207	86
Intangible Assets	536	1,548
Revenue Expenditure Funded from Capital Under Statute	17,281	12,271
<b>TOTAL</b>	<b>158,434</b>	<b>137,279</b>
<b>Sources of Finance</b>		
Borrowing	64,672	49,018
Capital Grants and Contributions	57,853	53,170
Capital Receipts	21,565	11,343
Major Repairs Reserve	11,936	13,186
Direct Revenue Funding	2,408	10,562
<b>TOTAL</b>	<b>158,434</b>	<b>137,279</b>

	2021/22 £'000	2022/23 £'000
<b>Opening Capital Financing Requirement</b>	<b>481,704</b>	<b>534,213</b>
<b>Capital investment</b>		
Property, Plant and Equipment	140,410	123,374
Heritage Assets	207	86
Intangible Assets	536	1,548
Revenue Expenditure Funded from Capital under Statute	17,281	12,271
<b>Sources of finance</b>		
Capital Grants and Contributions	(57,853)	(53,170)
Capital Receipts	(21,565)	(11,343)
Major Repairs Reserve	(11,936)	(13,186)
Sums set aside from revenue:		
· Direct Revenue Funding	(2,408)	(10,562)
· Minimum Revenue Provision	(9,961)	(10,542)
· HRA Revenue Provision for Debt Repayment on Finance Lease Principal	(2,202)	(2,191)
<b>Closing Capital Financing Requirement</b>	<b>534,213</b>	<b>570,498</b>

## 32 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 - Deloitte LLP.

	2021/22 £'000	2022/23 £'000
Fees payable to appointed external auditor with regard to external audit services	162	162
<b>Total</b>	<b>162</b>	<b>162</b>

### 33 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 (ISB), 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 2022/23	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	Final DSG for 2022/23 before academy and high needs recoupment			(396,675)
B	Academy and high needs figure recouped for 2022/23			82,637
C	Total DSG after academy and high needs recoupment for 2022/23			(314,038)
D	Plus: Brought forward from 2021/22			-
E	Less: Carry-forward to 2023/24 agreed in advance			-
F	Agreed initial budgeted distribution in 2022/23	(70,646)	(243,392)	(314,038)
G	In-year adjustments	-	-	-
H	Final budget distribution for 2022/23	(70,646)	(243,392)	(314,038)
I	Less: Actual central expenditure	69,106		69,106
J	Less: Actual ISB deployed to schools		243,732	243,732
K	Plus: Local authority contribution for 2022/23			-
L	In-year carry-forward to 2023/24	(1,540)	340	(1,200)
	Plus: Carry-forward to 2023/24 agreed in advance			-
	Carry-forward to 2023/24			(1,200)
	DSG unusable reserve at the end of 2021/22			14,268
	Addition to DSG unusable reserve at the end of 2022/23			-
	Total of DSG unusable reserve at the end of 2022/23			14,268
	<b>Net DSG position at the end of 2022/23</b>			<b>13,068</b>

- A Final DSG figure before any amount has been recouped from the authority excluding the January 2023 early years block adjustment.
- B Figure recouped from the authority in 2022/23 by the DfE for the conversion of maintained schools into academies and for high needs payments made by ESFA.
- C Total DSG figure after academy and high needs recoupment for 2022/23.
- D Figure brought forward from 2021/22, positive or negative.
- E Any amount which the authority decided after consultation with the schools forum to carry forward to 2023/24 rather than distribute in 2022/23 – this may be the difference between estimated and final DSG for 2022/23, or a figure (positive or negative) brought forward from 2021/22 which the authority is carrying forward again.
- F Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.
- G Changes to the initial distribution, for example, adjustments for exclusions, or final early years block adjustment.
- H Budgeted distribution of DSG as at the end of the financial year.
- I Actual amount of central expenditure items in 2022/23 – amounts not actually spent, e.g. money that is moved into earmarked reserves, will be included in L as carried forward.
- J Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the authority once it is deployed to schools' budget shares). Note that budget shares include early years funding, sixth form funding and high needs place funding: they do not include high needs top-up funding which is treated as central expenditure.
- K Any contribution from the local authority in 2022/23 which will have the effect of substituting for DSG in funding the schools budget.
- L Carry-forward to 2023/24, i.e. for central expenditure, difference between final budgeted distribution of DSG (item H) and actual expenditure (item I), plus any local authority contribution (item K). For ISB, difference between final budgeted distribution (item H) and amount actually deployed to schools (item J), plus any local authority contribution (item K).

### 33 Dedicated Schools Grant (Continued)

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 (ISB), 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 2021/22	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	Final DSG for 2021/22 before academy and high needs recoupment			(376,516)
B	Academy and high needs figure recouped for 2021/22			76,920
C	Total DSG after academy and high needs recoupment for 2021/22			(299,596)
D	Plus: Brought forward from 2020/21			-
E	Less: Carry-forward to 2022/23 agreed in advance			-
F	Agreed initial budgeted distribution in 2021/22	(59,164)	(240,432)	(299,596)
G	In-year adjustments	-	-	-
H	Final budget distribution for 2021/22	(59,164)	(240,432)	(299,596)
I	Less: Actual central expenditure	62,550		62,550
J	Less: Actual ISB deployed to schools		240,140	240,140
K	Plus: Local authority contribution for 2021/22			-
L	In-year carry-forward to 2022/23	3,386	(292)	3,094
	Plus: Carry-forward to 2022/23 agreed in advance			-
	Carry-forward to 2022/23			-
	DSG unusable reserve at the end of 2020/21			11,174
	Addition to DSG unusable reserve at the end of 2021/22			3,094
	Total of DSG unusable reserve at the end of 2021/22			14,268
	<b>Net DSG position at the end of 2021/22</b>			<b>14,268</b>

- A Final DSG figure before any amount has been recouped from the authority excluding the January 2022 early years block adjustment.
- B Figure recouped from the authority in 2021/22 by the DfE for the conversion of maintained schools into academies and for high needs payments made by ESFA.
- C Total DSG figure after academy and high needs recoupment for 2021/22.
- D Figure brought forward from 2020/21, positive or negative.
- E Any amount which the authority decided after consultation with the schools forum to carry forward to 2022/23 rather than distribute in 2021/22 – this may be the difference between estimated and final DSG for 2021/22, or a figure (positive or negative) brought forward from 2020/21 which the authority is carrying forward again.
- F Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.
- G Changes to the initial distribution, for example, adjustments for exclusions, or final early years block adjustment.
- H Budgeted distribution of DSG as at the end of the financial year.
- I Actual amount of central expenditure items in 2021/22 – amounts not actually spent, e.g. money that is moved into earmarked reserves, will be included in L as carried forward.
- J Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the authority once it is deployed to schools' budget shares). Note that budget shares include early years funding, sixth form funding and high needs place funding: they do not include high needs top-up funding which is treated as central expenditure.
- K Any contribution from the local authority in 2021/22 which will have the effect of substituting for DSG in funding the schools budget.
- L Carry-forward to 2022/23, i.e. for central expenditure, difference between final budgeted distribution of DSG (item H) and actual expenditure (item I), plus any local authority contribution (item K). For ISB, difference between final budgeted distribution (item H) and amount actually deployed to schools (item J), plus any local authority contribution (item K).

## 34 Grant Income

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

	2021/22 £'000	2022/23 £'000
<b>Grants Credited to Services</b>		
Capital Grants funding REFCUS	(1,264)	(3,230)
Developers' Contributions (capital) funding REFCUS	(6,257)	(6,061)
Developers' Contributions (revenue)	(1,978)	(1,832)
Dedicated Schools Grant	(299,596)	(310,426)
Schools Supplementary Grant	-	(5,810)
Family Hubs & Start for Life Programme	-	(1,020)
PFI Credits	(9,380)	(9,380)
National Tutoring Programme	(1,014)	(1,744)
Recovery Premium Grant	(1,002)	(2,510)
Workforce Capacity & Retention Fund	(2,127)	-
School Sixth Form Grant	(13,070)	(14,311)
Pupil Premium Grant	(16,243)	(16,984)
Public Health Grant	(36,350)	(37,372)
Housing Benefit Subsidy	(194,347)	(186,144)
Improved Better Care Fund	(16,316)	(16,810)
NHS Contributions	(33,369)	(21,507)
Business Support Grants	(5,606)	(308)
Local Council Tax Support Admin Grant	(4,027)	(724)
Community Infrastructure Levy (revenue)	(828)	(522)
Teachers' Pensions Grant	(1,004)	(976)
Universal Infant Free School Meals	(2,299)	(2,321)
Community Learning	(2,691)	(2,582)
Social Care Grant	(12,341)	(16,602)
Teachers' Pay Grant	(345)	(234)
Unaccompanied Asylum Seeker Grant	(1,215)	(2,246)
Physical Education and Sport	(1,124)	(1,088)
Tackling Troubled Families	(1,563)	(1,592)
Sales, Fees and Charges Re-imbursement Grant (Covid Grant)	(1,268)	-
Infection Control	(1,382)	-
Contain Outbreak Management	(8,217)	(780)
Covid-Catchup Premium	(1,149)	-
Test and Trace Support Payment	(1,890)	(2,833)
Rough Sleeping Initiative Grant	(1,902)	(1,845)
Homelessness Prevention Grant	(7,079)	(6,887)
Winter Grant Scheme (Family Support)	(758)	-
Place ADDER Accelerator Fund	(435)	(1,237)
Adult Social Care (ASC) Discharge Fund	-	(1,210)
Leaving Care Unaccompanied Asylum Seeker Grant	(830)	(1,288)
Household Support Fund	-	(2,455)
Market Sustainability & Fair Cost of Care	-	(989)
Other Revenue Grants	(16,524)	(13,033)
<b>Total Credited to Services</b>	<b>(706,790)</b>	<b>(696,893)</b>

## 34 Grant Income (Continued)

	2021/22 £'000	2022/23 £'000
<b>Total Credited to Services (b/f)</b>	<b>(706,790)</b>	<b>(696,893)</b>
<b>Credited to Taxation and Non Specific Grant Income</b>		
<i>Non-Ringfenced Government Grants</i>		
Business Rate Related Grants	(27,055)	(33,368)
Revenue Support Grant (Formula Grant)	(34,010)	(35,056)
Local Service Support Grant	(1,404)	(1,508)
Service Grant	-	(7,688)
New Homes Bonus	(17,646)	(16,263)
Covid-19 Grant	(12,985)	-
Other Non-ringfenced grants	-	(1,012)
<b>Total Non-Ringfenced Government Grants</b>	<b>(93,100)</b>	<b>(94,895)</b>
<i>Capital Grants and Contributions</i>		
Schools-funded Capital Programme	(524)	(1,003)
Transport for London Funding	(1,815)	(73)
Major Works Contributions (cash received)	(4,394)	(602)
Capital Maintenance Grant	(4,747)	(4,632)
Community Infrastructure Levy (CIL)	(6,923)	(3,714)
GLA Building Council Homes for Londoners	(1,115)	(500)
High Needs Provision Capital	(2,639)	(10,508)
Developers' Contributions (capital)	(19,627)	(11,829)
Other Capital Grants	(5,856)	(4,357)
<b>Total Capital Grants and Contributions</b>	<b>(47,640)</b>	<b>(37,218)</b>
<b>Total Grant Income in Comprehensive Income &amp; Expenditure Account</b>	<b>(847,530)</b>	<b>(829,006)</b>

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

Receipt in Advance Grant Balances	31 March 2022 £'000	31 March 2023 £'000
<b>Capital Grants Receipts in Advance</b>		
Developers' Contributions (capital)	(98,491)	(93,168)
South Dock Bridge	(1,750)	(1,164)
Building Council Homes for Londoners	(4,200)	(4,590)
GLA Right to Buy Ringfence	-	(9,691)
Other conditional capital grants and contributions	(476)	(1,149)
<b>Total Capital Grants Receipts in Advance</b>	<b>(104,917)</b>	<b>(109,762)</b>
<b>Revenue Grants Receipts in Advance</b>		
Developers' Contributions (revenue)	(11,033)	(10,518)
Business Rate Related Grants	(2,881)	(1,469)
Covid Grants	(35)	-
Other conditional revenue grants	(47)	(79)
<b>Total Revenue Grants Receipts in Advance</b>	<b>(13,996)</b>	<b>(12,066)</b>
<b>Total Grant Receipt in Advance Balances</b>	<b>(118,913)</b>	<b>(121,828)</b>

## 35 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**

The UK Central government has significant influence 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). Details of grants received from UK central government departments and other grant making bodies are set out in Note 34. Grant receipts outstanding at 31 March 2023 are within the creditors note.

### **Other public bodies (subject to common control by central government)**

The Council works closely with a number of NHS bodies. This includes a pooled budget that it operates with the Tower Hamlets Clinical Commissioning Group, details of which are set out in Note 28. It also has significant transactions with the East London NHS Trust. The total amounts due from NHS bodies in total at the year end are shown in the creditors note.

The Council works closely with many other Local Authorities and related bodies. Note 34 contains details of grants received by the Council, including those from other Local Authorities and the debtors and creditors notes detail amounts due to or from other Local Authorities at the year end.

### **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.

### **Entities controlled or significantly influenced by the Council**

#### **Tower Hamlet Homes**

Tower Hamlets Homes is a wholly owned subsidiary of London Borough of Tower Hamlets and the Council has representation on the Board of the Company.

It is an arms length management organisation responsible for management of the Council's housing stock.

During the year the Council paid a management fee of £39.028m(21/22 £36.583m) and received income of £5.444m (21/22 £5.705m) for the provision of services. At the 31 March 2023 £1.767m was due from Tower Hamlets Homes (21/22 £4.266m).

#### **King George's Field, Mile End**

The Council is the sole trustee of the King George's Field, Mile End charity and members of the Cabinet of the Council are also Members of the charity's Board.

The Charity is responsible for maintaining the area of Mile End Park, and the other open spaces within King George's Field, Mile End. The land is managed by the Council on behalf of the charity.

During the year the Charity received funding of £0.261m (21/22 0.425m) from the Council, and paid £0.600m (21/22 £0.526m) for services provided. At the 31 March 2023 £0.125m cash was held by the Council on behalf of the Charity (21/22 £0.103m was owed to the Council as an overdraft held on behalf of the charity).

#### **Seahorse Homes**

Seahorse Homes Ltd is a wholly owned subsidiary of the London Borough of Tower Hamlets. £nil was due from the subsidiary at 31 March 2023 (21/22 £0.030m) .



### **Mulberry Housing Society**

Mulberry Housing is a Community Benefit Society which hadn't commenced trading by 31 March 2023.

The Council has the right to appoint two out of five Board Members and £nil amount was due from the Society at 31 March 2023 (21/22 £0.010m).

### **Ocean Regeneration Trust**

The Ocean Regeneration Trust is a charity which has the aim of supporting residents on the Ocean Estate.

The Council has representation on the Board of the Charity, with the right to appoint two out of twelve Directors.

During the year the Trust received £0.213m funding and rental income from the Council (21/22 £0.202m) and paid £Nil (21/22 £0.043m) for services provided.

### **Capital Letters (London)**

Capital Letters is a pan-London accommodation and procurement company with membership drawn from a number of London Boroughs including Tower Hamlets. Members of the company have representation on the Board of the Company.

During the year the Company received £2.404m from the Council (21/22 £2.274m) and paid £0.005m (21/22 £0.005m) for services provided.

### **Norton Folgate Almshouse**

Norton Folgate Almshouse is a charity which has the aim of providing affordable housing in Spitalfields.

The Council has representation on the Board of the Charity with the right to appoint three out of the seven Trustees.

### **PLACE Ltd**

Pan-London Accommodation Collaborative Enterprise Ltd (PLACE Ltd) is intended to provide modular temporary accommodation. Tower Hamlets is one of four London Boroughs who are key stakeholders and members of the Company, and is deemed the lead borough for the programme. Members have representation on the Board of the Company.

### **Rich Mix Cultural Foundation**

Rich Mix Cultural Foundation is a charity which has the aim of advancing education of the public in arts and culture and the elimination of racial discrimination. Tower Hamlets has the right to appoint two Trustees to the Board of the Charity. During the year the Charity received funding of £0.26m (21/22 £nil) from the Council, and paid £0.006m (21/22 £nil) for services provided.

### **Blackwall Reach Trust**

Blackwall Reach Trust is a charity incorporated in August 2019 with the aim of providing open space for the Blackwall Reach Community and members of the public for recreation and social welfare purposes. The Council can appoint two Trustees to the Board.

### **Tower Hamlets Community Housing**

Tower Hamlets Community Housing was a company limited by guarantee that converted to a registered society in 2018. It aims to provide good quality affordable housing to those on low incomes in housing need. The Council has the power to appoint two Trustees to the Board. The Council received services to the value of £0.092m (21/22 £0.103m) from the Organisation in 22/23 and charged £0.004m (21/22 £0.020m). £0.049m was due from the Organisation the year end (21/22 £0.022m).



### **Tower Hamlets LEP Limited**

Tower Hamlets LEP Limited is involved in schools projects within Tower Hamlets under the Building Schools for the Future programme. The Council is a shareholder and has representation on the Board of the Company.

### **Tower Hamlets Education Partnership**

Tower Hamlets Education Partnership is a registered charity and a company limited by guarantee, with three out of four members being LBTH maintained schools. The purpose of the Charity is the advancement of education through member schools and other educational settings, with an initial focus on the London Borough of Tower Hamlets. The administrative centre of the Council (ie excluding schools) provided funding of £0.405m in 21/22 (21/22 £0.537m) in pursuit of these aims and charged the Charity £0.048m (21/22 £0.006m) for the provision of services and premises. The Council also recovered the cost of staff seconded to the Charity during the year, amounting to £0.207m (21/22 £0.790m). At the end of 21/22, the Charity owed £0.179m (21/22 £0.399m) to the Council and the Council owed £nil (21/22 £0.605m) to the Charity. The Charity also receives a significant proportion of its remaining income from maintained schools within the Borough.

### **The Davenant Centre**

The Davenant Centre is a registered charity which provides two community centres for educational and social benefit within Tower Hamlets. The Council has provided a loan facility (secured on the properties) to the Charity with £0.625m (21/22 £0.607m) outstanding at the 31 March 2023 which was redeemed in April 2023. £0.18m (21/22 £0.006m) interest accrued on the loan during the year. The council has voting rights of 26% to amend certain specific clauses of the memorandum and articles of association at meetings of the Charity.

### **Membership of and relationship with other organisations**

Members and Senior Officers of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2022/23 is shown in the Members Allowances Note and Senior Officers remuneration in the Officers Remuneration Note. During the year there were ten external organisations (21/22 nine) where Members or Senior Officers or their close personal family had an interest outside of those listed above, which undertook financial transactions with the Council. Total expenditure of £2.460m (21/22 £2.208m) was incurred with these organisations for goods and services, and £0.056m (21/22 £0.852m) income was recorded from them for goods and services provided. In addition a payroll service was provided for one organisation with payroll costs of £4.797m (21/22 £4.500m) being recovered from them. At the end of the year £0.475m was due from these organisations (21/22 £0.658m).

## 36 Leases

### Authority as Lessee

#### Finance Leases

As a Lessee the Council has acquired a residential development under finance leases. The assets acquired under the leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts.

Depreciation policy on leased assets is consistent with the policy on owned assets and subject to revaluation in the same way as any other asset.

#### Leased In Assets

	Buildings 31 March 2022 £'000	Buildings 31 March 2023 £'000
Poplar Baths Leisure Centre	20,110	19,692
Poplar Baths Housing	4,210	4,619
Dame Colet Residential Development	3,170	3,529
<b>Total</b>	<b>27,490</b>	<b>27,840</b>

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	Buildings 31 March 2022 £'000	Buildings 31 March 2023 £'000
Finance lease liabilities (net present value of minimum lease payments)	26,828	26,630
Finance costs payable in future years	49,893	47,446
<b>Minimum lease payments</b>	<b>76,721</b>	<b>74,076</b>

#### The minimum lease payments will be payable over the following periods:

	Minimum Lease payments		Finance Lease Liabilities	
	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000
Not later than one year	2,644	2,644	197	217
Later than one year and not later than five years	10,577	10,577	996	1,090
Later than five years	63,500	60,856	25,635	25,323
	<b>76,721</b>	<b>74,077</b>	<b>26,828</b>	<b>26,630</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

## 36 Leases (Continued)

### Authority as Lessee (Continued)

#### Operating Leases

The Council leases in some properties (including office accommodation, car parks and business units), as well as a number of vehicles (including minibuses and vans), and 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	Vehicles Plant & Equipment	Land & Buildings	Vehicles Plant & Equipment
	31 March 2022	31 March 2022	31 March 2023	31 March 2023
	£'000	£'000	£'000	£'000
<b>Health, Adults and Communities</b>				
Not later than one year	103	-	103	-
Later than one year and not later than five years	410	-	410	-
Later than five years	1,026	-	923	-
<b>Children's and Culture</b>				
Not later than one year	-	1,075	-	184
Later than one year and not later than five years	-	1,329	-	160
Later than five years	-	-	-	-
<b>Place</b>				
Not later than one year	4,066	1,336	153	1,104
Later than one year and not later than five years	570	868	612	134
Later than five years	2,465	-	2,527	-
<b>Total</b>				
<b>Not later than one year</b>	<b>4,169</b>	<b>2,411</b>	<b>256</b>	<b>1,288</b>
<b>Later than one year and not later than five years</b>	<b>980</b>	<b>2,197</b>	<b>1,022</b>	<b>294</b>
<b>Later than five years</b>	<b>3,491</b>	<b>-</b>	<b>3,450</b>	<b>-</b>
	<b>8,640</b>	<b>4,608</b>	<b>4,728</b>	<b>1,582</b>

## 36 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	Vehicles Plant & Equipment	Land & Buildings	Vehicles Plant & Equipment
	31 March 2022	31 March 2022	31 March 2023	31 March 2023
	£'000	£'000	£'000	£'000
<b>Health, Adults and Communities</b>				
Minimum Lease Payments	50	-	103	-
<b>Children's and Culture</b>				
Minimum Lease Payments	-	986	-	246
<b>Place</b>				
Minimum Lease Payments	5,626	1,404	4,069	1,171
<b>Total</b>				
<b>Minimum Lease Payments</b>	<b>5,676</b>	<b>2,390</b>	<b>4,172</b>	<b>1,417</b>

### Authority as Lessor

#### **Finance Leases**

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

#### **Operating Leases**

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

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

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

	31 March 2022	31 March 2023
	£'000	£'000
Not later than one year	(3,562)	(176)
Later than one year and not later than five years	(10,819)	(16,765)
Later than five years	(18,878)	(21,242)
	<b>(33,259)</b>	<b>(38,183)</b>

## 37 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 Grouped Schools schemes - until the years 2029 and 2028 respectively. The contracts specify minimum standards for the services to be provided by the contractors, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractors took on the obligation to construct or refurbish schools and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the schools. The buildings and any plant and equipment installed in them at the end of the contracts will be transferred to the authority for nil consideration, other than those that relate to academies, being Mulberry, Clara Grant, Stepney Green and Old Ford schools. The authority only has rights to terminate the contracts if it compensates the contractors in full for costs incurred and future profits that would have been generated over the remaining term of the contract.

The Council entered into a third PFI contract, with an energy services company, to provide heating and hot water to around 500 homes in the Barkantine district in March 2000 and this contract will continue until October 2025. No re-negotiation of the contract terms are expected, and the Council is working with the Department of Levelling Up, Housing and Communities in preparation for arrangements after contract expiry. It is classed as a user pay arrangement (with the consequence that payments to contractors do not meet the definition of "unitary payments").

The authority makes an agreed payment each year to each of the contractors which is increased annually by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Unitary payments remaining to be made under the PFI contracts at 31 March 2023 (excluding any estimation of inflation and availability/performance deductions) are as follows:

Payments due under PFI schemes	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	(505)	(3,147)	(198)	(3,850)
Within 2 - 5 years	(2,563)	(15,704)	(592)	(18,859)
Within 6 - 10 years	(747)	-	-	(747)
	<b>(3,815)</b>	<b>(18,851)</b>	<b>(790)</b>	<b>(23,456)</b>
<b>Interest</b>				
Within 1 year	428	2,966	-	3,394
Within 2 - 5 years	1,065	5,972	-	7,037
Within 6 - 10 years	84	-	-	84
	<b>1,577</b>	<b>8,938</b>	<b>-</b>	<b>10,515</b>
<b>Service Charges</b>				
Within 1 year	673	3,125	-	3,798
Within 2 - 5 years	2,694	10,446	-	13,140
Within 6 - 10 years	673	-	-	673
	<b>4,040</b>	<b>13,571</b>	<b>-</b>	<b>17,611</b>

The payments made to the contractors have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable while the capital expenditure remains to be reimbursed. The liability outstanding to be paid to the contractor for capital expenditure incurred (or simply the amortisation of the liability recognised in the case of the Energy PFI) is as follows:

Movement on PFI Liabilities	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2022</b>	<b>(4,233)</b>	<b>(21,434)</b>	<b>(988)</b>	<b>(26,655)</b>
Repayments/Amortisation of deferred liability	418	2,583	198	3,199
<b>Liabilities at 31 March 2023</b>	<b>(3,815)</b>	<b>(18,851)</b>	<b>(790)</b>	<b>(23,456)</b>
<b>Consisting of:</b>				
Long-term liability	(3,310)	(15,704)	(592)	(19,606)
Short-term liability	(505)	(3,147)	(198)	(3,850)
<b>Liability value at 31 March 2023</b>	<b>(3,815)</b>	<b>(18,851)</b>	<b>(790)</b>	<b>(23,456)</b>

## 37 Private Finance Initiatives and Similar Contracts (Continued)

The assets associated with the PFI contracts have been recognised on the Council's balance sheet, with movements in valuation as per below.

Movement on PFI Assets	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Asset value at 31 March 2021</b>	<b>226,842</b>	<b>1,686</b>	<b>228,528</b>
Depreciation	(2,060)	(181)	(2,241)
Revaluations	17,420	-	17,420
Enhancements	4,413	-	4,413
<b>Asset value at 31 March 2022</b>	<b>246,615</b>	<b>1,505</b>	<b>248,120</b>
Depreciation	(2,092)	(181)	(2,273)
Revaluations	15,505	1,086	16,591
Enhancements	1,721	-	1,721
<b>Asset value at 31 March 2023</b>	<b>261,749</b>	<b>2,410</b>	<b>264,159</b>

Comparatives for the 2021/22 year are presented below.

Payments due under PFI schemes, as at 31 March 2022	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	(418)	(2,583)	(198)	(3,199)
Within 2 - 5 years	(2,395)	(16,232)	(790)	(19,417)
Within 6 - 10 years	(1,420)	(2,619)	-	(4,039)
	<b>(4,233)</b>	<b>(21,434)</b>	<b>(988)</b>	<b>(26,655)</b>
<b>Interest</b>				
Within 1 year	475	3,372	-	3,847
Within 2 - 5 years	1,333	8,526	-	9,859
Within 6 - 10 years	243	412	-	655
	<b>2,051</b>	<b>12,310</b>	<b>-</b>	<b>14,361</b>
<b>Service Charges</b>				
Within 1 year	673	1,235	-	1,908
Within 2 - 5 years	2,694	12,466	-	15,160
Within 6 - 10 years	1,347	1,104	-	2,451
	<b>4,714</b>	<b>14,805</b>	<b>-</b>	<b>19,519</b>

Movement on PFI Liabilities, as at 31 March 2022	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2021</b>	<b>(4,582)</b>	<b>(23,580)</b>	<b>(1,186)</b>	<b>(29,348)</b>
Repayments/Amortisation of deferred liability	349	2,146	198	2,693
<b>Liabilities at 31 March 2022</b>	<b>(4,233)</b>	<b>(21,434)</b>	<b>(988)</b>	<b>(26,655)</b>
<b>Consisting of:</b>				
Long-term liability	(3,815)	(18,851)	(790)	(23,456)
Short-term liability	(418)	(2,583)	(198)	(3,199)
<b>Liability value at 31 March 2022</b>	<b>(4,233)</b>	<b>(21,434)</b>	<b>(988)</b>	<b>(26,655)</b>

## 38 Pension 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 four pensions schemes:

- The Local Government Pension Scheme (LGPS) administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority (LPFA)
- The Teachers' Pension Scheme (TPS), administered by Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Business Services Authority on behalf of the Department of Health and Social Care

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 London Borough of Tower Hamlets pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of the Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Corporate Director of Resources of the Council and Investment Fund managers.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the general fund and HRA the amounts required by statute as described in the accounting policies note.

The TPS and NHS schemes are explained further in the next note (Pension Schemes Accounted for as Defined Contribution Schemes), since they are accounted for on a different basis.

### Transactions Relating to Retirement Benefits

The cost of LGPS retirement benefits is recognised in the Comprehensive Income and Expenditure Statement 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	
	2021/22 £'000	2022/23 £'000	2021/22 £'000	2022/23 £'000	2021/22 £'000	2022/23 £'000
<b>COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b>						
<i>Cost of Services</i>						
Current service costs	76,521	77,737	258	238	76,779	77,975
Past service costs	1,888	739	-	-	1,888	739
<i>Finance and Investment Income and Expenditure</i>						
Interest cost on defined benefit obligation	46,231	60,832	1,305	1,703	47,536	62,535
Interest income on plan assets	(33,832)	(47,462)	(1,215)	(1,964)	(35,047)	(49,426)
<b>Net charge to the Surplus or Deficit on Provision of Services</b>	<b>90,808</b>	<b>91,846</b>	<b>348</b>	<b>(23)</b>	<b>91,156</b>	<b>91,823</b>
<i>Other Comprehensive Income and Expenditure</i>						
Changes in demographic assumptions	(2,282)	(17,185)	-	(2,616)	(2,282)	(19,801)
Changes in financial assumptions	(136,660)	(792,934)	(1,600)	(17,300)	(138,260)	(810,234)
Other experience	3,807	133,256	153	2,941	3,960	136,197
Return on plan assets excluding amounts included in net	(18,644)	125,892	(9,378)	13	(28,022)	125,905
Effect of the asset ceiling	-	5,841	-	30,085	-	35,926
Actuarial (gains)/losses	(18,466)	-	-	81	(18,466)	81
<b>Total charge in Comprehensive Income and Expenditure Statement</b>	<b>(81,437)</b>	<b>(453,284)</b>	<b>(10,477)</b>	<b>13,181</b>	<b>(91,914)</b>	<b>(440,103)</b>
<b>MOVEMENT IN RESERVES STATEMENT</b>						
Reversal of net charges made for retirement benefits	(90,808)	(91,846)	(348)	23	(91,156)	(91,823)
Actual amount charged against the General Fund/HRA	44,073	44,843	386	385	44,459	45,228

## 38 Pension Schemes - Defined Benefit (Continued)

### Transactions Relating to Retirement Benefits (Continued)

In addition to the figures presented above, the Council is also responsible for all payments in respect of discretionary awards made to teachers upon retirement. In 2022/23 there were such payments of £0.829m (£0.797m in 2021/22).

### Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of Present Value of Scheme Liabilities	The Council		LPFA		Total	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance at 1 April	(2,309,403)	(2,249,951)	(70,249)	(67,197)	(2,379,652)	(2,317,148)
Current service cost	(76,521)	(77,737)	(258)	(238)	(76,779)	(77,975)
Past service costs	(1,888)	(739)	-	-	(1,888)	(739)
Interest cost	(46,231)	(60,832)	(1,305)	(1,703)	(47,536)	(62,535)
Contributions	(10,396)	(11,353)	(40)	(41)	(10,436)	(11,394)
Benefits paid	59,353	60,665	3,208	3,459	62,561	64,124
Remeasurement gains / (losses):						
Changes in demographic assumptions	2,282	17,185	-	2,616	2,282	19,801
Changes in financial assumptions	136,660	792,934	1,600	17,300	138,260	810,234
Other experience	(3,807)	(133,256)	(153)	(2,941)	(3,960)	(136,197)
<b>31 March</b>	<b>(2,249,951)</b>	<b>(1,663,084)</b>	<b>(67,197)</b>	<b>(48,745)</b>	<b>(2,317,148)</b>	<b>(1,711,829)</b>

Reconciliation of Fair Value of Scheme Assets	The Council		LPFA		Total	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000	£'000
Opening fair value of scheme assets	1,695,218	1,761,276	70,110	77,921	1,765,328	1,839,197
Interest income	33,832	47,462	1,215	1,964	35,047	49,426
Effect of settlements	-	-	-	-	-	-
Contributions						
Employees into the scheme	10,396	11,353	40	41	10,436	11,394
Employer	44,073	44,843	386	385	44,459	45,228
Benefits paid	(59,353)	(60,665)	(3,208)	(3,459)	(62,561)	(64,124)
Remeasurement gains / (losses):						
Return on plan assets	18,644	(125,892)	9,378	(13)	28,022	(125,905)
Actuarial gains/(losses)	18,466	-	-	(81)	18,466	(81)
<b>31 March</b>	<b>1,761,276</b>	<b>1,678,377</b>	<b>77,921</b>	<b>76,758</b>	<b>1,839,197</b>	<b>1,755,135</b>

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

### Pension Assets, Liabilities and Asset Ceiling Recognised in the Balance Sheet

	The Council		LPFA		Total	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000	£'000
Present value of scheme liabilities	(2,249,951)	(1,663,084)	(67,197)	(48,745)	(2,317,148)	(1,711,829)
Fair value of plan assets	1,761,276	1,678,377	77,921	76,758	1,839,197	1,755,135
Additional liability from asset ceiling	-	(5,841)	-	(30,085)	-	(35,926)
<b>Total Asset/(Deficit) in the Schemes</b>	<b>(488,675)</b>	<b>9,452</b>	<b>10,724</b>	<b>(2,072)</b>	<b>(477,951)</b>	<b>7,380</b>

The effect of the asset ceiling has been determined by the schemes's actuaries on the basis of the limitation on the Council's ability to recover the full economic benefit of its assets through reductions in future employer's contributions because of the minimum funding requirement imposed on it by the funding strategy for the schemes in place at 31 March 2023.

The schemes' actuaries have assessed the Council's estimated future service costs less the estimated minimum funding requirement contributions to establish the economic benefit that is available to the Council. The net pensions asset has therefore been adjusted by this effect of the asset ceiling. No asset ceiling was taken into consideration in 2021/22.

The net asset position of £9.452m with respect to the Council above includes a liability of £8.043m in respect of the net present value of future payments of discretionary awards previously agreed to teachers upon retirement. This liability is combined with the net liability of the LPFA scheme of £2.072m, making a total liability of £10.115m, and is shown separately to the gross pension asset of the Council scheme, of £17.495m, on the Balance Sheet.

The Council expects to make total contributions of £47.8m in the year to 31 March 2024.



## 38 Pension Schemes - Defined Benefit (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	
	2021/22	2022/23	2021/22	2022/23
Long-term expected rate of return on assets in the scheme <sup>1</sup>				
Mortality assumptions:				
Longevity at 65 for current pensioners (years):				
Men	21.7	21.5	21.0	20.3
Women	24.2	23.9	23.8	23.3
Longevity at 65 for future pensioners (years):				
Men	22.8	22.6	22.4	21.5
Women	25.7	25.5	25.6	25.3
Rate of inflation	3.2%	3.0%	3.4%	2.9%
Rate of increase in salaries	3.4%	3.0%	3.4%	3.0%
Rate of increase in pensions	3.2%	3.0%	3.4%	2.9%
Rate for discounting scheme liabilities <sup>1</sup>	2.0%	4.8%	2.6%	4.8%

<sup>1</sup> The expected rates of return are set equal to the discount rate.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses as presented in Note 4 have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

### **Impact on the Authority's Cash Flows**

With regard to the Council-administered pension fund, the objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The triennial valuation was completed on 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

At the time of the relevant triennial valuation based on 31 March 2022, the weighted average duration of the defined benefit obligation for scheme members is 17 years.

## 38 Pension Schemes - Defined Benefit (Continued)

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

	The Council		LPFA	
	2021/22	2022/23	2021/22	2022/23
Equities	0%	0%	48%	49%
<i>Private Equity</i>	0%	0%	9%	8%
<i>Bonds</i>	6%	6%	3%	1%
<i>Property</i>	10%	8%	9%	10%
Investment/Hedge Funds and Unit Trusts*:			11%	8%
<i>Equity-based</i>	51%	61%		
<i>Bond-based</i>	15%	11%		
<i>Hedge Funds</i>	0%	0%		
<i>Other</i>	17%	12%		
Credit - unquoted	0%	0%	8%	10%
Infrastructure - unquoted	0%	0%	10%	12%
Cash	1%	2%	2%	2%

\*Note: the LPFA breakdowns are not available in the same format as those for the Council scheme.

## 39 Pension Schemes Accounted For As Defined Benefit Schemes

### Teachers' Pension Scheme

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes though it is approximately 0.4%. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2022/23, the council paid £22.006m to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.7% of pensionable pay. The figures for 2021/22 were £21.637m and 23.7%. There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £23.107m (23.7% of pensionable pay).

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These payments are accounted for as incurred and detailed in Note 38.

The authority is not liable to the scheme for any other entities' obligations under the plan.

### NHS Pension Scheme

In 2013/14, former NHS employees transferred to the Council. These employees have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and, as with the TPS, the Council is unable to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes, though it is much less than 0.1%. It is therefore accounted for on the same basis as a defined contribution scheme.

£0.059m million was payable into the scheme in 2022/23 by the Council (2021/22: £0.100m). This represents 20.7% of pensionable pay. The contributions due to be paid in the next financial year are estimated to be £0.066m. These amounts represent 20.7% of pensionable pay.

The authority is not liable to the scheme for any other entities' obligations under the plan.

## 40 Trusts

The Council serves as sole trustee of the King George's Field, Mile End charity. The charity is governed by a Trust Deed, and is unincorporated, being established by a Scheme of the Charity Commission dated 28th February 2000.

The King George's Field, Mile End Charity Board (which sits as a committee of the Council) is responsible for managing the Trust's affairs and discharging the Council's duties as trustee.

The Charity's objectives are set out in Trust Deeds, which are as follows "To preserve in perpetuity the covenanted land and to apply the land to such charitable purposes as are set out in the Recreational Charities Act 1958, including the construction of indoor recreational facilities, subject to the approval of the National Playing Fields Association and the Charity Commission in respect of any additional purposes".

The funds of the Trust do not represent income, expenditure, assets or liabilities of the Council. The value of income and expenditure, the underlying assets, extent of any liabilities are disclosed as follows:

2021/22 £'000		2022/23 £'000
(1,182)	Income	(1,212)
1,277	Expenditure	1,293
46	Net unrealised (gains)/losses on Investments	4
<b>141</b>	<b>(Surplus)/Deficit for the Year</b>	<b>85</b>
15,989	Fixed assets	16,049
327	Current assets	261
(362)	Creditors - amounts falling due within one year	(299)
<b>15,954</b>	<b>Net Current Assets</b>	<b>16,011</b>
15,896	Endowment funds	15,973
58	Unrestricted reserves	38
<b>15,954</b>	<b>Total Charity Funds</b>	<b>16,011</b>

The Council acts as trustee for a number of smaller trusts, which were disclosed in this note in previous years. However, since they are not material to the accounts, those detailed disclosures will no longer be provided here.

## 41 Group Accounts

The Council has control or significant influence over a number of entities which therefore fall within its group boundary for accounting purposes.

The Council has not previously prepared group accounts as the Council had originally concluded that group accounts would not be materially different to the Council's single entity accounts.

However in the light of more recent information, the Council has concluded that group accounts would be materially different to the Council's single entity accounts. In particular, the effect of consolidating the Council's two most financially significant subsidiaries, Tower Hamlets Homes Limited and King George's Field, Mile End charity, would result in group net assets at 31 March 2023 being materially higher than the net assets and subsidiary reserves in the single entity accounts.

As the preparation of group accounts would not result in expenditure, income or indebtedness being reported which was materially different to amounts in the single entity accounts and since the preparation of group accounts would necessitate further commitment of time and resources, the Council has decided not to prepare them. The overriding consideration for this decision is that completion of the audit for the current year in order to make more rapid progress on the backlog of audits and accounts for subsequent years would be of more material benefit to the users of accounts and also to management of the Council's finances.

## 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).

	2021/22 £'000	2022/23 £'000
<b>EXPENDITURE</b>		
Repairs and maintenance	19,320	29,652
Supervision and management	40,131	38,906
Rents, rates, taxes and other charges	9,548	14,166
Depreciation of non-current assets		
On dwellings	16,034	14,500
On other assets	1,315	1,239
Revaluation losses (and reversals)	50,299	(68,086)
Debt management costs	90	103
Movement in the allowance for bad debts	(578)	1,254
Sums directed by the Secretary of State that are expenditure in accordance with the Code	4,926	1,150
<b>TOTAL EXPENDITURE</b>	<b>141,085</b>	<b>32,884</b>
<b>INCOME</b>		
Gross rental income		
Dwelling rents	(67,611)	(68,987)
Non dwelling rents	(4,412)	(4,421)
Charges for services and facilities	(26,161)	(29,957)
<b>TOTAL INCOME</b>	<b>(98,185)</b>	<b>(103,365)</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>	<b>42,900</b>	<b>(70,481)</b>
HRA services share of Corporate and Democratic Core	143	143
<b>NET COST OF HRA SERVICES</b>	<b>43,043</b>	<b>(70,338)</b>
<b>HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account</b>		
(Gain)/loss on sale of HRA non-current assets	(17,824)	(17,069)
Interest payable and similar charges	6,135	7,454
Interest and investment income	(169)	(3,910)
Capital grants and contributions receivable	(5,509)	(1,102)
<b>DEFICIT/(SURPLUS) FOR THE YEAR ON HRA SERVICES</b>	<b>25,676</b>	<b>(84,965)</b>

## STATEMENT OF MOVEMENT ON THE HRA 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.

	2021/22	2022/23
	£'000	£'000
<b>Balance on the Statutory HRA Brought Forward</b>	<b>(50,765)</b>	<b>(52,893)</b>
Deficit/(Surplus) for the year on the HRA Income and Expenditure Account	25,676	(84,965)
Net additional amount required by statute to be debited to the HRA balance for the year	(27,804)	99,311
Decrease/(Increase) in the HRA Balance	<b>(2,128)</b>	<b>14,346</b>
<b>Balance on the Statutory HRA Carried Forward</b>	<b>(52,893)</b>	<b>(38,547)</b>

# NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

## 1 Note to the Statement of Movement on the HRA Balance

	2021/22		2022/23	
	£'000	£'000	£'000	£'000
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year</b>				
Revenue expenditure funded from capital under statute	(4,926)		(1,150)	
Capital grants and contributions	5,509		1,102	
Gain or loss on sale of HRA non-current assets	17,824		17,069	
Depreciation of non-current assets	(17,349)		(15,739)	
Reversal of revaluation losses on non-current assets	(50,299)		68,086	
Net charges made for retirement benefits in accordance with IAS19	1,886		1,886	
Transfers from General Fund (as directed by Secretary of State)		(47,355)		71,254
<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year</b>				
Capital expenditure financed from revenue			9,692	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute			435	
Transfer to / from Capital Adjustment Account	2,202		2,191	
Transfer to Major Repairs Reserve	17,349		15,739	
Other adjustments (transfer to capital receipts reserve)		19,551		28,057
<b>Net additional amount required by statute to be debited to the HRA Balance</b>		<b>(27,804)</b>		<b>99,311</b>

## 2 Housing Stock

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

	2021/22	2022/23
Low-rise flats (1-2 storeys)	256	253
Medium-rise flats (3-5 storeys)	6,689	6,620
High-rise flats (6 or more storeys)	3,866	3,834
Houses and bungalows	769	778
<b>Total at 31 March</b>	<b>11,580</b>	<b>11,485</b>

## 3 Non-Current Assets

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

	2021/22 £'000	2022/23 £'000
Dwellings	1,118,581	1,215,585
Other Land and Buildings	91,263	85,045
Surplus Assets Not Held for Sale	4,987	12,287
Assets Under Construction	61,466	83,042
Assets Held for Sale	213	-
<b>Total</b>	<b>1,276,510</b>	<b>1,395,959</b>

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets £'000	Assets Under Construction £'000	Assets Held for Sale £'000	TOTAL £'000
Total value at 31 March 2021	1,097,416	58,901	5,949	30,604	760	1,193,630
Additions, disposals, transfers and revaluations	21,165	32,362	(962)	30,862	(547)	82,880
Total value at 31 March 2022	1,118,581	91,263	4,987	61,466	213	1,276,510
Additions, disposals, transfers and revaluations	97,004	(6,218)	7,300	21,576	(213)	119,449
<b>Total Value at 31 March</b>	<b>1,215,585</b>	<b>85,045</b>	<b>12,287</b>	<b>83,042</b>	<b>-</b>	<b>1,395,959</b>

The vacant possession value of dwellings within the Council's HRA was £4,862m in 2022/23 (£4,482m in 2021/22). 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

	2021/22 £'000	2022/23 £'000
Balance at 1 April	(74)	(5,487)
Transfer from Capital Adjustment Account - depreciation	(17,349)	(15,739)
Financing of capital expenditure	11,936	13,186
<b>Balance at 31 March</b>	<b>(5,487)</b>	<b>(8,040)</b>

## 5 Capital Transactions

### (i) Capital expenditure and financing

	2021/22 £'000	2022/23 £'000
<b>Expenditure</b>	52,102	44,466
<b>Sources of finance</b>		
Borrowing	21,166	15,208
Capital Receipts	9,499	4,312
Capital Grants and Contributions	9,501	2,543
Major Repairs Reserve	11,936	13,186
Direct Revenue Funding	-	9,217
<b>Total Capital Financing</b>	<b>52,102</b>	<b>44,466</b>

### (ii) Capital Receipts

Capital receipts (gross) in 2022/23 from the disposal of non-current assets within the HRA amounted to £27.602m (£23.515m in 2021/22) as follows:

	2021/22 £'000	2022/23 £'000
Dwellings	12,873	26,470
Other land and buildings	10,642	1,132
<b>Total Capital Receipts</b>	<b>23,515</b>	<b>27,602</b>

## 6 Depreciation

	2021/22 £'000	2022/23 £'000
Dwellings	16,034	14,500
Other Land and Buildings	1,315	1,239
<b>Total Depreciation</b>	<b>17,349</b>	<b>15,739</b>



## 7 Pension Costs

These figures should represent the cost of pensions attributable to the HRA. Further details of the treatment of pensions costs are shown in note 38 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note. Within 2020/21 the Council entered into a new management agreement with Tower Hamlet Homes and as a consequence no longer includes their pension liability within the accounts.

	2021/22	2022/23
	£'000	£'000
<b>STATEMENT OF MOVEMENT IN HRA RESERVES</b>		
Employer's pensions contributions	1,886	1,886

## 8 Rent Arrears

	2021/22	2022/23
	£'000	£'000
Gross rent arrears at 31 March	4,698	5,021
Arrears as % of rent receivable	7.1%	7.1%
Provision made for bad debts	3,619	3,483

# COLLECTION FUND

The Collection Fund Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the Council as billing authority in relation to the collection from tax payers and distribution to precepting bodies and the Government of Council Tax and Non-Domestic Rates.

2021/22				2022/23		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
<b>INCOME</b>						
-	(155,236)	<b>(155,236)</b>	Council Tax Receivable	-	(164,868)	<b>(164,868)</b>
(372,001)	-	<b>(372,001)</b>	Business Rates Receivable	(383,508)	-	<b>(383,508)</b>
(2,043)	-	<b>(2,043)</b>	Transitional Protection Payments Receivable	1,560	-	<b>1,560</b>
(12,048)	-	<b>(12,048)</b>	Business Rates Supplements Receivable	(14,285)	-	<b>(14,285)</b>
<b>(386,092)</b>	<b>(155,236)</b>	<b>(541,327)</b>	<b>Total amounts to be credited</b>	<b>(396,233)</b>	<b>(164,868)</b>	<b>(561,101)</b>
<b>EXPENDITURE</b>						
<b>Apportionment of Previous Year Surplus/(Deficit)</b>						
(37,515)	-	<b>(37,515)</b>	Central Government	(33,954)	-	<b>(33,954)</b>
(36,523)	(2,747)	<b>(39,271)</b>	Tower Hamlets	(30,867)	(2,489)	<b>(33,356)</b>
(41,964)	(860)	<b>(42,824)</b>	Greater London Authority	(38,069)	(813)	<b>(38,882)</b>
<b>Precepts, demands and shares</b>						
149,191	-	<b>149,191</b>	Central Government	137,328	-	<b>137,328</b>
135,628	114,189	<b>249,818</b>	Tower Hamlets	124,844	121,674	<b>246,518</b>
167,275	37,301	<b>204,576</b>	Greater London Authority	153,974	42,808	<b>196,782</b>
<b>Business Rate Supplement</b>						
12,029	-	<b>12,029</b>	Payment to levying authority's BRS Revenue Account	14,269	-	<b>14,269</b>
19	-	<b>19</b>	Administrative Costs	16	-	<b>16</b>
<b>Charges to the Collection Fund</b>						
5,340	4,421	<b>9,761</b>	Increase/(decrease) in allowance for impairment	3,105	2,215	<b>5,320</b>
(38)	-	<b>(38)</b>	Increase/(decrease) in allowance for appeals	6,394	-	<b>6,394</b>
1,049	-	<b>1,049</b>	Charge to General Fund for allowable collection costs	1,079	-	<b>1,079</b>
<b>354,491</b>	<b>152,304</b>	<b>506,795</b>	<b>Total Amounts to be debited</b>	<b>338,119</b>	<b>163,395</b>	<b>501,514</b>
<b>(31,600)</b>	<b>(2,932)</b>	<b>(34,532)</b>	<b>(Surplus)/Deficit arising during the year</b>	<b>(58,114)</b>	<b>(1,473)</b>	<b>(59,587)</b>
<b>145,056</b>	<b>5,721</b>	<b>150,777</b>	<b>(Surplus)/Deficit b/f at 1 April</b>	<b>113,456</b>	<b>2,789</b>	<b>116,245</b>
<b>113,456</b>	<b>2,789</b>	<b>116,245</b>	<b>(Surplus)/Deficit c/f at 31 March</b>	<b>55,342</b>	<b>1,316</b>	<b>56,658</b>

## (Surplus)/Deficit on the Collection Fund

2021/22				2022/23		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
36,993	-	<b>36,993</b>	Central Government	17,816	-	<b>17,816</b>
34,037	2,151	<b>36,188</b>	Tower Hamlets	16,602	1,083	<b>17,685</b>
42,426	639	<b>43,065</b>	Greater London Authority	20,924	233	<b>21,157</b>
<b>113,456</b>	<b>2,789</b>	<b>116,245</b>	<b>(Surplus)/Deficit c/f at 31 March</b>	<b>55,342</b>	<b>1,316</b>	<b>56,658</b>

# NOTES TO THE COLLECTION FUND

## 1 Council Tax

Council Tax, introduced in 1993, is charged on residential properties depending on the nature and degree of occupation of the 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. The tax for each Band is set as a fraction of Band D. The number of properties in each band and calculation of the tax base (adjusted to reflect relevant discounts and exemptions) was approved by Cabinet in January 2022 and is summarised in the table below:

Band	Valuation Bands	Ratio to Band D	2021/22 Number of chargeable dwellings	2021/22 Equivalent number of band D dwellings	2022/23 Number of chargeable dwellings	2022/23 Equivalent number of band D dwellings
A	Up to £40,000	6/9	1,377	918	1,523	1,015
B	£40,001 and up to £52,000	7/9	21,986	17,100	22,726	17,676
C	£52,001 and up to £68,000	8/9	36,477	32,424	37,474	33,310
D	£68,001 and up to £88,000	9/9	27,995	27,995	28,717	28,717
E	£88,001 and up to £120,000	11/9	21,904	26,772	22,367	27,338
F	£120,001 and up to £160,000	13/9	10,600	15,311	10,877	15,711
G	£160,001 and up to £320,000	15/9	4,420	7,366	4,547	7,578
H	Over £320,001	18/9	709	1,417	729	1,459
			<b>125,468</b>	<b>129,303</b>	<b>128,960</b>	<b>132,804</b>
	Adjustment for Reduction Scheme & Collection Rate			(22,457)		(21,816)
	<b>Council Tax Base</b>			<b>106,846</b>		<b>110,988</b>

## 2 National Non-Domestic Rates (NNDR)

The Council collects business rates for its local area. The amount due to be paid by a business for their property is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The rateable value is determined by the Valuation Office Agency, a government executive agency. The national uniform rate in 2022/23 was 51.2p (51.2p for 2021/22) and the rate for small businesses was set at 49.9p (49.9p for 2021/22). The total rateable value in the borough as at 31 March 2023 was £1,008 million (£1,004 million at 31 March 2022).

## 3 Business Rate Supplement (BRS)

Under the Business Rate Supplement Act 2009, the Greater London Authority (GLA) has introduced a supplement to help towards the financing of the costs of the Crossrail project. The Council collects the supplement on behalf of the GLA.

The Crossrail BRS multiplier for 2022/23 is 2p per pound of rateable value (unchanged from previous years), it is only paid on properties with a rateable value in excess of £70,000.

## PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2021/22 £'000	2022/23 £'000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
Contributions	7	(69,725)	(72,134)
Transfers in	8	(7,041)	(8,412)
Benefits	9	62,980	64,998
Payments to and on account of leavers	10	5,971	8,696
<b>NET (ADDITIONS)/DEDUCTIONS FROM DEALINGS WITH MEMBERS</b>		<b>(7,815)</b>	<b>(6,852)</b>
Management expenses	11	17,193	16,207
<b>NET (ADDITIONS)/DEDUCTIONS INCLUDING FUND MANAGEMENT EXPENSES</b>		<b>9,378</b>	<b>9,355</b>
<b>RETURN ON INVESTMENTS</b>			
Investment Income	12	(27,183)	(30,820)
Taxes on Income		0	0
Change in market value of investments	14a	(49,485)	107,272
<b>NET RETURN ON INVESTMENTS</b>		<b>(76,668)</b>	<b>76,452</b>
Net (increase)/decrease in the Fund during the year		(67,290)	85,807
Add: Opening net assets of the scheme		(1,956,107)	(2,023,397)
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>(2,023,397)</b>	<b>(1,937,590)</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2021/22 £'000	2022/23 £'000
Long Term Investments	14	150	150
Investments Assets	14	2,021,791	1,938,074
Current Assets	21	3,896	1,863
Current Liabilities	22	(2,440)	(2,497)
<b>NET ASSETS</b>		<b>2,023,397</b>	<b>1,937,590</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE FUND

The London Borough of Tower Hamlets Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by London Borough of Tower Hamlets.

### a) General

The LGPS is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Fund is a contributory defined benefit pension scheme administered by London Borough of Tower Hamlets to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the London Borough of Tower Hamlets Pensions Committee which is a Committee of London Borough of Tower Hamlets.

### b) Membership of the Fund

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the London Borough of Tower Hamlets Pension Fund include the following:

- Scheduled bodies include local authorities, academies, colleges and similar bodies, which are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table sets out the membership of the London Borough of Tower Hamlets Pension Fund as at 31st March 2023

	31st March 2022	31st March 2023
<b>Number of employees</b>		
LBTH	6,608	6,664
Other employers	1,044	1,093
	<b>7,652</b>	<b>7,757</b>
<b>Number of pensioners</b>		
LBTH	6,490	6,660
Other employers	489	526
	<b>6,979</b>	<b>7,186</b>
<b>Number of deferred pensioners</b>		
LBTH	7,734	7,779
Other employers	587	619
	<b>8,321</b>	<b>8,398</b>
<b>Total number of members in pension scheme</b>	<b>22,952</b>	<b>23,341</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE FUND

### **c) Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2023. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2022 however, the 31 March 2019 valuation covers the three financial years to 31 March 2023 and these rates have been applied from 1 April 2022.

Currently, employer contribution rates range from 15.8% to 41.4% of pensionable pay.

### **d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Price Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits are explained on the LGPS website.

## NOTE 2: BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2022/23 financial year and its financial position at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Pension Fund accounts have been prepared on a going concern basis.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Fund account – revenue recognition**

#### **a) Contribution income**

Normal contributions from both the members and the employer are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund's actuary in the rates and adjustment certificate issued to the relevant employing body.

Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Augmentations such as additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

#### **b) Transfers to and from other schemes**

Transfers in and out relate to members who have either joined or left the Fund. Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

#### **c) Investment income**

Investment income arising from the underlying investments in pooled funds is either reinvested or taken as a cash dividend to support the Fund's cash requirements. Interest income from the underlying investments of the Pooled Investment Vehicles are recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund account – expense items

#### d) Benefits payable

Pensions and lump-sum benefits 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, providing that payment has been approved.

#### e) Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

#### f) Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis.

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Investment management expenses include transaction costs and custody fees.

Where an investment manager's fee has not been received by the year end date an estimate is used based upon the market value of the Fund.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

#### i) Administrative expenses

All staff costs of the pensions administration team are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

#### ii) Oversight and governance

All staff costs associated with governance and oversight are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

#### iii) Investment management expenses

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments or to increase income if netted off from income received. Transaction costs met from the net asset value of the Fund are also grossed up and reported in Note 11A.



# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Net assets statement

#### g) Financial assets

Investment assets are included in the financial statements 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 asset are recognised in the fund account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. The Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosure (PRAG/Investment Association, 2016) (see Note 16).

#### h) Freehold and leasehold properties

The Fund has no direct investment in property.

#### i) Derivatives

The Fund uses derivative financial instruments indirectly to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

#### j) Cash and cash equivalents

Cash comprises cash in hand and internally managed cash and includes deposits held by the Fund's external managers which are repayable on demand without penalty.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### k) Financial assets at amortised cost

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

#### l) Financial liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **m) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS26) and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

### **n) Additional voluntary contributions**

The London Borough of Tower Hamlets Pension Fund provides an additional voluntary contribution AVC scheme for its members, the assets of which are invested separately from those of the Pension Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 23.

### **o) Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events. A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably. Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

### **p) Recharges from the General Fund**

The LGPS (Management and Investment of Funds) Regulations 2016 permit the council to charge administration costs to the Fund. A proportion of the relevant costs have been charged to the Fund on the basis of time spent on pension fund activity. Costs incurred are shown in Note 25.

### **q) Annual allowance (VSP,MSP) and lifetime allowance**

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduction in pension.

Where the Fund pays member tax liabilities direct to HMRC, it is treated as an expense in the year in which the payment occurs.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

### **Pension Fund liability**

The net Pension Fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted actuarial guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

In response to the government's guidance and criteria on pooling investments issued in 2015, the London Borough of Tower Hamlets Pension Fund is a founding member of the London Collective Investment Vehicle (LCIV) established as a Collective Investment Vehicle for LGPS Funds. At the end of 31 March 2023, the Fund has £1,092m (56.4%) under LCIV management. A further £336m (17.3%) is invested in Legal and General Passive Pool.

## NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statements for which there is a significant risk of material adjustment the following year are as follows:

### **a) Actuarial present value of promised retirement benefits**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.

For example:

• A 0.1% decrease in the discount rate used would result in an increase in the pension liability of £31m.

• A 0.1% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £2m.

### **b) Valuation of Investments at Level 3**

The Pension Fund contains investments in unitised pooled property funds and renewable energy infrastructure that are classified within the financial statements as level 3 investments. These funds are valued at £149m according to non-exchange based market valuations. As a result of this, the final realised value of the pooled units may differ from the valuations presented in the accounts.

## NOTE 6: EVENTS AFTER THE REPORTING DATE

Management have reviewed and can confirm that there are no significant events occurring after the reporting period.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 7: CONTRIBUTIONS RECEIVABLE

	2021/22 £'000	2022/23 £'000
<b>Employees</b>		
Council Employees' Normal Contributions	(11,813)	(12,830)
Admitted Bodies Employees' Normal Contributions	(174)	(196)
Scheduled Bodies Employees' Normal Contributions	(1,873)	(2,003)
<b>Total</b>	<b>(13,860)</b>	<b>(15,029)</b>
<b>Employers</b>		
Council Employers' Normal Contributions	(33,795)	(36,416)
Admitted Bodies Employers' Normal Contributions	(882)	(943)
Scheduled Bodies Employers' Normal Contributions	(5,214)	(5,644)
<b>Total</b>	<b>(39,891)</b>	<b>(43,003)</b>
Employers' Special Contributions	(2,296)	(438)
Deficit Funding	(13,678)	(13,664)
<b>Total</b>	<b>(15,974)</b>	<b>(14,102)</b>
<b>Grand Total</b>	<b>(69,725)</b>	<b>(72,134)</b>

## NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

	2021/22 £'000	2022/23 £'000
<b>Transfer Values</b>		
Transfer Values Received - Individual	(7,041)	(8,412)
<b>Total</b>	<b>(7,041)</b>	<b>(8,412)</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 9: BENEFITS PAYABLE

	2021/22 £'000	2022/23 £'000
Pensions	51,057	53,525
Lump Sum Retirement Benefits	10,853	9,026
Lump Sum Death Benefits	1,070	2,447
<b>Total</b>	<b>62,980</b>	<b>64,998</b>
By type of employer:		
Administering Authority	57,333	60,298
Scheduled Bodies	3,382	2,326
Admitted Bodies	2,265	2,373
<b>Total</b>	<b>62,980</b>	<b>64,997</b>

## NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2021/22 £'000	2022/23 £'000
Transfer Values Paid	5,709	8,375
Refunds to Members Leaving Service	262	321
<b>Total</b>	<b>5,971</b>	<b>8,696</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 11: MANAGEMENT EXPENSES

	2021/22 £'000	2022/23 £'000
Administration	1,654	1,990
Investment Management Expenses	15,086	13,710
Oversight & Governance	453	507
<b>Total</b>	<b>17,193</b>	<b>16,207</b>

## NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

	Management Fees £'000	Transaction Costs £'000	2022/23 £'000
Pooled Investments	7,529	4,248	11,777
Pooled Property Investments	1,684	183	1,867
	<b>9,213</b>	<b>4,431</b>	<b>13,644</b>
Custody Fees			66
			<b>13,710</b>

	Management Fees £'000	Transaction Costs £'000	2021/22 £'000
Pooled Investments	10,746	2,263	13,009
Pooled Property Investments	1,881	123	2,004
	<b>12,627</b>	<b>2,386</b>	<b>15,013</b>
Custody Fees			73
			<b>15,086</b>

## NOTE 12: INVESTMENT INCOME

	2021/22 £'000	2022/23 £'000
Pooled Property Investments	(5,775)	(6,150)
Pooled Investments -unit trusts and other managed funds	(21,374)	(24,402)
Interest on Cash Deposits	(34)	(268)
	<b>(27,183)</b>	<b>(30,820)</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 13: EXTERNAL AUDIT COSTS

	2021/22 £'000	2022/23 £'000
Audit Fees Payable in respect of external audit	18	35
<b>Total</b>	<b>18</b>	<b>35</b>

## NOTE 14: INVESTMENTS

	2021/22 £'000	2022/23 £'000
<b>Long Term Investments</b>		
UK unquoted Equities      London CIV Ltd	150	150
<b>Total Long Term Investments</b>	<b>150</b>	<b>150</b>
<b>Investment assets</b>		
Pooled Funds		
Fixed Income	212,321	207,801
Global Equity	1,139,354	1,078,437
Diversified Growth	419,463	405,453
Property	190,717	162,213
Infrastructure	33,199	53,689
Sub-Total	<b>1,995,054</b>	<b>1,907,593</b>
<b>Other Investment Balances</b>		
Cash Deposits	26,053	29,853
Amounts Receivable for Sales of Investments	0	0
Investment Income Due	684	628
Sub-Total	<b>26,737</b>	<b>30,481</b>
<b>Total Investment Assets</b>	<b>2,021,791</b>	<b>1,938,074</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 31 Mar 2022 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2023 £'000
<b>Investment Assets</b>					
Pooled Investments	1,804,337	31,623	(10,999)	(79,581)	1,745,380
Pooled Property Investments	190,717	6,231	(6,969)	(27,766)	162,213
	<b>1,995,054</b>	<b>37,854</b>	<b>(17,968)</b>	<b>(107,347)</b>	<b>1,907,593</b>
<b>Other Investment Balances</b>					
Cash Deposits	26,053			75	29,853
Amounts Receivable for Sales of Investments	0				0
Investment Income Due	684				628
Other	0				0
<b>Net Investment Assets</b>	<b>2,021,791</b>			<b>(107,272)</b>	<b>1,938,074</b>

	Market Value 31 Mar 2021 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2022 £'000
<b>Investment Assets</b>					
Pooled Investments	1,767,144	263,787	(244,818)	18,224	1,804,337
Pooled Property Investments	149,166	22,967	(12,674)	31,258	190,717
	<b>1,916,310</b>	<b>286,754</b>	<b>(257,492)</b>	<b>49,482</b>	<b>1,995,054</b>
<b>Other Investment Balances</b>					
Cash Deposits	37,283			3	26,053
Amounts Receivable for Sales of Investments	2,814				0
Investment Income Due	665				684
Other	0				0
<b>Net Investment Assets</b>	<b>1,957,072</b>			<b>49,485</b>	<b>2,021,791</b>



## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

All managers have discretion to buy and sell investments within the limits set by the Pensions Committee and their respective Investment Management Agreement. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against the benchmark on the investment manager.

Northern Trust (NT) act as the Fund's global custodian. They are responsible for safe custody and settlement of all investment and collection of income and complete a monthly reconciliation of its own portfolio valuation to external fund manager reports. The bank account for the Fund is held with National Westminster Bank.

Security	Market value as at 31st March 2022 £'000	% total of Fund	Market value as at 31st March 2023 £'000	% total of Fund
<b>Investments managed by regional asset pool (London CIV)</b>				
London LGPS CIV Lt Global Alpha Growth A	0	0.0%	0	0.0%
London LGPS CIV Lt Global Alpha Growth PARIS aligned	368,061	18.2%	348,306	18.0%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	220,748	10.9%	223,538	11.5%
London LGPS CIV Lt Diversified Growth A	198,715	9.8%	181,915	9.4%
LCIV CQS Credit Multi Asset-A	120,075	5.9%	114,769	5.9%
LCIV Sustainability Fund	182,918	9.0%	168,921	8.7%
LCIV Renewables Fund	34,825	1.7%	54,879	2.8%
	<b>1,125,342</b>	<b>55.7%</b>	<b>1,092,328</b>	<b>56.4%</b>
<b>Investments managed outside of regional asset pool</b>				
Schroder	310,724	15.4%	287,834	14.9%
Legal & General	473,869	23.4%	446,553	23.0%
Goldman Sachs	53,015	2.6%	53,206	2.7%
Insight Investment	39,231	1.9%	39,826	2.1%
Legacy	424	0.0%	196	0.0%
Internally managed cash	19,186	0.9%	18,131	0.9%
	<b>896,449</b>	<b>44.3%</b>	<b>845,746</b>	<b>43.6%</b>
	<b>2,021,791</b>	<b>100.0%</b>	<b>1,938,074</b>	<b>100.0%</b>

The following investments represent over 5% of the net assets of the fund. All of these companies are registered in the UK Security

Security	Market value as at 31st March 2022 £'000	% total of Fund	Market value as at 31st March 2023 £'000	% total of Fund
London LGPS CIV Lt Global Alpha Growth A	0	0.0%	0	0.0%
London LGPS CIV Lt Global Alpha Growth Paris aligned	368,061	18.8%	348,306	17.2%
Mfo GPCU - Msciworldlowcarbtargetin Dgcurhofc	361,707	18.5%	335,935	16.6%
LCIV Sustainability Fund	182,918	9.4%	168,921	8.3%
Schroder Inv Mg E Bespoke Investment Fund 9 I	114,514	5.9%	114,666	5.7%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	220,748	11.3%	223,538	11.0%
London LGPS CIV Lt Diversified Growth A	198,715	10.2%	181,915	9.0%
LCIV CQS Credit Mult Asset-A	120,075	6.1%	114,769	5.7%
Gpcl - Msciworldlw Carbondtargetindofc	112,155	5.7%	110,610	5.5%
	<b>1,678,893</b>	<b>85.8%</b>	<b>1,598,660</b>	<b>79.0%</b>

### NOTE 14C: STOCK LENDING

The Fund does not directly participate in stock lending. Investments held in pooled mandates such as LCIV Diversified Growth fund, LCIV Ruffer Absolute Return Funds.

In pooled mandates such as the LCIV Diversified Growth and Absolute return Funds as we just hold units of the Baillie Gifford Diversified Growth Fund and LF Ruffer Absolute Return Fund we do not do stock lending either.

### NOTE 14D: PROPERTY HOLDINGS

The Fund's investment property portfolio does not comprise directly owned properties.

### NOTE 15: ANALYSIS OF DERIVATIVES

#### Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market based information.

Description of asset	Valuation hierarchy 21/22	Valuation hierarchy 22/23	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Quoted UK and Overseas Bonds	Level 2	Level 2	Fixed income securities are priced based on evaluated price provided by independent pricing services	Evaluated price feeds	Not required
Pooled Investments - Property Funds	Level 3	Level 3	Closing bid price where bid and offer prices are published	Adjusted for net capital current assets	Estimated acquisition and disposal costs
Pooled Investments - Multi Asset Credit	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	Evaluated price feeds	Not required
Pooled Investments - Absolute Return	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Pooled Investments - Infrastructure	Level 3	Level 3	Latest available fair value provided by the manager, adjusted for cash movements subsequent to the date as required	Manager valuation statements are prepared in accordance with ECVA guidelines	Upward valuations are only considered when there is a validation of the investment objectives and such progress can be demonstrated

Fair Value Hierarchy	Market Value as at 31 Mar 2023	Quoted market price	Using observable inputs		With significant observable inputs	Total
	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000	£'000
<b>Financial assets at fair value through profit and loss</b>						
Equities	150		150			150
<u>Pooled investments</u>						
Fixed Income	207,801		207,801			207,801
Global Equity	1,078,437		1,078,437			1,078,437
Diversified Growth	405,453		405,453			405,453
Property	162,213			162,213		162,213
Infrastructure	53,689			53,689		53,689
	<b>1,907,743</b>	<b>0</b>	<b>1,691,841</b>	<b>215,902</b>		<b>1,907,743</b>

Fair Value Hierarchy	Market Value as at 31 Mar 2022	Quoted market price	Using observable inputs		With significant observable inputs	Total
	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000	£'000
<b>Financial assets at fair value through profit and loss</b>						
Equities	150		150			150
<u>Pooled investments</u>						
Fixed Income	212,321		212,321			212,321
Global Equity	1,139,354		1,139,354			1,139,354
Diversified Growth	419,463		419,463			419,463
Property	190,717			190,717		190,717
Infrastructure	33,199			33,199		33,199
	<b>1,995,204</b>	<b>0</b>	<b>1,771,288</b>	<b>223,916</b>		<b>1,995,204</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

There were no transfers in the year.

### NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 Apr 2022	Transfers in/out of level 3	Purchases	Sales	Unrealised gains (losses)	Realised gains (losses)	Market Value 31 Mar 2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pooled Property Funds	190,717	0	6,231	(6,969)	(27,930)	164	162,213
Infrastructure Funds	33,199	0	14,338	(6,553)	12,705	0	53,689
<b>Total</b>	<b>223,916</b>	<b>0</b>	<b>20,569</b>	<b>(13,522)</b>	<b>(15,225)</b>	<b>164</b>	<b>215,902</b>

	35 Assessed valuation range (+/-) %	Value 31 Mar 2022	Value on Increase	Value on Decrease
		£'000	£'000	£'000
Pooled Property Funds	10%	162,213	178,434	145,992
<b>Total</b>		<b>162,213</b>	<b>178,434</b>	<b>145,992</b>

	Market Value 1 Apr 2021	Transfers in/out of level 3	Purchases	Sales	Unrealised gains (losses)	Realised gains (losses)	Market Value 31 Mar 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pooled Property Funds	149,166	0	22,967	(12,674)	34,508	(3,250)	190,717
Infrastructure Funds	0	0	38,362	(5,198)	35	0	33,199
<b>Total</b>	<b>149,166</b>	<b>0</b>	<b>61,329</b>	<b>(17,872)</b>	<b>34,543</b>	<b>(3,250)</b>	<b>223,916</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2022			Market Value as at 31 Mar 2023		
Designated as fair value through profit and loss	Financial Assets at amortised cost	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Financial Assets at amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>					
150	0	0	150	0	0
1,804,337	0	0	1,745,380	0	0
190,717	0	0	162,213	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	26,737	0	0	30,481	0
0	3,896	0	0	1,863	0
<b>1,995,204</b>	<b>30,633</b>	<b>0</b>	<b>1,907,743</b>	<b>32,344</b>	<b>0</b>
<b>Financial liabilities</b>					
0	0	(2,440)	0	0	(2,497)
<b>0</b>	<b>0</b>	<b>(2,440)</b>	<b>0</b>	<b>0</b>	<b>(2,497)</b>
<b>1,995,204</b>	<b>30,633</b>	<b>(2,440)</b>	<b>1,907,743</b>	<b>32,344</b>	<b>(2,497)</b>
<b>Grand Total</b>			<b>Grand Total</b>		
<b>2,023,397</b>			<b>1,937,590</b>		

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	2021/22 £'000	2022/23 £'000
<b>Financial Assets</b>		
Fair value through profit or loss	(49,482)	107,347
Amortised cost – realised gains on derecognition of assets	0	0
Amortised cost – unrealised gains	(3)	(75)
<b>Total Financial Assets</b>	<b>(49,485)</b>	<b>107,272</b>

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: 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 (i.e. promised benefits payable to members).

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed by the Pensions Committee and Pension Board in the light of changing market and other conditions.

### **Credit risk**

Credit risk is the risk that a counterparty to a financial instrument may fail to pay amounts due to the Pension Fund. 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 Fund employs a custodian to provide secure safe-keeping of the Fund's assets and to ensure that all trades are settled in a timely manner.

### **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 (Northern Trust 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. As at 31 March 2023, liquid assets were £1,938m representing 90.2% of total assets of the Fund assets (£2,021m as at 31 March 2022). The majority of these investments can be in fact liquidated within a matter of days.

### **Currency risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of hedging. The Pensions Committee recognises that a strengthening /weakening of the Pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS cont.

### **Currency risk - contd.**

Overseas equities, fixed interest securities and equity protection swaps and some elements of the pooled investment vehicles are exposed to currency risk. The currency risk table demonstrates the change in value of these assets had there been a 10% change strengthening/weakening of the Pound against foreign currencies.

### **Market risk**

This is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions.

### **Price risk**

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument or its issuer factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities regardless of being in a pool represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments with the exception of derivatives.

The Fund manages price risk of its portfolio by diversifying its investments across different asset classes and fund managers as required by regulations. Further, the Fund has a long-term investment horizon and can accept the price risk in its portfolio. The Fund can mitigate the price risk by regular reviews of its investment strategy in consultation with its investment advisors.

The price risk table below demonstrates the change in the net assets available to pay benefits if the market price has increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward exchange as these financial instruments are not subject to price risk.

### **Interest rate risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates. The Pensions Committee and its advisors regularly monitor the Fund's interest rate risk exposure during the year.

Fixed interest securities, cash and cash equivalents are exposed to 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.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### OTHER PRICE RISK - sensitivity analysis

Asset type	Market Value as at 31/03/2023	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Cash and cash equivalents</b>	29,853	0.9%	30,122	29,584
<b>Pooled Investments:</b>				
Fixed Income	207,801	6.8%	221,931	193,671
Global Equity	1,078,437	14.8%	1,238,046	918,828
Diversified Growth	405,453	6.4%	431,402	379,504
Property	162,213	4.0%	168,702	155,724
Infrastructure	53,689	6.8%	57,340	50,038
Other Investment income due	628	0.9%	634	622
Amounts receivable for sales	0	0.9%	0	0
<b>Total investment assets</b>	<b>1,938,074</b>		<b>2,148,177</b>	<b>1,727,971</b>

Asset type	Market Value as at 31/03/2022	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Cash and cash equivalents</b>	26,053	0.9%	26,287	25,819
<b>Pooled Investments:</b>				
Fixed Income	212,321	6.8%	226,759	197,883
Global Equity	1,139,354	14.8%	1,307,978	970,730
Diversified Growth	419,463	6.4%	446,309	392,617
Property	190,717	4.0%	198,346	183,088
Infrastructure	33,199	6.8%	35,457	30,941
Other Investment income due	684	0.9%	690	678
Amounts receivable for sales	0	0.9%	0	0
<b>Total investment assets</b>	<b>2,021,791</b>		<b>2,241,826</b>	<b>1,801,756</b>

### CURRENCY EXPOSURE - asset type

Asset type	Market Value as at 31/03/2023	Change in year in the net assets available to pay benefits
	£'000	6.3% (6.3%)
<b>Overseas Assets</b>		
Overseas Fixed Income Funds	207,697	220,782 194,612
Overseas Equity Funds	335,935	357,099 314,771
Overseas Property Funds	33532	35,645 31,419
<b>Total change in assets available</b>	<b>577,164</b>	<b>613,525 540,803</b>

Asset type	Market Value as at 31/03/2022	Change in year in the net assets available to pay benefits
	£'000	7.3% (7.3%)
<b>Overseas Assets</b>		
Overseas Fixed Income Funds	206,759	221,852 191,666
Overseas Equity Funds	361,707	388,112 335,302
Overseas Property Funds	35,497	38,088 32,906
<b>Total change in assets available</b>	<b>603,963</b>	<b>648,052 559,874</b>



# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### INTEREST RATE RISK

Asset type	Market Value as at 31/03/2023 £'000	Market Value as at 31/03/2022 £'000
<b>Cash and cash equivalents</b>		
Cash	29,853	26,053
<b>Total</b>	<b>29,853</b>	<b>26,053</b>

Interest rate risk sensitivity analysis

Asset type	Market Value as at 31/03/2023 £'000	Change in year in the net assets available to pay benefits	
		+100 bps £'000	-100 bps £'000
<b>Cash and cash equivalents</b>			
Cash	29,853	299	(299)
<b>Total</b>	<b>29,853</b>	<b>299</b>	<b>(299)</b>

Asset type	Market Value as at 31/03/2022 £'000	Change in year in the net assets available to pay benefits	
		+100 bps £'000	-100 bps £'000
<b>Cash and cash equivalents</b>			
Cash	26,053	261	(261)
<b>Total</b>	<b>26,053</b>	<b>261</b>	<b>(261)</b>

### CREDIT RISK

Summary	Rating	Market Value as at 31/03/2023 £'000	Market Value as at 31/03/2022 £'000
<b>Money Market Funds</b>			
Schroder special situations sterling liquidity plus	A	10,447	4,705
<b>Bank current accounts</b>			
Northern Trust custody cash account	A	1,274	2,161
National Westminster Bank Plc	A	18,132	19,187
<b>Total</b>		<b>29,853</b>	<b>26,053</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 19: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation that took place as at 31 March 2019 covered the period up to 31 March 2023. This report details Fund assumptions and employer contributions for the three years covered by the 2019 valuation.

The key elements of the funding policy are:

- 1) to ensure the long-term solvency of the Fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment
- 2) to ensure that employer contribution rates are as stable as possible
- 3) to minimise the long-term cost of the LGPS by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- 4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so and
- 5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The triennial valuation undertaken as at 31 March 2019 covers the financial assumptions for 2022/23. The actuary estimated the surplus of the Fund to be £27m and the funding level to be 102%. This compared to a deficit at the previous valuation in 2016 of £235m and a corresponding funding level of 82.8%. The triennial valuation also sets the individual contribution rate to be paid by each employer from 1 April 2020 to 31 March 2023.

The contribution rates are made of two values, the Primary and Secondary rate. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer Secondary rates (before applying any pre-payment or capitalisation of future contributions).

The table below summarises the whole Fund Primary and Secondary Contribution rates at the 2019 triennial valuation:

Primary Rate (% of pay)	2020-21 £'000	2021-22 £'000	2022-23 £'000
19.90%	15,019	15,137	15,103
	<b>15,019</b>	<b>15,137</b>	<b>15,103</b>

50:50 option

It is assumed that 0.5% of members opt into the 50:50 option in the LGPS 2014 scheme.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

### Actuarial Value of Promised Retirement Benefits

CIPFA's code of practice on Local Authority Accounting 2022/23 requires Administering Authorities of LGPS Funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The promised retirement benefits at 31 March 2023 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022 using financial assumptions that comply with IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1,837 million (£2,498 million in 2021/22). The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, the actuary has not made an allowance for unfunded benefits.

Year ended	31 Mar 2022	31 Mar 2023
	£m	£m
Active members	872	597
Deferred members	601	385
Pensioners	1,026	855
	<b>2,498</b>	<b>1,837</b>

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2023 and 31 March 2022. The impact of the change in financial assumptions to 31 March 2023 is to decrease the actuarial present value by £878m. The impact of the change in demographic assumptions is to decrease the actuarial present value by £17m.

### Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Average future life expectancies at age 65 years	Male	Female
Current pensioners	21.5	23.9
Future pensioners	22.6	25.5

### Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the obligations are set out below:

Change in assumption at 31 March 2023	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2.0%	31
1 year increase in member life expectancy	4.0%	73
0.1% p.a. increase in the Salary Increase Rate	0.0%	2
0.1% p.a. increase in the Pension Increase Rate (CPI)	2.0%	29

### Financial assumptions

The financial assumptions used for the purpose of the calculation is set out in the table below

Year ended	31 March 2022	31 March 2023
Inflation/pension increase rate assumption	3.2%	3.0%
Salary increase	3.4%	3.0%
Discount rate	2.7%	4.8%

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 21: CURRENT ASSETS

	2021/22 £'000	2022/23 £'000
<b>Short term debtors</b>		
Contributions due	2,974	975
Sundry debtors	351	477
Prepayments	571	411
<b>Total</b>	<b>3,896</b>	<b>1,863</b>

## NOTE 22: CURRENT LIABILITIES

	2021/22 £'000	2022/23 £'000
Sundry creditors	(1,396)	(1,537)
Transfer values payable (leavers)	(371)	0
Benefits payable	(673)	(960)
<b>Total</b>	<b>(2,440)</b>	<b>(2,497)</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

In accordance with Regulation 4 (1)(b) of the Pension Scheme (Management and Investment of Funds) Regulation 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

	2021/22		2022/23	
	Market Value* £'000	Contributions Paid £'000	Market Value £'000	Contributions Paid £'000
Aviva	1,286	52	1,282	67
Equitable Life / Utmost Life	736	3	637	2
	<b>2,022</b>	<b>55</b>	<b>1,919</b>	<b>69</b>

Additional voluntary contributions (AVC's) were paid to Aviva and Utmost Life during the year.

\* The market value is as at 5 April for Utmost and 31 March for Aviva.

## NOTE 24: AGENCY SERVICES

The Fund is fully reimbursed of all agency services costs paid on behalf of the administering authority.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 25: RELATED PARTY TRANSACTIONS

The LBTH Pension Fund is administered by the LBTH.

The Council incurred costs of £1,261k (£1,241k 2021/22) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. 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 Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £4.2m (£4.4m 2021/22) from this company.

## NOTE 25A: KEY MANAGEMENT PERSONNEL

Key management personnel for the Pension Fund include Pension Fund Committee Members, the Corporate Director for Resources, the Director of Finance Procurement & Audit and the Head of Pensions and Treasury. There were no costs apportioned to the Pension Fund in respect of the Corporate Director for Resources post for 2021/22 and 2022/23.

Total remuneration payable to key management personnel from the Pension Fund is set out below:

	2021/22 £'000	2022/23 £'000
Short-term benefits	23	23
Post-employment benefits	616	694
	<b>639</b>	<b>717</b>

## NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund has committed £120m to the London CIV Renewable Energy Infrastructure Fund, of this commitment, £66.9m was still outstanding at 31 March 2023.



## GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

### FINANCIAL TERMS

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

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

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

**Accrual** – The recognition of income and expenditure in the year that they occur and not when the 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 who provides advice 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.

**Arms 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 (ie after amortisation).

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

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

**Better Care Fund (BCF)** – A pooled budget between the Council and the local Clinical Commissioning Group, supported by grants from Central Government.





**Billing Authority** – Refers to a local authority that is responsible for the collection of Council Tax and Non-Domestic Rates, both on behalf of itself, Central Government and the Greater London Authority.

**Budget** – A plan of expenditure for a financial year 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 (BRS)** – The Business Rate Supplements Act 2009 enables levying authorities - county councils, unitary 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 receipts that are currently unspent and 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** - This is a potential "one-off" future liability or loss, but the likelihood of the loss incurring is sufficiently low that the establishment of a provision is not appropriate.

**Contingent Asset** - This is a potential "one-off" future receipt or acquisition of an asset, but the likelihood of the gain incurring is sufficiently low that the recognition of it is not appropriate.

**Corporate and Democratic Core** - This is the cost of managing core functions of the Council and includes corporate policy making, activities that relate to the corporate management of the Council and all other member-based activities.

**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 Liabilities** - 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.

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

**Deferred Income - Receipt in Advance** - This represents a cash receipt received in advance of the period of time it relates to. For example a cash receipt may be received as part of entering into a building lease, with the credit then 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 may relate to Private Finance Initiative (PFI) schemes.

**Defined Benefit Scheme** - A pension scheme which pays out pensions or benefits based on final salary or other contractual terms irrespective of the contributions paid. Benefits are not directly related to the investments of the Pension Fund.





**Depreciated Replacement Cost (DRC)** – a valuation method that is based on the cost of recreating the asset in its current condition and use. This can be the cost of creating a modern equivalent asset where appropriate.

**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**– The use of revenue monies to pay for capital expenditure. Also referred to as Revenue Contributions to Capital Outlay.

**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.

**External Audit** – An independent examination by an appointed Auditor (currently Deloitte LLP) of the Council's activities and accounts to ensure that legal requirements have been met, proper practices followed and appropriate arrangements made to secure value for money.

**Fair Value** - It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**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 (FIAA)** - 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.

**Group Accounts** – Where a Council has a material interest in a separate entity, it may be required to combine the entities financial statements with its own to show the consolidated results of the Council and entity as a group.

**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 when purchased 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 the amounts 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 in more than one year.

**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 Strategy (MTFS)** – 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.

**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)** – Local Businesses contribute to Council expenditure based on a rate in the pound decided by Central Government, this is applied to the rateable value of their premises.

**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.

**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.

**Revaluation Reserve** – Represents the increase in value of the Council's land and building assets.

**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** - 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.

**Section 151 Officer** - The Responsible Finance Officer for the Council as required by Section 151 of the Local Government Act 1972.

**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)
- AVC** – Additional Voluntary Contribution
- BCF** – Better Care Fund
- BRS** – Business Rates Supplement
- BSF** - Building Schools for the Future
- BVIB** – Best Value Improvement Board
- CBS** – Community Benefit Society
- CCG** - Clinical Commissioning Group
- CFR** - Capital Financing Requirement
- CIES** - Comprehensive Income and Expenditure Statement
- CIL** - Community Infrastructure Levy
- CIPFA** - Chartered Institute of Public Finance and Accountancy
- CLG** – Company Limited by Guarantee
- CPB** – Corporate Parenting Board
- CPI** - Consumer Price Index
- DfE** - Department for Education
- DRC** – Depreciated Replacement Cost
- DSG** - Dedicated Schools Grant
- EIR** - Effective Interest Rate
- EUV** – Existing Use Value
- EUV-SH** – Existing Use Value-Social Housing
- FIAA** – Financial Instruments Adjustment Account
- GF** - General Fund
- GLA** - Greater London Authority
- HMT** – HM Treasury
- HRA** - Housing Revenue Account
- IAS** - International Accounting Standard
- IFRS** - International Financial Reporting Standards
- LASAAC** - Local Authority (Scotland) Accounts Advisory Committee
- LBTH** - London Borough of Tower Hamlets
- LGA** – Local Government Association





**LGPS** - Local Government Pension Scheme  
**LOBO** - Lender's Option – Borrower's option  
**LPFA** - London Pensions Fund Authority  
**MHCLG** – Ministry of Housing, Communities & Local Government  
**MRP** - Minimum Revenue Provision  
**MTFS** - Medium Term Financial Strategy  
**NDC** - New Deal for the Community  
**(N)NDR** - (National) Non-Domestic Rates  
**NPV** - Net Present Value  
**PFI** - Private Finance Initiative  
**PMAF** – Performance Management and Accountability Framework  
**PMO** – Project Management Office  
**PPE** - Property, Plant and Equipment  
**PSIAS** – Public Sector Internal Audit Standards  
**PWLB** - Public Works Loans Board  
**REFCUS** - Revenue Expenditure Funded by Capital Under Statute  
**RPI** - Retail Price Index  
**RSG** - Revenue Support Grant  
**SDPS** - Surplus or Deficit on the Provision of Services  
**SEN** – Special Educational Needs  
**SOLACE** – Society of Local Authority Chief Executives  
**TA** – Temporary Accommodation  
**TH** - Tower Hamlets  
**THH** - Tower Hamlets Homes  
**TIB** - Transformation & Improvement Board  
**VFM** - Value For Money





# **Annual Governance Statement**

## **2022/2023**



## Our Annual Governance Statement

We are required to report publicly about how the Council has complied with its governance arrangements, including how they have operated over the course of the last year and if any areas require improvement. This Annual Governance Statement reports the outcome of our assessment.

Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and responsible manner.

The Council has adopted a Code of Corporate Governance that is based on the recommended guidance: *Delivering Good Governance in Local Government*. In adopting this Code, we recognise the importance of having good governance, which includes effective leadership and management, policies and procedures, to ensure we have a well-run Council that delivers high quality, value for money services to the local community. We also acknowledge our responsibility for ensuring that the Council conducts its business in accordance with the law and proper standards and that public money is safeguarded.

The Council is committed to being efficient and effective in delivering improved outcomes for residents of Tower Hamlets. We are open and transparent about our continuous improvement journey and have been recognised for achievements so far. The London Borough of Tower Hamlets (the “Council”) is committed to being efficient and effective in delivering improved outcomes for residents of Tower Hamlets. We pride ourselves in doing this in an open and transparent manner, especially when it relates to our continuous improvement journey.

We recognise that good governance requires a culture of continuous improvement and challenge, and we will continue to seek improvement and will be self-critical in doing so to ensure we uphold the highest possible standards of good governance.

Signed on behalf of the London Borough of Tower Hamlets

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Steve Halsey, Chief Executive

Date:

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Lutfur Rahman, Executive Mayor

Date:

## Introduction

All local authorities are required to report publicly about how they have complied with their governance arrangements and do so through an Annual Governance Statement (AGS). Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and responsible manner.

The Council has adopted a Code of Corporate Governance (the Code). The Code is based on the principles of good governance recommended by Chartered Institute of Public Finance and Accountancy (CIPFA) and SOLACE in a joint document entitled *'Delivering Good Governance in Local Government'*.

The Code sets out the commitment of the Council to work to uphold the highest possible standards of good governance. This is essential for ensuring we conduct our business in accordance with the law and proper standards and that public money is properly accounted for. It also includes effective leadership and management, policies, and procedures, to ensure we have a well-run Council that delivers high quality, value for money services to the local community.

To assess the effectiveness of key elements of the governance framework, including partnership arrangements and alternative delivery models, we have reviewed our performance against each of the seven principles of good governance:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimize the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

When evaluating our performance, we have taken into consideration reviews and inspections of the Council by others, as well as the work of internal and external audit. We have also reviewed our progress against improvement actions that were identified as part of the 2021/22 Annual Governance Statement.

In addition, each Corporate Director is required to confirm that their directorates are run efficiently, effectively, and with proper risk management and governance arrangements, including a sound system of internal control. They are required to review internal controls to ensure they are adequate and effective, whilst considering the following:

- Outcomes from risk assessments and evaluations
- Self-assessment of key service areas within the directorate
- Internal audit reports and results of follow ups regarding implementation of recommendations
- Outcomes from reviews of services by other bodies, including inspectorates, external auditors, etc.
- Linkage between business planning and the management of risk

Where areas for improvement are required an action plan must be developed. We have used these returns to further enhance our review of the Council's governance framework.

To conclude the assessment, we have provided an overall view on our governance arrangements and included an action plan to record how we will address any areas requiring improvement.

## Our Assessment

To assess the effectiveness of key elements of the governance framework, including partnership arrangements and Council owned companies, we have reviewed our performance against each of the seven principles of good governance. When evaluating our performance, we have taken into consideration reviews and inspections of the Council by others such as CIPFA, as well as the work of internal and external audit.

<b>Principal</b>	<b>Review of Governance Arrangements</b>
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.</p>	<p>The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent, and accountable to local people, including the Financial Regulations. The Constitution is published on the Council's website. The constitution was last updated and agreed at full Council in May 2023. In addition, there are a range of policies and procedures to direct and guide Members and staff, as well as codes of conduct that set out standards of behaviour expected from Members and staff. We have noted that some of the Council's policies and procedures are overdue for a review, but given the global pandemic, all overdue policies and procedures will be reviewed as soon as practicable.</p> <p>The Council has appointed the required statutory officers which includes the Head of Paid Service (Chief Executive), the Monitoring Officer (Director of Legal Services) and the Chief Finance Officer, also referred to as the Section 151 Officer (Corporate Director, Resources). These three officers meet regularly to discuss governance issues.</p> <p>The Council operates a Standards Advisory Committee to oversee and promote high standards of conduct by the Mayor, Councillors and Co-opted Members of the Council, including in relation to the Code of Conduct and the Register of Interests. Half the Committee membership allocation is for independent Co-opted Members and there are also two separately appointed statutory Independent Persons who advise in relation to alleged breaches of the Code of Conduct. The Committee takes an active role in this work receiving regular reports, monitoring complaints</p>

	<p>against Members, the Register of Interest/Gifts and Hospitality, Member Development, and reports from the work of the Committee on Standards in Public Life amongst other matters. The Committee provides full Council with an annual report on its activities which highlights areas of strength and concern; a report was last taken to full Council in September 2023, with the next expected at the meeting scheduled in July 2024.</p> <p>All members positively acknowledge the Code when they join the Council. A consultation was launched in June 2020 to review the model code of conduct for Members and the new code was approved by Council in November 2021 and came into force following the 5 May 2022 local elections. A reminder of the new Member Code of Conduct was presented, as part of the Council's constitution, to full Council at its meeting held on 17 May 2023.</p> <p>The Council has adopted a whistleblowing policy to guide and support staff about how to raise any concerns. It is readily available on the Intranet. The Monitoring Officer maintains a central record of all whistleblowing concerns and how they have been resolved. In April 2021 the Monitoring Officer reported a summary of concerns raised and their outcomes to the Audit Committee. A similar report will be presented as part of the 2023/24 Audit Committee workplan.</p> <p>Committee reports and key decisions are published online to ensure transparency and Executive decisions made by the Mayor and Cabinet are subject to the 'Call-In' process by backbench Councillors who can raise any concerns they may have.</p> <p>The Council maintains a Register of Interests (for officers and Members) which includes a requirement to declare interests at meetings ensuring that potential issues are recorded, and Members do not take part in meetings in an inappropriate way. This includes the need to leave the room when any items for which they have a Pecuniary Interest are discussed. A revised guide to declaring interests at meetings has been attached to all meeting agendas since May 2020. During the period when the Council operated using an on-line meeting format (via MS</p>
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	<p>Teams), attendants of the meeting that declare an interest were required to leave the virtual meeting room.</p> <p>The Council also maintains a Gifts and Hospitality register to ensure that Members and officers declare any gifts and hospitality in an open and transparent manner. The Gifts and Hospitality Policy was reviewed during 2021/22 and relaunched in May 2022. Individual teams have been instructed to adopt the revised policy, hold details of any gifts and hospitality offered, accepted, and declined, whilst reporting up into a Directorate-held registers for completeness.</p> <p>The Council has sought feedback from the public through its complaints and comments procedures and has responded to the outcomes as appropriate.</p> <p>The Council's Audit Committee has met throughout the year and has considered reports from internal and external audit as well as other updates, reports, and advice from the Chief Financial Officer and the Monitoring Officer.</p> <p>The Council routinely provides training for its Members on numerous topics including financial management, risk, governance, and ethics. The 5 May 2022 local elections resulted in numerous Member changes and therefore member training on ethics and probity, as well as other topics, was provided during 2022/23.</p>
<p>B. Ensuring openness and comprehensive stakeholder engagement.</p>	<p>Council meetings and Committees are routinely held in public unless there are good reasons for not doing so on the grounds of confidentiality/disclosure of exempt information which are provided for in statutory provisions.</p> <p>The Council has invested in the technology to facilitate the webcasting of meetings meaning that stakeholders and residents can attend meetings if they wish to or watch them online. This</p>

	<p>technology was proven particularly effective during the Covid-19 pandemic and enabled critical Committees to continue and be available to the public. As the Council has exited the restrictions enforced by the pandemic, Council meetings and Committees have returned to face-to-face meetings, with the option to attend virtually to observe.</p> <p>An online library of meeting agendas, attendance, supporting papers, decisions and minutes is maintained on the Council’s website. As a result, the decision-making process can be considered and reviewed by stakeholders and the public from inception through to final decision and any ultimate scrutiny.</p> <p>The Council has sought community views on a wide range of issues and has undertaken regular consultation and engagement with citizens and service users. During 2019/20 the Council launched a Consultations Hub to better facilitate consultations. Details of current, planned, and past consultations have been made available on the Council’s website along with information on how the public/stakeholders can put forward their views. The Hub has had a positive impact on consultation resulting in increased transparency and accessibility providing the Council with a more balanced view of public opinion.</p> <p>The Council’s Overview and Scrutiny Committee has engaged with stakeholders, residents, and community groups to review services and drive improvement in service delivery. The Overview and Scrutiny Committee includes co-opted residents with relevant knowledge and has encouraged residents to attend its meetings, which are open to the public and webcast. Further, residents, community groups and expert witnesses have been invited to participate in Scrutiny review and challenge sessions so the Committee can hear directly from those whose interests are represented.</p>
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	<p>Social media channels have been used extensively to support the Council's engagement with stakeholders. The Council has adopted a Social Media Policy to provide advice and guidance on the use of social media.</p>
<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	<p>The Strategic Plan is the main business planning document of the Council. It sets out the corporate priorities and outcomes, the high-level activities that will be undertaken to deliver the outcomes, as well as the measures that will help determine whether the Council is achieving the outcomes. The Council has a structured set of plans which turn the vision into actions, through directorate, key council strategies and service plans. The plan is refreshed annually. The latest version has been published on the Council's website.</p> <p>The performance of the Council against measurable outcome-led targets has been assessed through performance monitoring reports that have been considered within directorates, by the Corporate Leadership Team, Overview and Scrutiny Committee, Cabinet and subsequently at other meetings of relevance. Any such reports can also be called in for scrutiny and reviewed by the Audit Committee.</p>
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes.</p>	<p>The Council, Cabinet and Committees have received regular reports on performance monitoring, the strategic plan and other policies and procedures which demonstrate the level to which intended outcomes are being achieved and any interventions planned to address issues.</p> <p>All decisions being considered have been objectively and rigorously analysed by the Monitoring Officer and the Chief Financial Officer and all reports have set sections for legal and finance comments to be recorded. Reports have been cleared by finance and legal officers before publication, although on some occasions finance and/or legal are given very little time to review and comment and we will seek to improve lead times.</p>

	<p>The Council's Performance Management and Accountability Framework (PMAF) sets out how we establish whether performance improvement is necessary. The Performance Improvement Board is the main board responsible for identifying and determining interventions to bring about improvements and this board has met regularly.</p> <p>The Council's Performance Improvement Board challenges services where there are identified concerns, takes a trouble-shooting approach, acts as a "critical friend" to drive improvement in performance, and makes recommendations about where to focus resources to drive improvement.</p>
<p>E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.</p>	<p>The roles of all officers (including statutory roles) have been defined in agreed job descriptions and person specifications. Staff performance is reviewed annually using an approach called 'My Annual Review (MAR)' which was introduced during 2020/21 to improve the process and make it simpler to facilitate a two-way conversation. The MAR process has had a positive impact on staff, as it has become embedded across the Council, with metrics suggesting engagement has increased. Management will continue to monitor compliance with the process and address areas of weakness.</p> <p>The Council has articulated its values and behaviours in 'TOWER values' which includes a behaviours framework to support officers in the MAR process and when recruiting staff.</p> <p>The Council's transformation programme, called People First (this has replaced Smarter Together), is focussed on achieving the objectives set out in the Strategic Plan for 2022-26. Key elements of People First include:</p> <ul style="list-style-type: none"> <li>• putting our borough first, by ensuring the Council can support as many residents and businesses as possible and maximise the benefits of bringing Tower Hamlets Homes and leisure services in-house and investing £19m into our young people</li> </ul>

	<ul style="list-style-type: none"> <li>• put staff first they have the support to deliver the best outcomes you can, without being held back by red tape or systems that are not fit for purpose.</li> </ul> <p>All members have been provided with a Member Induction Programme and wider Member Development Programme. Members also have an online portal (members hub) to give them access to many useful documents and materials and a weekly Member Bulletin email to keep them updated with the work of the Council.</p> <p>Cabinet Members and the Mayor are held to account through regular attendance at Overview and Scrutiny Committee and Sub-Committee meetings as well as through monthly Portfolio meetings with the Mayor and quarterly performance and budget monitoring meetings.</p> <p>Staff new to the Council are provided with a corporate Induction and provided with additional documents and policies to support their induction, this includes mandatory training in areas such as data protection, anti-fraud and whistleblowing. Management will continue to monitor completion of the training and address any related areas of non-compliance.</p> <p>Staff are provided with a wide range of development opportunities through the Learning Hub. The Council has adopted a range of supporting plans and strategies including the People and Wellbeing Plan, and the Workforce Development Strategies.</p>
<p>F. Managing risks and performance through robust internal control and strong public financial management.</p>	<p>The Council has adopted a risk management strategy and approach with the main priorities of providing robust systems of identification, evaluation, and control of risks which threaten the Council's ability to meet its objectives to deliver services to the community. A five-year Risk Management Strategy was reviewed and agreed by CLT at the end of 2019/20 and the Audit Committee in July 2020.</p>

	<p>Risk management is part of the Council’s day-to-day activities and decision-making and regular reports have been provided at corporate and directorate level. The Corporate Risk Register is independently reviewed by the Audit Committee.</p> <p>In July 2023 the Audit Committee received the annual report for risk management for the 2020/21 period. The report stated that “The current position at the Council is that Risk Management practices are established but not fully embedded and mature. Moreover, there are inconsistent levels of engagement in the underlying processes (reviewing risk articulation, updating controls, removing redundant risks), and consequently there is limited confidence that the underlying risk data held on JCAD is accurate and useful as a tool for managing risk.” A number of actions were included in the report and were endorsed by the Audit Committee.</p> <p>The Corporate Director, Resources is responsible for the proper administration of all aspects of the Council’s financial affairs including ensuring appropriate advice is given to the Council on all financial matters. The Council’s system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability.</p> <p>A Medium-Term Financial Strategy is in place and is refreshed annually. Revenue and capital budget planning based on corporate priorities are led by the Corporate Leadership Team and are presented for approval by the Council. Revenue and Capital Budget Monitoring reports have been presented to the Cabinet on a regular basis, this includes the annual outturn. Members have been able to scrutinise budget monitoring through the relevant Committee to ensure performance and risks are managed.</p> <p>The Council has continued to face a challenging financial environment throughout 2022/23. The provisional outturn position for 2022/23 is expenditure of £403.5m against a budget of £389.5m, resulting in a gross overspend of £14.0m. Following the proposed net drawdown of earmarked reserves totalling £14.6m, there is an overall £0.6m net underspend.</p>
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	<p>Within the provisional outturn, the Council plan to utilise £4.4m of this non-ringfenced COVID-19 funding to mitigate against in-year COVID-19 pressures which continue to persist. Continued COVID recovery alongside a spike in inflation, fuel prices and the impacts of these on the cost of living will be key aspects for the Council to consider in its medium-term financial planning going forward.</p> <p>Since 2019/20 Finance has been focussed on rectifying significant issues with the 2018/19 and 2019/20 Statement of Accounts. The Mayor, Cabinet Members, CLT and the Audit Committee have been provided with regular updates on progress to finalise the accounts. It is anticipated that the 2018/19 and 2019/20 audits will be finalised imminently, though they will receive qualified audit opinions. A draft SoA for 2020/21 was published in January 2022.</p> <p>The Council has a proactive, holistic approach to tackling fraud, theft, corruption, and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably. The outcomes of ant-fraud work have been reported to, and reviewed by, the Audit Committee.</p> <p>During the year 22 / 23 the Investigations team received 309 referrals which can be broken down into:</p> <ul style="list-style-type: none"> <li>• 229 Social Housing Fraud Referrals</li> <li>• 37 Corporate Fraud Referrals</li> <li>• 43 Other Fraud</li> </ul> <p>This represents a significant increase on previous years and has returned to pre-pandemic levels. As a result, 33 properties were recovered and 7 fraudulent Right to Buy transactions were prevented. In addition, 12 other cases included convictions and £267,207.51 was awarded in two unlawful profit orders.</p>
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	<p>The delay in the courts has continued to be an issue with some cases being listed for trial in November of 2024. The team are actively investigating out on the borough and regularly interview under the Police and Criminal Evidence Act which results in further evidence being obtained. It has taken some time, but full operational efficiency and capacity has been restored following the pandemic.</p> <p>All reports to Council, Cabinet and Committees are required to set out key implications and information in areas such as risk, equalities, safeguarding and environmental impact.</p> <p>The Audit Committee is responsible for considering the Council's arrangements for internal governance and financial management and to recommend any actions accordingly. It has received a number of relevant reports such as annual internal audit plans, reports from external audit, anti-fraud and corruption initiatives and risk management.</p> <p>The Council's Internal Audit service undertakes an annual programme of audits which includes providing assurance over the Council's risk management processes. If any areas for improvement are identified Internal Audit makes recommendations for management to consider and implement. Progress against the plan and the outcomes of audits are reported to the Audit Committee.</p>
<p>G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.</p>	<p>The Council has a published constitution setting out how decisions are taken and how the public can get involved in decision making, including access to information, petitions, and ways of getting involved in decision making. The constitution is published on the Council's website and it was last updated and agreed at full Council in May 2023.</p> <p>The Council seeks to write and communicate reports and other information for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.</p>

	<p>The Council webcasts its Council, Cabinet, Strategic Development Committee, Development Committee and Overview and Scrutiny Committee meetings to ensure maximum transparency. During the Covid-19 pandemic the Council introduced virtual meetings and has also webcast all committee meetings including the Licencing Sub Committee and the Audit Committee. As restrictions eased, meetings returned to “in-person” with a virtual option available.</p> <p>The Council maintains an up-to-date website which provides a mechanism for the Council to publish information important in ensuring transparency of its actions.</p> <p>The Council’s constitution sets out the terms of reference of all Committees to ensure information is presented to the appropriate Committees. Access to Information rules set out how the Council maintains good public access to information and reports.</p> <p>The Council updated its Code of Corporate Governance, and it was presented to the Corporate Leadership Team and the Audit Committee for approval in July 2023.</p> <p>There are governance arrangements for the partnership structure. The Tower Hamlets Plan identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities. The Partnership Executive Group led is by the Mayor with chief officers from key local partner organisations and a range of Partnership groups/ board including statutory boards.</p> <p>The Head of Internal Audit provides an independent and objective annual opinion on the effectiveness of internal control, risk management, and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The Head of Internal Audit delivers a quarterly progress report to the Audit Committee setting out the outcome of Internal Audit and Counter Fraud activity.</p>
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	<p>The Council responds to the findings and recommendations of External Audit, Scrutiny, and Inspection bodies. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control, risk management and governance. However, management's responsiveness to internal audit is inadequate for some audits with the implementation of agreed recommendations taking many months. The Head of Internal Audit has raised these concerns with the senior officers and the Audit Committee and has introduced new procedures to improve engagement with management.</p> <p>As senior Council decision making bodies, the Audit Committee, and any other relevant Non-Executive Committee including Scrutiny, can report any concerns they have regarding actions that have not been undertaken.</p>
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## Internal Audit

The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole of the Council's activities. It is a requirement for the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of governance, risk management and internal controls within the Council. The Head of Internal Audit reported the 2022/23 annual opinion to the Audit Committee in July 2023.

### 2022/23 Head of Internal Audit Annual Opinion Issued in July 2023

#### *Basis of the Annual Opinion*

*The outcome of the audits undertaken during the year by Internal Audit forms the primary basis of the annual audit opinion over the adequacy and effectiveness of the governance, risk, and control framework. Additionally, there has also been recourse to the following sources of evidence and assurance:*

- *Anti-fraud and fraud investigations*
- *Follow up of management actions*
- *The Council's governance and risk management framework*
- *Inspections and external reviews, including work undertaken by the external auditor.*

*The Head of Internal Audit's Opinion for 2022/23 is that having considered the relevant evidence, it is my opinion that I can provide **Reasonable Assurance** that the Council has adequate systems of governance, risk management and internal control.*

*Head of Internal Audit, Anti-Fraud and Risk.*

The full report from July 2023 is available on the Council's website.

## External Audit & Inspections

### External Audit

From 1 September 2018 Deloitte LLP was appointed as the Council's external auditor, this was following the decision of the Council to opt into the Public Sector Audit Appointments Limited (PSAA) arrangement. The PSAA Board appointed Deloitte to audit the accounts of the Council for a period of five years (2018/19 to 2022/23).

Deloitte has been unable to complete its audit of the 2018/19 or 2019/20 financial statements. There have been significant issues with the Council's 2018/19 and 2019/20 statement of accounts, and it has taken many months for these issues to be investigated and fully resolved. At the time of drafting this statement (October 2023), the 2018/19 and 2019/20 audits remain incomplete, although it is expected that they will be completed imminently. Additionally, the Council's draft Statement of Accounts for 2020/21 was published in January 2022. Progress on external audit activity has been reported regularly to the Audit Committee.

### Other Inspections and Review

Following the pandemic, there was a phased return to most inspection activity with a bias towards understanding the impact and challenges that the pandemic brought about. During the 2022-23 work by external review bodies/inspectors comprised the following:

- An inspection of the Youth Offending Service which issued an overall rating of Requires Improvement in July 2022. An external peer review of Youth Justice was commissioned and took place in February 2023 and their judgement was that good progress had been made in driving the improvement plan that was put in place with new leadership following the inspection
- An Ofsted Focused visit to London Borough of Tower Hamlets children's services was carried out in July 2022. The report from this inspection was very positive about the service that the Council is providing to its children in care

- An Ofsted short inspection of Idea Store Learning was carried out in January 2023 – this concluded with an overall ‘good provider’ rating
- A Home Office Prevent Benchmark Performance Review was carried out in March 2023 – this concluded that the ‘service is exceeding requirements against all duties’.

### Companies, Arms-Length Management Organisations and Charities

The Council is involved in a number of companies as well as an Arms-Length Management Organisations and Charities, the significant ones of which are detailed below.

#### Tower Hamlets Homes

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

The Council’s Internal Audit team provides internal audit services to THH. In keeping with the Public Sector Internal Audit Standards, the Head of Internal Audit issued an annual opinion for 2022/23 about the governance, risk management and internal control arrangements. The opinion was as follows:

*Primarily on the basis of the audit and anti-fraud activity undertaken during the year, but also taking into account external assurances and other relevant matters, it is my opinion that I can provide **Reasonable Assurance** that Tower Hamlets Homes has adequate systems of governance, risk management and internal control.*

*Head of Internal Audit, Anti-Fraud and Risk.*

### King George's Field Trust

The Council serves as sole trustee of the King George's Field, Mile End charity. The charity is governed by a Trust Deed, and is unincorporated, being established by a Scheme of the Charity Commission dated 28th February 2000. The Charity's objectives are set out in Trust Deeds, which are as follows "To preserve in perpetuity the covenanted land and to apply the land to such charitable purposes as are set out in the Recreational Charities Act 1958, including the construction of indoor recreational facilities, subject to the approval of the National Playing Fields Association and the Charity Commission in respect of any additional purposes".

The Trust has no employees of its own and is dependent on staff of the Council for its operations; its standing orders with respect to controls for procurement, expenditure and income are aligned to those of the Council.

### **Significant Governance Issues**

Corporate Directors are required to consider whether there have been any significant governance issues. For the purposes of this review, we have defined a significant governance issue as something that:

- Seriously prejudiced or prevented achievement of one or more principal objectives.
- Resulted in the need to seek additional funding to resolve the issue.
- Required a significant diversion of resources.
- Had a material impact on the accounts.
- Resulted in significant public interest or has seriously damaged the reputation of the Council.
- Resulted in formal actions by the Section 151 (Corporate Director, Resources) or Monitoring Officer (Corporate Director, Governance).

- Received significant adverse commentary in an external inspection report and was not or cannot be addressed in a timely manner.

Progress against Significant Governance Issues Identified in 2021/22

The 2021/22 AGS included 7 significant governance issues which needed to be addressed. A summary of progress/outcomes against these actions follows:

No.	Issue	Action	Progress / Outcome
1	Issues have previously been identified with both the 2018/19 and 2019/20 Statement of Accounts (SoA) and reflected in the 2018/19, 2019/20 and 2020/21 AGS' respectively. These significant issues continue to be addressed. The SoA's continue to be subject to external audit review (by Deloitte). Further adjustments may be required through the audit process but these in themselves may not be sufficient to achieve an unqualified audit opinion.	<p>Through the completion of the Council's Finance Improvement Plan (FIP), the Finance Team's ongoing work to address audit queries, and finalise the 2018/19 and 2019/20 SoAs audits.</p> <p>Build on learnings from the process, and implement the effective improvements from the FIP, prepare draft versions and complete the audits of both 2020/21 and 2021/22 SoAs.</p>	<p>It is anticipated that the 2018/19 and 2019/20 audits will be finalised imminently, though they will receive qualified audit opinions.</p> <p>Work continues to implement and embed the process improvements set out in the FIP.</p> <p>The draft SoA for 2020/21 was published in January 2022.</p>
2	Financial sustainability and budget management – there is a persistent underlying overspend in adult social care and budget management (including the closure of account process) needs further strengthening	Implement the Adult Social Care Improvement Programme (this programme covers finances, practice, and quality (and includes re-procurement of domiciliary care services (underway)	The Council has continued to focus their efforts on addressing adult social care budget challenges and work has continued throughout 2022/23 in monitoring performance and budgets. Like other Councils, increased demand and complexity for adult social care continue to drive cost pressure.

No.	Issue	Action	Progress / Outcome
		<p>and implementation of electronic home care monitoring)</p> <p>Reduce levels of debt, including charges for care services and NHS debt (including implement recommendations in the internal audit of the Financial Assessments of Contributions to Social Care internal audit). Progress in 2021/22 and work ongoing.</p> <p>Further strengthen budget management across the directorate and particularly in Adult Social Care with a particular focus on the quality and accuracy of forecasting and the outturn and closure of accounts process. Significant progress in 2021/22 – focus on adult social care continues.</p>	<p>The Improvement Programme continues to progress well with two key areas of work for the medium to long-term being finalised – housing with care strategy and technology enabled care. The home care procurement is at the bid evaluation stage.</p> <p>Budget management has been significantly strengthened. Work to address debt continues with a number of service users moved to payment plans to pay back debt incurred.</p> <p>There is recognition that work still needs to continue to address underlying budget pressures and overspends through the Directorate Budget Board and the Improvement &amp; Transformation Programme. This is particularly important as some short-term grants from central government and funding streams from the NHS are ending.</p>
3	Compliance with standards in relation to Video Surveillance Systems (VSS) across the Council	Continue with project (led within the directorate but covering systems across the whole Council) to ensure compliance with standards.	<p>Further actions taken in line with the Council's 'Roadmap to Compliance' compliance have included:</p> <ul style="list-style-type: none"> <li>• Approved a corporate Video Surveillance Corporate Code of Practice</li> <li>• Further develop processed governing the sign-off of Data Protection Impact Assessments</li> </ul>

No.	Issue	Action	Progress / Outcome
			<ul style="list-style-type: none"> <li>• Mandate the completion of the Surveillance Camera Code of Practice Self-Assessment Tool for all Directorates with responsibility for VSS to provide a picture of compliance.</li> </ul>
4	Quality Assurance in Adult Social Care	<p>Implement further developments to Mosaic (IT system) and improve the quality of data on the system as part of the Adult Social Care Improvement Programme</p> <p>Strengthen the governance in relation to implementation of recommendations from Safeguarding Adults Reviews.</p>	<p>Significant improvements to the Mosaic system, consistency and data quality have been achieved. The current phase of the transformation programme includes further improvements and updates to the Mosaic system and a continued focus on data quality.</p> <p>All work on the governance of implementation of recommendations from Safeguarding Adult Reviews is complete, signed off by Internal Audit and well-embedded. The arrangements have been fully discussed and agreed with the Safeguarding Adults Board Executive.</p>
5	SEND Local Area Inspection 2021 – requirement of the Council and the CCG for a Written Statement of Action in relation to four areas of weakness	<p>Written Statement of Action approved by Department for Education (DfE) and NHS England – to be termly monitored</p> <p>SEND Improvement Plan overseen by SEND Improvement Board</p>	<p>DfE and NHSE have reported that they are happy with the progress against the Written Statement of Action from our termly monitoring meetings – at which we have submitted substantive evidence against each of the four areas of weakness identified.</p> <p>The SEND Improvement Plan continues to be driven and overseen by the SEND Improvement Board, which brings all relevant partners together, and which reports up to the Tower Hamlets Together Board &amp; Health &amp; Wellbeing Board.</p>

No.	Issue	Action	Progress / Outcome
6	<p>King George Fields Trust – Charities Commission investigation into delayed submission of accounts – continued action to submit accounts and annual report in a timely manner.</p> <p>2020/21 accounts and annual report on track to file by July 2022, however, notification this will be late, with Charities Commission aware of progress.</p>	<p>Urgent resolution of 2020/21 accounts and annual report.</p> <p>Completion of review of governance arrangements.</p>	<p>The accounts for 2020/21 accounts were filed and the Charities Commission was satisfied that no further action was necessary.</p>
7	<p>An audit of Risk Management in 2019/20 identified that whilst the framework, strategy and procedures were well documented, directorate and service level compliance with the procedures was variable. The audit also found that, for the Corporate Risk Register, there was insufficient management review and challenge by the Corporate Leadership Team.</p>	<p>At the update provided to Audit Committee, in November 2022, it was stated that some progress had been made in identification and review of risks, but also that some of the underlying processes that underpin a robust risk register require further work.</p>	<p>Work to improve the risk register is ongoing. An annual report on Risk Management was presented to the Audit Committee at its July 2023 meeting and this included further actions designed to improve the Council’s risk infrastructure.</p>



Significant Governance Issues Identified in 2022/23

All Corporate Directors have submitted their returns for 2022/23 to the Chief Executive. The following table summarises the most significant issues raised and the proposed actions to address them:

No.	Issue	Action	Responsible	Timescale
1	<p>Issues have previously been identified with both the 2018/19 and 2019/20 Statement of Accounts (SoA) resulting in lengthy delays in external audit certification.</p> <p>Consequently, the external audit of the 2020/21, 2021/22 and 2022/23 accounts has been delayed and therefore the statutory deadline for publishing the accounts for these years has not been met.</p>	<p>Work is ongoing to finalise the 2018/19 and 2019/20 SoAs audits and revised accounts for these years will be presented to the Audit Committee in November 2023. Draft accounts for 2020/21 were issued in January 2022.</p> <p>The Council will now focus on producing and publishing its draft Statement of Accounts in relation to 2021/22 and 2022/23 at the earliest opportunity, and to therefore do so prior to progressing with the completion of the 2020/21 audit. Public inspection in line with the requirements of the Accounts and Audit Regulations (2015) will then commence as soon as draft accounts [for 2021/22 and 2022/23] are published on the Council's website.</p> <p>Whilst the external audits for prior years remain incomplete, there is a risk that the external auditor may identify adjustments which will have an impact on the 2021/22 and 2022/23 accounts. However, we</p>	Corporate Director of Resources	Ongoing and subject to revised guidance from DLUHC.

No.	Issue	Action	Responsible	Timescale
		<p>consider this risk is outweighed by the benefit of the actions described above, which prioritise financial accountability and appropriate governance in the circumstances, and which we consider to be substantially in the public interest.</p> <p>Annual Governance Statements for 2020/21, 2021/22 and 2022/23 will be presented to the Audit Committee in October 2023 for approval.</p>		
2	Weaknesses in completing reconciliations of the payroll system in a timely fashion.	<p>To be completed on a more regular basis and improvements to be picked up in outcome of decision re new financial system.</p> <p>Initial improvements were implemented during March 2023 and further system improvements are linked to timetable of implementation of new financial system.</p>	Director of Finance, Procurement & Audit	2023/24
3	Historic weaknesses in accounting for VAT and underlying compliance with HMRC requirements, leading to an estimated underpayment.	<p>Ongoing contact with HMRC to understand and urgently resolve the issues that have been identified.</p> <p>To deliver actions included in the action plan provided by HMRC.</p>	Director of Finance, Procurement & Audit	Ongoing, but largely subject to a revised action plan from HMRC
4	Ongoing challenges to the sector's medium term financial sustainability. For the Council, this relates particularly to challenges around the budget gap, delivery of savings targets,	Boards have been set up to drive the transformation programme, add rigour to financial management and ensure that the efficiencies detailed in the MTFS are	Corporate Director of Resources	Ongoing

No.	Issue	Action	Responsible	Timescale
	<p>alongside persistent overspends in demand led services, such as Housing &amp; Homelessness and Adult Social Care.</p>	<p>achieved. These arrangements include the Budget Board, which is chaired by the Section 151 Officer and leads on approving budget efficiencies, including saving targets, budget growth requests and in-year variances.</p> <p>Directorates have been issued with £40m savings targets to achieve and proposals will progress through the Board governance framework to ensure they are deliverable, and all potential savings are identified.</p> <p>A savings target has been attached to Corporate Restructure Initiative.</p> <p>One-off use of reserves to smooth any budget gap over the medium-term.</p> <p>Service specific action plans are in place which include, for example, continued implementation of the Adult Social Care Transformation Programme, and work in the Housing Options service to enable upstream work designed to prevent homelessness occurring, bringing homeless people into employment and utilising cheaper accommodation.</p>		
5	Quality Assurance in Adult Social Care.	Implement further developments to Mosaic (IT system) and further improve the quality of data (also part of the Adult Social Care Transformation Programme).	Director of Adult Social Care	2023/24

No.	Issue	Action	Responsible	Timescale
6	Financial sustainability and budget management – there is an underlying overspend in waste and street cleansing services following insourcing and budget management needs further strengthening.	Implement a waste improvement plan targeting illegal waste through increased enforcement activity; improve commercial waste offer and increase market share (whilst also targeting over production of waste by existing commercial waste customers through targeted enforcement activity to drive compliance and increase sales); reduce contamination through identification of hotspots followed by targeted communication (education/advice/enforcement); target rogue landlords through policy change/intervention; workforce: recruitment of permanent staff to replace temps, overtime reduction; route optimisation and increased staff training to reduce vehicle damage/insurance claims.	Interim Corporate Director of Communities	March 2024
7	SEND Local Area Inspection 2021 – requirement of the Council and the CCG for a Written Statement of Action in relation to four areas of weakness.	Written Statement of Action approved by Department for Education (DfE) and NHS England – to be termly monitored  SEND Improvement Plan overseen by SEND Improvement Board	Corporate Director, Children’s Services  Director of Education	Termly Monitoring  Ongoing – bi-monthly
8	Youth Offending Inspection 2022 – Requires Improvement judgement.	Youth Justice Improvement Plan overseen by Youth Justice Management Board	Corporate Director, Children’s Services	Ongoing – bi-monthly
9	The Annual Risk Management report for 2022/23 stated that ‘Risk Management practices are established but not fully embedded and mature. Moreover, there are	Implementation of the Action Plan included in the report to Audit Committee at its July 2023 meeting.	Head of Audit, Anti-fraud, and Risk	Ongoing during 2023/24

No.	Issue	Action	Responsible	Timescale
	inconsistent levels of engagement in the underlying processes (reviewing risk articulation, updating controls, removing redundant risks), and consequently there is limited confidence that the underlying risk data held on JCAD is accurate and useful as a tool for managing risk.	To further strengthen Risk Management and corporate governance across the Council, an Internal Control Framework will be developed and embedded.	Corporate Director of Resources	2023/24
10	2022-23 saw a significant downturn in development activity in the borough, an issue seen across London due to the housing market and issues in the wider economy. LBTH relies on a buoyant development sector in a number of ways. Fees charged as part of the planning and development process fund the Planning and Building Control Service. Funding secured via the Community Infrastructure Levy plays a key role in delivering the capital program and S106 secured also support the delivery of a number of services within the council. A slowdown in development impacts all these income streams and can impact the pipeline of income for a number of years. In respect of the Planning and Building Control service, requests for a reserve account to smooth the cyclical nature of the development pipeline have not previously been supported but would help ensure the service can manage	Continue to develop our understanding the development pipeline and barriers to development coming forward.  The Council's budget setting process for 2024/25 will include specific actions to mitigate the effects of annual fluctuations in planning and development income.	Director of Planning and Building Control  Director of Planning and Building Control  Corporate Director of Resources	Ongoing    By the end of 2023/24

No.	Issue	Action	Responsible	Timescale
	its own pressures across the development cycle.			
11	Cyber Security and Resilience	<p>Ongoing active monitoring of cyber risks and the IT control environment.</p> <p>Deployment of the Zero Trust Network Architecture.</p> <p>Continuing to raise awareness and train staff in Cyber Security.</p> <p>Aligning the Cyber Security Strategy with the NCSC Cyber Assessment Framework.</p>	Corporate Director of Resources	Ongoing

### Conclusion for 2022/23

2023/23 has been another challenging year, with the continued rising cost-of-living alongside the long-term effects of the COVID-19 pandemic having a profound affect. The Council has continued to continue to support our most vulnerable residents during challenging times and worked tirelessly to tackle inequality, though the cost-of-living crisis also means that people will need more from the Council at a time when we expect future funding from central government to reduce.

In response, we have updated Medium-Term Financial Strategy to ensure our budget can support delivery of our priorities and address the significant financial challenges facing the Council. Additionally, changes to key services have also been announced with the planned insourcing of Tower Hamlets Homes, Youth Services and Leisure Services. We have also brought back grants for Educational Maintenance Allowance and University Bursaries for young people, and we have expanded free school meals to all secondary schools – the only local authority in the country to do this.

Whilst we are pleased with our progress, there remains significant challenges, in addition to the long-term impact of the pandemic, global issues and greater economic pressures such as the “cost-of-living crisis” for the entire nation, we still want to address issues around closing our financial reporting, budget management and service performance in key areas.

We recognise that good governance requires a culture of continuous improvement and challenge, we will continue to seek improvement and will be self-critical in doing so to ensure we uphold the highest possible standards of good governance.

We have put action plans in place to address any issues and regularly report progress via the Corporate Leadership Team and relevant Committees.

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