

Meeting of the

# AUDIT COMMITTEE

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Monday, 30 June 2008 at 7.30 p.m.

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## A G E N D A

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### VENUE

MEETING ROOM M71, SEVENTH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

<b>Members:</b>	<b>Deputies (if any):</b>
<b>Chair:</b>	
<b>Councillor Helal Abbas</b>	Councillor Shahed Ali, (Designated Deputy representing Councillor Abjol Miah)
<b>Councillor Stephanie Eaton</b>	Councillor Azizur Rahman Khan, (Designated Deputy representing Councillor Stephanie Eaton)
<b>Councillor Denise Jones</b>	Councillor Abdul Matin, (Designated Deputy representing Councillor Stephanie Eaton)
<b>Councillor Abjol Miah, (Leader of the Respect Group)</b>	Councillor Harun Miah, (Designated Deputy representing Councillor Abjol Miah)
<b>Councillor Joshua Peck, (Lead Member, Resources and Performance)</b>	Councillor Tim O'Flaherty, (Designated Deputy representing Councillor Stephanie Eaton)
<b>Councillor Mohammed Abdus Salique</b>	

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Daniel Hudson, Democratic Services  
Tel: 020 7364 4881, E-mail: [daniel.hudson@towerhamlets.gov.uk](mailto:daniel.hudson@towerhamlets.gov.uk)

**LONDON BOROUGH OF TOWER HAMLETS**

**AUDIT COMMITTEE**

**Monday, 30 June 2008**

**7.30 p.m.**

**9.7 Final Accounts 2007/08 (Pages 1 - 88)**

# Agenda Item 9g

<b>COMMITTEE</b> <b>Audit Committee</b>	<b>DATE</b> <b>30<sup>th</sup> June 2008</b>	<b>CLASSIFICATION</b> <b>Unrestricted</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>REPORT OF:</b> <b>Chris Naylor - Director of Resources</b> <b>ORIGINATING OFFICER(S):</b> <b>Alan Finch – Service Head, Corporate Finance</b>		<b>TITLE:</b> <b>Draft Statement of Accounts 2007-2008</b> <b>Ward(s) affected: N/A</b>		

## Special Circumstances and Reasons for Urgency

- The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution, because of the continuation of discussions between the Council, its Auditors and other London authorities regarding contingent liabilities which it had been anticipated would be completed in time for publication of the agenda for this meeting of the Audit Committee.
- The Director of Resources recommends that a committee approval of the Draft Statement of Accounts is given at this meeting in order to meet the statutory deadline of 30 June 2008.

## 1. SUMMARY

1.1 This report presents the Authority's draft Statement of Accounts for the financial year ending 31<sup>st</sup> March 2008, prior to audit.

## 2. RECOMMENDATIONS

Audit Committee is recommended to:-

- 2.1 Approve the draft final Statement of Accounts for the financial year ending 31<sup>st</sup> March 2008.
- 2.2 Note that the accounts will now be submitted for audit.

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### LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

*Brief description of "background papers"*

*Name and telephone number of holder and address where open to inspection*

*Closure of Accounts Working Files  
Accounts & Audit Regulations 2003 Approval of Accounts  
Best Value Accounting Code of Practice  
HRA Closure of Accounts Working Papers  
Capital Working Papers*

*Feroza Begum, Ext. 4223  
Feroza Begum, Ext. 4223  
Feroza Begum, Ext. 4223  
Paul Leeson, Ext. 4995  
Ekbal Hussain, Ext. 4737*

### **3. BACKGROUND**

- 3.1 The approval of the authority's Statement of Accounts is subject to a two stage process. Firstly, Audit Committee receives and is requested to approve the draft Statement of Accounts for submission to the Audit Commission. Under statute this must take place before 30th June 2008.
- 3.2 After the Council's accounts have been subjected to external audit, the auditor will issue his opinion and, providing he finds no reason not to do so, his audit certificate. This must take place before 30th September this year.
- 3.3 Under legislation, if there are any material amendments arising as a result of the audit, these must be reported back to the Audit Committee.
- 3.4 The auditor is also required to make a report setting out any matters that are not material to the accounts but are more than merely trifling. (This is known as the SAS610 report, referring to the Statement of Auditing Standard relating to such reports). If necessary, this report will be made to the Audit Committee at the end of September.

### **4. STATEMENT OF ACCOUNTS 2007-2008**

- 4.1 The draft Statement of Accounts is attached to the report as **Appendix 1**.
- 4.2 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the "Statement of Recommended Practice" published by the Chartered Institute of Public Finance and Accountancy and supported by the Department for Communities & Local Government. A summarised version of the accounts is published as a leaflet once they are approved.
- 4.3. The Council's final spending against budgets is reported to the Cabinet and this will take place at the meeting of 2<sup>nd</sup> July 2008.
- 4.4. The accounts are an important aspect of the financial management of the Council as they set out the Council's financial position, including its main assets and liabilities on a year-by-year basis as well as summarising the transactions of the Council during the year. The accounts influence the Council's financial plans because balanced budgets and sustainable medium term planning depend upon a healthy overall financial position. If an authority finds itself in a position in which it needs to set money aside in its accounts to cover existing liabilities or future risks, for example, these items are the first call on the budget.
- 4.5. The draft accounts show;

Income and Expenditure Account	<p>The Income &amp; Expenditure Account summarises the revenue activities of the Council during 2007/08 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.</p> <p>The draft accounts show that in 2007/08, the Council spent £1,264m on services.</p> <p>Any surplus or deficit on the Income and Expenditure Account is carried to the Statement of Movement on the General Fund Balance.</p>
Housing Revenue Account	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the provision of Social Housing by the Council.</p> <p>The HRA balance as at 31<sup>st</sup> March is £21.551m which is an increase of £4.4m in the year.</p>
Reserves & Balances	<p>Earmarked reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes or services. The level of earmarked reserves now stands at £114.724m, an increase of £13.484m. The detail is set out in Note 47 to the Accounts (Page 54). This is largely explained by the planned contribution to the Housing Choice Reserve (£2.978m) and under spending in schools (£2.952m) and a change in the balance between insurance provisions to reserves.</p> <p>The reserves also reflect two items set aside as a result of decisions of Cabinet during 2007/08; £1,205m for Single Status and £1.5m for Olympic Legacy.</p> <p>The level of General Fund general reserve now stands at £25.876m. This is the amount which is generally available for use in unforeseen circumstances.</p>

		<p>The accounts assume certain transfers to reserves requested by Directorates which have yet to be formally approved, and these will be reported in full to the Cabinet for approval on 2<sup>nd</sup> July. In the event that the Cabinet does not agree to these transfers, the accounts will be adjusted as part of the audit process.</p>
Consolidated Sheet	Balance Sheet	<p>The Balance Sheet shows the various assets and liabilities of the Council as at 31<sup>st</sup> March 2008. The value of the assets of the Council must equal the value of liabilities plus reserves.</p> <p>Assets include land and buildings, equipment and vehicles, cash and investments held by the Council, and any debts owing to the Council. The value of housing stock transfers that took place during 2007/08.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council.</p> <p>The net assets of the Council (assets less liabilities) were £1.562 billion, which was an increase over 31<sup>st</sup> March 2007. The main reason for the increase is the revaluation of Council owned land and buildings.</p>
	Collection Fund	<p>The Collection Fund is a separate account detailing local taxes collected by the Council on behalf of itself, the Greater London Authority (GLA) and the Government. The account shows the distribution of the amount of Council Tax collected between the Council and the GLA and the payment of non-domestic rates to the Government pool.</p> <p>Any surplus on the Fund is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund, and any deficit is similarly distributed.</p>
	Cash Flow Statement	<p>The Cash flow Statement is an alternative way of showing the financial activity of the Council in terms of payments made and received during the year. It gives quite a good idea of the scale of the financial operations of the Council, showing where its money comes</p>

	<p>from and how it has been spent.</p> <p>The statement shows that in 2007/08 the Council spent £1,345 million on revenue activities and a further £60 million on capital items. Most of the income to pay for this came from the Government.</p>
Pension Fund	<p>The Pension Fund accounts are separate from the rest of the Council's accounts and show the expenditure and income, assets and liabilities of the Pension Fund provided by the Council under legislation for the benefit of its employees and pensioners, and those of admitted bodies. They are audited at the same time as the Council's accounts but are subject to a separate audit opinion.</p> <p>The market value of the assets of fund at the end of the year was £683.2m, a decrease of 3% reflecting equity returns over the last year.</p>

4.5. The Statement of Accounts also incorporates the Annual Governance Statement, which is the subject of a report elsewhere on this agenda.

4.6. Members are now invited to approve the accounts and formally submit them to the Audit Commission for audit. The auditor is expected to issue his opinion in September. Any material issues arising from the audit will be reported back to the Committee. Any immaterial but more than merely trifling issues will be reported to the Audit Panel.

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

5.1 The comments of the chief financial officer are incorporated within this report.

## **6. RISK MANAGEMENT**

6.1 There are no specific risk management implications.

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

7.1. The Accounts and Audit Regulations 2003 specify the process by which the authority's accounts are initially approved and then examined by the external auditor. This process and the dates by which the various stages have to be achieved are set out in paragraph 3 of the report and are binding on the authority.

**8. EQUAL OPPORTUNITY CONSIDERATIONS**

8.1 There are no specific equalities considerations arising out of this report.

**9. ANTI-POVERTY CONSIDERATIONS**

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

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

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



# **LONDON BOROUGH OF TOWER HAMLETS**

## **STATEMENT OF ACCOUNTS 2007-08**

**LONDON BOROUGH OF TOWER HAMLETS**

# STATEMENT OF ACCOUNTS 2007-08

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## FOREWORD BY THE CORPORATE DIRECTOR OF RESOURCES

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2007/08, which reports out financial results for the year.

The accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007 and the Best Value Accounting Code of Practice 2007. These constitute "proper accounting practice" with which Councils must comply by statute. The Council has also produced a summary of the accounts, which is less detailed than the full statement. This has been produced following consultation with stakeholders and is available from the Council's website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk).

The accounts reflect a period of financial consolidation for Tower Hamlets. The Council's Use of Resources score was a '3', the second highest category, against the Audit Commission's 'harder test', the second highest category. As I write, the authority is ranked 3\* and improving strongly by the Audit Commission in the Comprehensive Performance Assessment and we await the results of our latest inspection, which ended in April.

The Council's finances overall are sound, and we will need this solid financial base as we face the period ahead. Expenditure in year was well under control and the revenue budget was under spent. Long term loan debt reduced during the year by £38.5 million.

Pressures on the Council's budget year on year from demographic growth, new legislation and inflation will generally exceed the additional income we receive, while uncertainty in the economy means that we may have to plan for greater financial risk as we go forward. However, the Council has largely anticipated these issues and has delivered savings which have enabled the budget to be balanced and increases in Council Tax minimised and kept to affordable levels.

For the period 2008/09 – 2010/11, the Council has set a three year budget plan, and this will help us to look beyond this to plan the use of our resources better in the longer term.

Tower Hamlets' Council Tax remains, for 2008/09, the sixth lowest charge in London. At the same time, the Council continues its strategy of building up reserves against foreseen and unforeseen eventualities, while fully taking into account its ambitious improvement programme.

The Council adopted its Efficiency Strategy in May 2005 and has delivered the Gershon efficiency target a year ahead of schedule. Cashable efficiency savings agreed in setting the General Fund budget for 2008/09 totalled £6.35m.

2008/09 will be expected to see the establishment of Tower Hamlets Homes, the Council's Arms Length Management Organisation (or ALMO), established to run Council housing in the Borough. A successful ALMO will be able to draw substantial new investment for housing to the Borough. We are also completing the procurement of a strategic partner to help us deliver the government's Building Schools for the future programme, whilst progressing regeneration projects in several parts of the Borough.

In addition, £61.9 million was directly invested in assets and infrastructure. Significant investment in schools, housing and streets was achieved.

The Council takes seriously its role in the Tower Hamlets Partnership, and acts as the accountable body for a number of grants aimed at delivering community benefits across all public services in the Borough.

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

**Chris Naylor ACA MACantab**  
**Corporate Director of Resources**

## The accounting statements

These comprise:

- The **Statement of Accounting Policies** on which the figures in the accounts are based.
- The **Income and Expenditure Account (I&E)**, reports the net cost for the year of all the functions for which the authority 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 of the local authority's functions.
- The **Statement of the Movement on the General Fund Balance** discloses the income receivable and expenditure incurred in the Council's operations for the year. It includes amounts that are required by statute and non-statutory proper practices to be charged to the General Fund.
- The **Statement of Total Recognised Gains and Losses** in accordance with FRS 3 *Reporting Financial Performance* requires *all* gains and losses to be included in this statement, as not all gains and losses experienced by the Council are reflected in the I & E Accounts.
- 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. It details the income and expenditure on HRA services included in the whole authority I&E Account.
- 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 Greater London Authority. It reflects the statutory requirement for billing authorities to maintain a separate Collection Fund.
- The **Balance Sheet**, which is fundamental to understanding the financial position of the Council at the year-end and shows its balances and reserves, its long-term indebtedness, net current assets employed in operational activities and summarised information on fixed assets held.
- The **Cash Flow Statement**, summarising 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.
- The **Pension Fund Accounts**, provides information about the financial position, performance and the financial adaptability of the statutory pension fund. They show the results of the fund for 2007/08 and the disposition of its assets at the period end.

We try to produce the statements in a form that is understandable to most stakeholders. However, they include some technical terms which are explained in the **Glossary**, which starts at page 80.

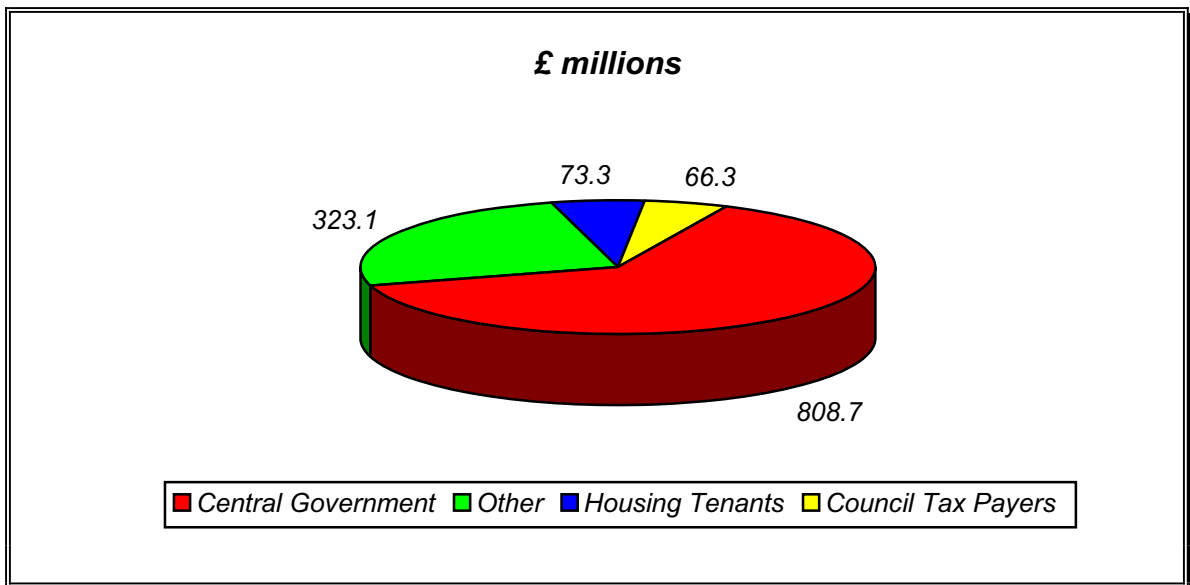
The **Statement of Accounting Policies**, which follows, includes and explains changes in accounting policy since last year.

## Review of the year

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

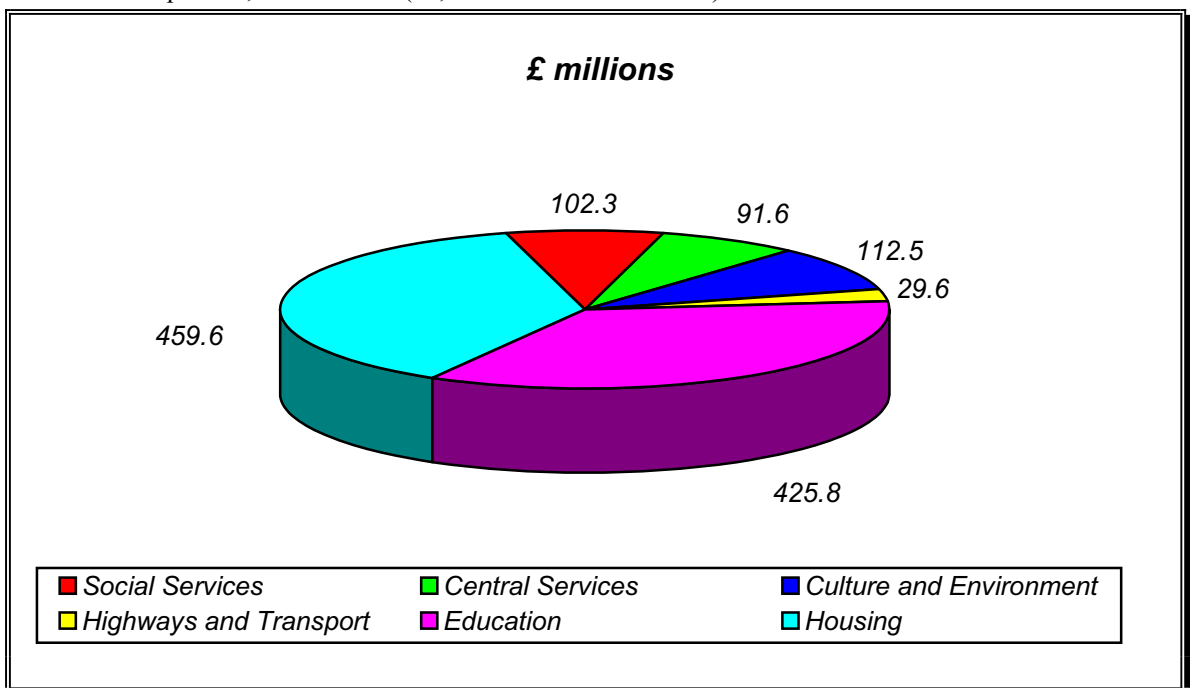
### WHERE THE MONEY CAME FROM

The Council's overall income for the year was £1,271.4 million (£1,003.4 million in 2006-07) and came from a number of different sources:



### HOW THE MONEY WAS SPENT

The Council spent £1,221.4 million (£1,002.3 million in 2006-07) on services:



Grants from Central Government form the biggest single source of income to the Council - £808.7 million (£765.0 million in 2006/2007). Of this, approximately 64% is grant towards the costs of providing specific services. This is a major change from previous years due to the introduction of the Dedicated Schools Grant. The rest is grant for the Council's service provision as a whole.

Income received from housing tenants' rents and other charges amounted to £73.3 million (£83.1 million in 2006/2007). The reduction is due to the transfer of some housing stock to Registered Social Landlords. "Other" income of £323.1 million (£93.2 million in 2006-07) includes fees and charges from users of services provided by the Council and external interest receipts. The balance of £66.3 million came from Council Tax (£62.1 million in 2006-07).

£1,264.0 million was spent in the year (£1,002.3 million in 2006-07). 34% of spending was on Education, Adult Social Care accounted for 8% and Culture and Environment (including leisure, environmental health, planning and refuse collection) 9%. A fuller analysis is shown in the Income and Expenditure Account on page 27.

Running expenses (such as maintaining buildings, running vehicles and buying supplies and services) accounted for approximately 44% of spending. Salaries and wages accounted for a further 28%. The balance was spent on "capital financing" (principal and interest payments on loans, leasing charges and asset rentals).

## REVENUE SPEND COMPARED TO BUDGET

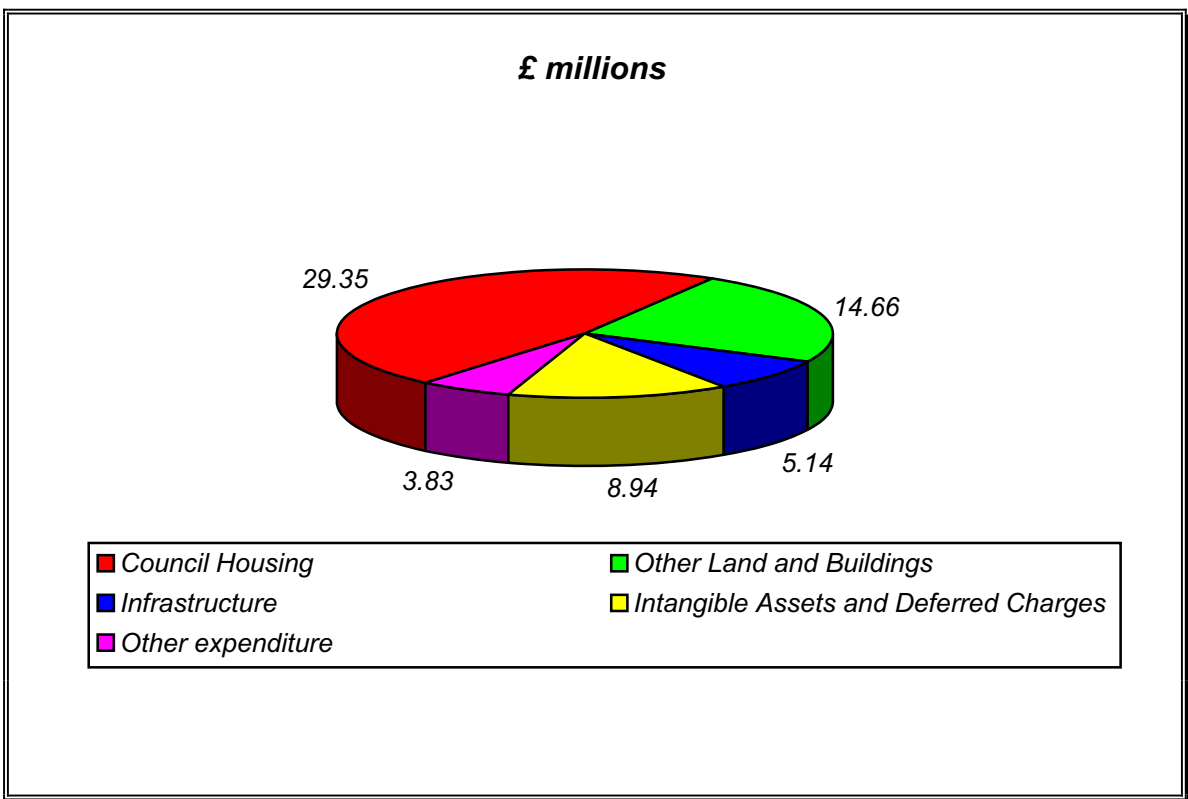
The Council's revenue expenditure and income is divided between "General Fund" (services excluding council housing) and the "Housing Revenue Account" (a separate account for the Council acting as a housing landlord). The General Fund net budget requirement for the year was agreed at £280.14 million consisting of service budgets of £277.60 million and a net contribution to balances of £2.54 million. Actual spend amounted to £267.93 million, an under spend of £7.40 million, with a net contribution to balances of £4.81 million. The HRA expenditure requirement for the year was agreed at £79.36 million. In total there was a net under spend of £4.44 million. This has been added to the HRA balance. More details are shown below:

<b>General Fund</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Net expenditure	277.60	267.93	<b>(9.67)</b>
Contribution to balances	2.54	4.81	<b>2.27</b>
<b>Budget requirement</b>	<b>280.14</b>	<b>272.74</b>	<b>(7.40)</b>
Government Grants			
Revenue Support Grant	(30.73)	(30.73)	<b>0.00</b>
Redistributed Business Rates	(183.10)	(183.10)	<b>0.00</b>
Surplus on Collection Fund	(1.51)	(1.51)	<b>0.00</b>
<b>Council Tax requirement</b>	<b>64.80</b>	<b>57.40</b>	<b>(7.40)</b>
<b>Housing Revenue Account</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Expenditure	50.96	214.59	<b>163.63</b>
Accounting adjustments	28.40	(113.09)	<b>(141.49)</b>
<b>Budget requirement</b>	<b>79.36</b>	<b>101.50</b>	<b>22.14</b>
Income			
Rents	(45.18)	(63.64)	<b>(18.46)</b>
Government grant	(23.07)	(27.89)	<b>(4.82)</b>
Charges and contributions	(10.11)	(13.08)	<b>(2.97)</b>
Interest	(1.00)	(1.34)	<b>(0.34)</b>
<b>Contributed to</b>	<b>0.00</b>	<b>(4.44)</b>	<b>(4.44)</b>

## PENSIONS

The Council offers retirement pensions to its staff under a statutory scheme and makes contributions to pension schemes on their behalf. Although the pension benefits are not payable until staff retire, the Council has a commitment to make the payments and must account for them in the year in which the future entitlements are earned. This commitment is compared with the assets (investments) of the pensions schemes and the net amount is included in the accounts as the Council's "Pensions Liability". At the end of 2007-08 this liability was £179.85 million (£305.39 million at the end of 2006-07). Although this sum has an impact on the net worth of the Council as shown in its Balance Sheet, there are statutory arrangements for meeting the liability. The deficit will be addressed by increased contributions to the schemes over the remaining working lives of the staff. These contributions were assessed by the Council's actuary in 2007 and budget provision for them has been made.

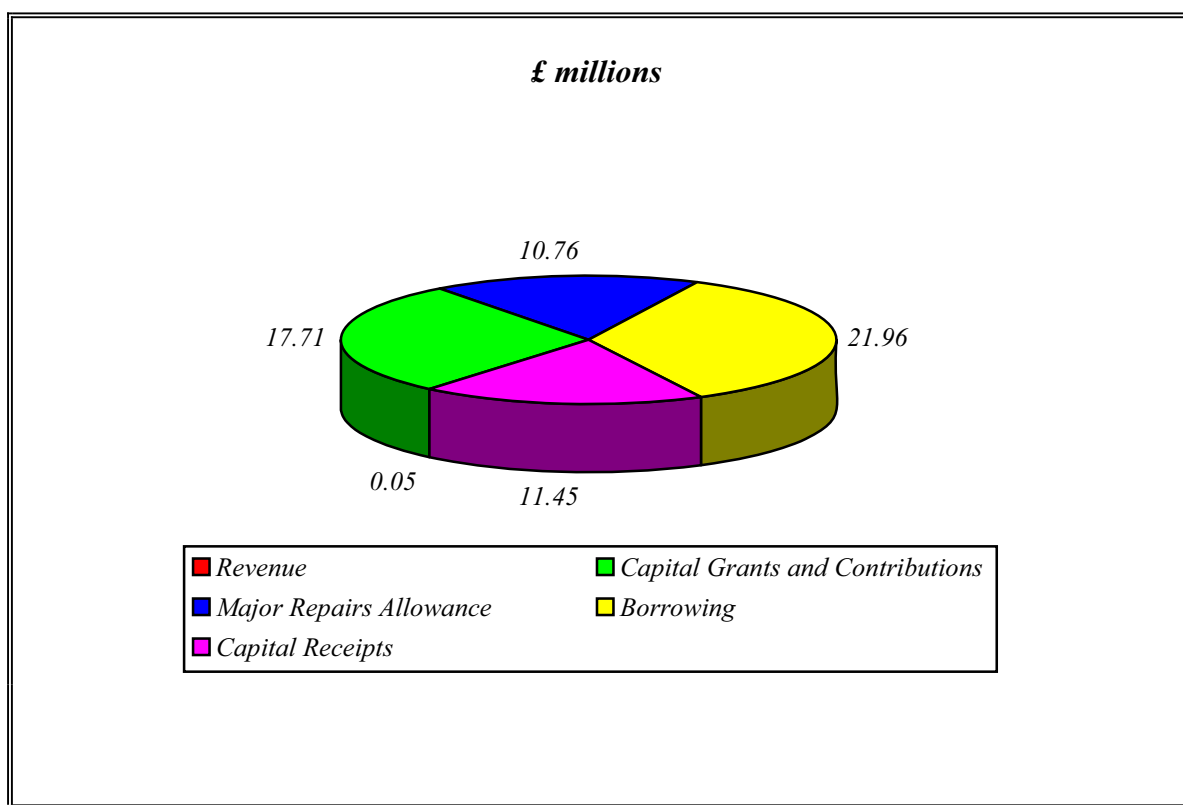
## CAPITAL SPENDING



Capital spending during the year amounted to £61.9 million (£84.5 million in 2006/2007). £29.35 million (£31.29 million in 2006/2007) of this was on projects relating to the conversion and improvement of the Council's housing stock. Spending on other land and buildings projects was £14.7 million (£27.12 million in 2006/2007) and was primarily on the refurbishment, improvement and extension of schools and the further development of Idea stores in the Borough. Infrastructure spending of £5.14 million (£6.68 million in 2006/2007) was mainly on improving the existing road system within the Borough and the provision of street lighting. Spending on Intangible Assets and Deferred Charges includes information technology, home improvement grants paid to homeowners and grants paid to voluntary organisations, and amounted to £8.94 million (£13.2 million in 2006-07).



## HOW CAPITAL SPENDING WAS PAID FOR



The Government pays the Council a grant called the Major Repairs Allowance to be spent on its housing stock. This amounted to £10.76 million for the year (£14.78 million in 2006-07). Capital receipts are income from the sale of assets, such as council houses. £11.45 million was used in 2007-08 (£19.61 million in 2006-07). The Council can pay for capital spending from its revenue monies and £0.05 million was used in the year (£6.03 million in 2006-07). There are other Government grants which have to be used for specific projects and the Council receives contributions from others (for example developers). A total of £17.71 million was used in 2007-08 (£24.28 million in 2006-07). Finally, the Council is allowed to borrow money to finance capital spending and £21.96 million was borrowed in the year (£22.24 million in 2006-07).

### **FURTHER INFORMATION**

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

## STATEMENT OF ACCOUNTING POLICIES

The Statement of Accounts summarises the Council's transactions for the 2007/08 financial year and its position at the year-end of 31<sup>st</sup> March 2008. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2006* ("the SORP") and the *Best Value Accounting Code of Practice 2007* ("BVACOP"). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

### Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable and receivable on borrowings is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.

Where income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.

### Contingent Liabilities

These are possible obligations which may require a payment or a transfer of economic benefits from the Council in the future, depending on the outcome of an uncertain event. They are not recognised in the accounting statements as such but are disclosed by way of a note to the accounts.

### Deferred Charges

Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue accounts in the year. Where the Council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

### Post Balance Sheet Events

Amounts are adjusted in the Statement of Accounts if an event arises after the Balance Sheet date which provides additional evidence of conditions that existed at that date and materially affects the amounts to be

included. If an event arises after the Balance Sheet date which concerns conditions which did not exist at that date, it is disclosed in the notes to the Balance Sheet if it is of such materiality that disclosure is required for the fair presentation of the financial statements. *The Statement of Accounts was authorised for issue by the Chief Financial Officer on 30th June 2008 which is the date up to which events after the Balance Sheet date have been considered for this purpose.*

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

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

## **Intangible Fixed Assets**

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

## **Landfill Allowance Trading Scheme**

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDA's) such as the Council to reduce the amount of biodegradable municipal waste disposed to landfill. An allowance to use landfill at a specified level is allocated to each WDA by the Department for Environment, Food and Rural Affairs (DEFRA). Allowances are tradable between WDA's.

In accordance with the proposed UITF Abstract Emission Rights the Landfill Allowances trading Scheme gives rise to:

- an asset for allowances held
- LATS grant income, and
- a liability for actual Biodegradable Municipal Waste (BMW) landfill usage

The allowance from DEFRA is valued at market value and treated as Government grant income under the Net Cost of Services. Allowances purchased are valued at cost and are treated as expenditure. Total allowances are carried on the Balance Sheet as a current asset matched by a provision for the obligation to hold allowances equal to landfill usage.

## **Leases**

### **Operating Leases**

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

## **Overheads and support services**

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2007* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation,
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services.

## **Retirement Benefits**

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

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

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

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

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

The Local Government scheme is a defined benefits scheme.

The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. 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. The use of this method means that the cost will increase as employees approach retirement.

Liabilities are discounted to their value at current prices, using a discount rate of 6.9%, derived from corporate bond yields (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years) as at 31<sup>st</sup> March 2007.

Assets attributable to the Council are included in the Balance Sheet at their fair value, principally market value for investments.

The net pension liability is analysed into seven components:

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

Statutory provisions limit the Council to raising council tax to cover the contributions payable by the Council to the pension funds in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits are replaced with debits for the cash paid to the pension funds and any amounts payable to the funds but unpaid at the year-end.

### **Discretionary Benefits**

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

### **Provisions**

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

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

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

### **Bad and Doubtful Debts**

An allowance for bad and doubtful debts reduces the value of debtors in the Balance Sheet. Although the allowance is not strictly a provision, it is described as such in the accounts. Any increase or decrease in the allowance at the year-end is debited or credited to the appropriate service revenue account. The Council's policy is to write off debt only when all avenues to recover it have been exhausted.

### **Reserves**

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

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

### **Stocks and Work in Progress**

Stocks are included in the Balance Sheet at the lower of cost and net realisable value. Exceptionally, vehicle maintenance stocks are valued at the latest purchase price. Work in progress is valued at the lower of cost and net realisable value and is shown net of deposits and payments on account where appropriate.

### **Long Term Contracts – Private Finance Initiatives**

The Council is party to two Private Finance Initiative contracts which terminate in 2027 and 2029. The service element of contract payments is charged to the appropriate service revenue account. At commencement it was determined under Financial Reporting Standard 5 that the Council did not have an

asset of the properties and they were written out of the Council's accounts. The assets will revert to the Council at the end of the contract terms.

The amounts are shown in the relevant notes to the Balance Sheet. The assets are valued annually and written on to the Council's Balance Sheet as long-term debtors (previously tangible fixed assets) over the lifetime of the contracts. The residual values of the debtors at the end of the contracts will be written on to the Balance Sheet as tangible fixed assets. An initial capital contribution by the Council under the contracts is treated as a deferred consideration under current assets - debtors and payments in advance (previously deferred charges), and charged to the appropriate service revenue account over the lifetime of the contract. The amounts charged are then reversed out of the Revenue Account to the Capital Adjustment Account so there is no impact on the level of council tax.

## **Tangible Fixed Assets**

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

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

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

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

Net current replacement cost is assessed as:

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

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

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

The Council's valuers undertook a revaluation of dwellings and schools as at 1 April 2007. An assumption has been made that all the properties exist and are presently in use by the Council or its tenants, nominees etc.

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

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account

- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

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

No impairment has been identified for 2007-08.

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

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

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

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

Depreciation is calculated on the following bases:

- dwellings – in line with the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation
- other land and buildings – up to 60 years, individual asset lives are assessed by the valuer
- vehicles, plant and equipment – equipment 5 years. For vehicles and plant, a percentage of the value of each class of assets in the Balance Sheet is used, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 40 years.

Were an asset to have major components with different estimated useful lives, these would be depreciated separately.

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

**Grants and contributions:** Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the relevant assets, in line with the depreciation policy applied to them.

### **Charges to Revenue for Fixed Assets**

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

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

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortizations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## **VAT**

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

## **Financial Liabilities**

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

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

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

## **Financial Assets**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

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

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

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



## **Insurance**

The Council is self insured to meet most liability and property risks and has set aside amounts in a specific reserve to cover those risks in the future. Where an event takes place that gives the Council an obligation that probably requires settlement, an appropriate amount is transferred from the reserve to a provision established for that purpose.

## **Group Accounts**

The SORP requires that where a local authority has material interests in subsidiaries, associates and/or joint ventures, then group accounts must be produced alongside the authority's own financial statements. The Council has determined that it has no such interests and that group accounts are therefore not required for 2007/08. However, the Council has intentions to set up the Arms Length Management Organisation (ALMO), so in future years will be required to prepare Accounts on a Group basis.

## **Joint Arrangements that are Not Entities (JANE)**

The Council is a member of The London Authorities Mutual Limited (LAML), created by London Boroughs for their exclusive benefit. It is limited by guarantee and has subscribing members. The LAML is regulated by the Financial Services Authority as an insurance company and as such offers its members the same level of financial security and protection as would be obtained from a commercial insurer.

## Statement of Responsibilities for the Statement of Accounts

### The Council's responsibilities

The Council is required:

- o 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.
- o to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- o to consider and approve the Statement of Accounts.

The Statement of Accounts 2007-08 was considered and approved by the Council's Audit Committee on 30<sup>th</sup> June 2008.

Chair of Committee

### The responsibilities of the Corporate Director of Resources

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

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

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

The Corporate Director of Resources has also:

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

I certify that the Statement of Accounts 2007-08 presents fairly the financial position of the Council at 31<sup>st</sup> March 2008 and its income and expenditure for the year.

Chris Naylor ACA MACantab  
Corporate Director of Resources  
**30 June 2008**

# **ANNUAL GOVERNANCE STATEMENT**

## **for the period 1<sup>st</sup> April 2007 to 31<sup>st</sup> March 2008**

### **Annual Governance Statement**

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

### **Scope of Responsibility**

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

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

### **The Purpose of the Governance Framework**

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

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

Tower Hamlets' governance framework is established through its systems, processes, cultures and values. These are regularly reviewed. The governance framework has been place at Tower Hamlets for the year ended 31 March 2008 and up to the date of approval of the statement of accounts.

## **The Governance Framework**

### **Vision and Priorities**

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

The Council (and Tower hamlets Partnership) is refreshing the borough's Community Plan through to 2020. This will see four new Community Plan themes to make Tower Hamlets:

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

Running through this is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership.

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

As the diagram below shows, the Council aligns its Strategic Framework with the Community Plan. The Council's Strategic Plan for 2008/09 is organised around the themes, priorities and objectives of the Community Plan and shows how the Council will both lead and contribute to the delivery of the Community Plan.

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

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

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

### **Quality of Service**

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

The overall planning framework is illustrated in the following diagram.



**Constitutional Matters**

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

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

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

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

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

During 2007/08 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A “call-in” procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

### **Codes of Conduct**

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

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

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

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

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

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority group in proportion of their representation on the Council. The Audit Committee reviews audit findings and the effectiveness of the internal audit function. The core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied with the authority’s annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority’s risk management framework; to meet the accounts and audit regulations in respect of approving the authority’s statement of accounts and to consider reports from the Audit Commission.

### **Risk Management**

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

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

## **Financial Management**

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

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of managers within the Council. The control arrangements in 2007/08 included:

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

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

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of best value reviews. During 2007/08, the Council continued work on its efficiency programme. As part of its service and financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the consideration of resource allocation.

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

## **Development and Training**

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

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

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

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

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

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

### **Communication and Engagement**

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

The Council also engages with citizens through surveys such as the annual resident's survey and tenant's survey. These help to inform the Council of the population's opinion on the services provided, their experience of services and to influence the Council's priorities for the future. This year the Council has also carried out work extensive work to refresh its Community Strategy. To ensure all residents had an opportunity to input into the strategy, the Council identified the hard to reach elements of the community and made arrangements to facilitate participation of these groups.

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

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

### **Partnerships**

The most significant partnership for the Council is the Tower Hamlets Partnership. The partnership has three stands; the eight local area partnerships which allows residents to influence their locality; the Community Plan Action Groups for each of the key themes in the community plan and the Partnership Management Group, which has responsibility for developing the overall strategy and for ensuring plans are delivered. The Partnership has its own constitution and its Members are also subject to a code of conduct and make declaration of interest at meetings.

The Council also has important partnership arrangements with the local primary care trusts and has uniquely, appointed a Joint Director of Human Resources to work across both sets of organisations. It is intended that with this appointments and increasingly joined up working, the range of services offered by authority and the primary care trust are delivered seamlessly to the public.

There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

### **Review of Effectiveness**

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

- the Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.



- the annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate and effective.
- the risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- the Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control. The Council is rated as 'three star' and improving strongly in its Comprehensive Performance Assessment, including a score of three out of four for its use of resources. The results of inspections of individual services have shown significant improvement whilst both Children's and Adults Social Care Services have been awarded 3 stars (out of 3) with excellent prospects for improvement. Children's Services received a score of 4/4 in its Annual Performance Assessment.
- monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- the provisional outturn on the 2007/08 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

### **The Corporate Governance Group**

The Corporate Governance Group is a body comprising of key officers across the authority and chaired by the Assistant Chief Executive. The group meets regularly to review and assess the governance arrangements in place and as necessary, raise recommendations. Its findings are reported to the Standard or the Audit Committee depending upon the nature of the issue.

### **Overview and Scrutiny**

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

### **Internal Audit**

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

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Service Head, Risk Management and Audit is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2007/08, the overall the control environment is adjudged to be satisfactory.

### **External Audit**

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

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

The auditors have in their annual audit letter and their assessment commented upon the Council's accounts, corporate governance and performance management arrangements. With regards the overall Use of Resources, the Council attained a score of 3, with notable practice in financial standing. The score of 3 means the authority is performing well and consistently above the minimum requirement.

## Significant Governance Issues

The review of the effectiveness of the governance arrangements in 2007/08 has identified some areas where action is appropriate to enhance the control environment and ensure continuous improvement. The areas are set out below. In all cases, work is already underway to address the action points.

- Embed the operations of the property services management unit;
- Further develop arrangements to optimise asset management across public services;
- Enhance arrangements for maintaining records of Council assets;
- Improve the Council's recycling arrangements;
- Ensure processes for managing sickness are effective;
- Refresh the Council's procurement function to secure additional capacity;
- Enhance the benefits derived from the implementation of the SX3 system;
- To further enhance the authority's Business Continuity Plans; and
- Maintain the ongoing drive to deliver decent homes standard by identifying and securing funding.

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

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

.....  
Chief Executive

Date:

.....  
Leader

Date:

## INCOME AND EXPENDITURE ACCOUNT

for the year ended 31st March 2008

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

	Note	2007/08 Gross Expenditure £'000	2007/08 Gross Income £'000	2007/08 Net Expenditure £'000	2006/07 Net Expenditure £'000
Cultural, Environmental and Planning Services	5	112,489	56,669	55,820	42,739
Central Services		59,571	50,088	9,483	8,670
Children's and Education Services	1	425,817	349,151	76,666	65,615
Highways, Roads and Transport Services	6/38	29,565	32,137	(2,572)	14,661
Local Authority Housing (HRA)		214,592	104,719	109,873	56,899
Other Housing Services	7	244,976	237,394	7,582	7,655
Adult Social Care	1	102,354	24,492	77,862	77,001
Corporate and Democratic Core	8	17,908	5,642	12,266	15,322
Non-distributed Costs		14,082	453	13,629	8,111
<b>NET COST OF SERVICES</b>		<b>1,221,354</b>	<b>860,745</b>	<b>360,609</b>	<b>296,673</b>
Net (gain)/loss on disposal of fixed assets	4			37,720	159
Total net (surplus)/deficit on Trading Accounts	9			433	671
Amounts due to levying authorities	10			1,527	1,500
Contribution to Housing Pooled Capital receipts				14,506	9,504
Interest payable and similar charges				24,008	35,322
Interest and investment income				(7,776)	(7,186)
Pensions interest cost and Expected return on pensions assets	48			5,643	7,769
<b>NET OPERATING EXPENDITURE</b>				<b>436,670</b>	<b>344,412</b>
<b>INCOME FROM TAXATION AND GENERAL GOVERNMENT GRANT:</b>					
Council Tax income				(66,322)	(62,117)
Government grants (not attributable to specific services)				(30,727)	(34,151)
Distribution from non-domestic rate pool				(183,094)	(171,755)
<b>(SURPLUS)/DEFICIT FOR THE YEAR TRANSFERRED TO THE GENERAL FUND</b>				<b>156,527</b>	<b>76,389</b>

## STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

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

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

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

	Note	2007/08 £'000	2006/07 £'000
(Surplus)/Deficit for the year on the Income and Expenditure Account		156,527	76,389
Net additional amount required by statute, or non-statutory good practice to be taken into account when determining the surplus or deficit on the General Fund for the year	3	(163,925)	(77,517)
<b>General Fund surplus for the year</b>		<b>(7,398)</b>	<b>(1,128)</b>
General Fund Balance brought forward		(18,478)	(17,350)
<b>General Fund Balance carried forward</b>		<b>(25,876)</b>	<b>(18,478)</b>
School Balance brought forward		(31,275)	(21,037)
Movement on School Balances in year		(2,952)	(10,238)
<b>School Balance carried forward</b>		<b>(34,227)</b>	<b>(31,275)</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

	2007/08	2006/07
	£'000	£'000
(Surplus)/Deficit on the Income and Expenditure Account for the year	156,527	76,389
(Surplus)/Deficit arising on revaluation of fixed assets	(449,501)	(32,132)
Actuarial (gains)/losses on pension fund assets and liabilities	(119,464)	(65,585)
Repayment of housing stock overhanging debt by DCLG	(10,850)	(10,522)
Movements between insurance reserve and provision	(2,422)	(5,059)
Collection Fund deficit - element relating to authority	(2,027)	496
Street Trading Account (surplus)/deficit	250	216
Any other gains and losses required to be included	(14,845)	
Capital receipts not related to the sale of an asset	471	118
<b>Total recognised (gains) and losses for the year</b>	<b>(441,861)</b>	<b>(36,079)</b>

## BALANCE SHEET

as at 31st March 2008

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

	Note	2007/2008 £'000	2007/2008 £'000	2006/2007 £'000
<b>Tangible Fixed Assets</b>	21/22			
<b>Operational assets</b>				
Dwellings		986,696		1,087,705
Other land and buildings		817,111		514,712
<b>Infrastructure assets</b>		83,321		80,657
Equipment		1,623		2,935
Community assets		43,050		40,156
<b>Non-operational assets</b>				
Investment properties		57,348		90,200
			1,989,149	1,816,365
<b>Long Term Debtors</b>	29		72,694	37,339
<b>Deferred Premiums on Early Repayment of Debt</b>	29			3,690
<b>Total Long Term Assets</b>			<b>2,061,843</b>	<b>1,857,394</b>
<b>Add Current Assets</b>				
Stocks and Work in Progress	30	2,884		3,944
Debtors	32	119,258		122,444
Investments	31/34/53	100,389		96,814
Cash and Bank	53	25,488		33,101
			248,019	256,303
<b>Less Current liabilities</b>				
Short Term Borrowing	34/53	14,018		38,012
Creditors	35	148,604		149,400
			162,622	187,412
<b>Total Assets less Current Liabilities</b>			<b>2,147,240</b>	<b>1,926,285</b>
<b>Less</b>				
Long Term Borrowing	34/53	262,043		326,452
Grants Unapplied	37	21,234		14,255
Capital Grants and Contributions Deferred	38	99,788		132,252
Provisions	39	22,657		28,130
Pensions Liability	48	179,854		305,393
			<b>585,576</b>	<b>806,482</b>
<b>TOTAL ASSETS LESS LIABILITIES</b>			<b>1,561,664</b>	<b>1,119,803</b>
<b>Represented by</b>				
Fixed Asset Restatement Account	41		0	706,129
Revaluation Reserve	41		429,602	0
Capital Adjustment Account	42		1,135,563	571,894
Capital Receipts Unapplied	43		9,383	7,814
Deferred Capital Receipts	44		556	722
Pensions Reserve	48		(179,854)	(305,393)
Major Repairs Reserve			2,226	45
Collection Fund			(116)	1,911
Financial Instrument Adjustment Account			2,555	0
Street Trading Account	45		(402)	(152)
<b>Balances:-</b>				
General Fund			25,876	18,478
Housing Revenue Account	37		21,551	17,115
Earmarked Reserves	47		114,724	101,240
<b>TOTAL EQUITY</b>			<b>1,561,664</b>	<b>1,119,803</b>

## CASH FLOW STATEMENT

for the year ended 31st March 2008

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

	Note	2007/2008 £'000	2007/2008 £'000	2006/2007 £'000	2006/2007 £'000
<b>REVENUE ACTIVITIES</b>					
<b>Expenditure</b>					
Cash paid in respect of employees		382,846		370,523	
Other operating costs		564,609		595,529	
Housing Benefit paid out		105,889		92,443	
Payments to NNDR Pool		253,785		239,643	
Payments of precepts		23,550		21,796	
Payments to Capital Receipts Pool		14,506		9,504	
			<b>1,345,185</b>		<b>1,329,438</b>
<b>Income</b>					
Rents (after rebates)		(25,716)		(27,845)	
Receipts from Council Tax payers		(66,027)		(61,133)	
Receipts from NNDR Pool		(183,094)		(171,755)	
Non domestic rate income		(249,788)		(250,018)	
Revenue Support Grant		(30,727)		(34,151)	
DWP grants for rent allowances		(108,810)		(92,772)	
Other Government grants	52	(504,176)		(462,472)	
Other revenue income		(214,559)		(298,975)	
			<b>(1,382,897)</b>		<b>(1,399,121)</b>
<b>NET CASH INFLOW FROM REVENUE ACTIVITIES</b>	51		<b>(37,712)</b>		<b>(69,683)</b>
<b>SERVICING OF FINANCE</b>					
Expenditure: interest paid		34,125		24,902	
Income: interest received		(8,055)		(6,018)	
<b>NET CASH OUTFLOW FROM THE SERVICING OF LOANS</b>			<b>26,070</b>		<b>18,884</b>
<b>CAPITAL ACTIVITIES</b>					
<b>Expenditure</b>					
Purchase of fixed assets		53,013		72,014	
Advances to long term debtors		235		450	
Deferred charges		6,374		10,196	
			<b>59,622</b>		<b>82,660</b>
<b>Income</b>					
Sale of fixed assets		(36,189)		(27,572)	
Other capital cash payments/(income)		(43,784)		(52,670)	
Receipts from long term debtors		(11,372)		(2,098)	
			<b>(91,345)</b>		<b>(82,340)</b>
<b>NET CASH INFLOW FROM CAPITAL ACTIVITIES</b>			<b>(31,723)</b>		<b>320</b>
<b>NET CASH INFLOW FROM ALL ACTIVITIES BEFORE FINANCING</b>			<b>(43,365)</b>		<b>(50,479)</b>
<b>MANAGEMENT OF LIQUID RESOURCES</b>					
Short Term Investments	53	3,575		(16,778)	
Short Term Borrowing	53	23,994		(3,621)	
			<b>27,569</b>		<b>(20,399)</b>
<b>FINANCING</b>					
Repayments of amounts borrowed	53	64,409		61,579	
New loans raised		(41,000)		0	
<b>NET CASH OUTFLOW FROM THE REPAYMENT OF LOANS</b>			<b>23,409</b>		<b>61,579</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>			<b>7,613</b>		<b>(9,299)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1. SERVICE EXPENDITURE ANALYSIS

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

### 2. EXPLANATION OF PRIOR PERIOD ADJUSTMENTS

In the 2007/08 Statement of Accounts, impact on comparative figures for 2007/08 in the Income and Expenditure Account:

- (i) The disaggregation of Social Services is an outcome from developments in the national agenda including Every Child Matters and the National Service Framework for children, young people and maternity services. The £43m movement between Children's and Education Services and Adult Social Care is to reflect this structure.
- (ii) Administrative Buildings was treated as a Trading Account in the 2006/07 accounts. This treatment has now been reviewed and, as the service is not provided in a competitive environment and recharges are based on a straightforward recharge of cost, this service is now excluded from Trading Accounts list and moved to Central Services.
- (iii) A number of costs included in last year's balance which were not CDC have been adjusted for comparison
- (iv) In 2007/08 stock transfers were made to Registered Social Landlords (RSL), these properties were valued at £184.4 million, it is now a requirement to show the impairment in the Income and Expenditure Account together with the overhanging debt. The 2006/07 has been adjusted to provide comparison.

These changes have had the following impact on the comparative figures for 2006/07 compared with those published in the 2006/07 Statement of Accounts (only the figures that have changed are included in the table).

	Consolidated Income and Expenditure 2006/07 Accounts £000s	Disaggregation of Social Services (i) £000s	Trading Accounts (ii) £000s	CDC Costs adjustment (iii)	Housing stock transfer (iv) £000s	2006/07 Comparatives in Income and Expenditure Account £000s
Cultural, Environmental and Planning Services	42,739					42,739
Central Services	4,087		4,582			8,669
Education Services	22,628	42,987				65,615
Highways, Roads and Transport Services	14,661					14,661
Local Authority Housing (HRA)	(32,610)			1,255	88,254	56,899
Other Housing Services	7,655					7,655
Adult Social Services	119,990	(42,987)				77,003
Corporate and Democratic Core	16,576			(1,255)		15,321
Non-distributed Costs	8,111					8,111
<b>Net Cost of Services</b>	<b>203,837</b>	<b>0</b>	<b>4,582</b>	<b>0</b>	<b>88,254</b>	<b>296,673</b>
Total net (surplus)/deficit on Trading Accounts	5,253		(4,582)			671



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

	2007/2008	2007/2008	2006/07	2006/07
	£'000	£'000	£'000	£'000
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>				
Amortisation of intangible fixed assets	(692)		(888)	
Depreciation and impairment of fixed assets	(23,715)		(13,868)	
Excess of depreciation of HRA assets over the MRA	(918)		(2,160)	
Impairment relating to housing stock transfer	(142,220)		(88,254)	
Deferred considerations adjustment	(1,344)		(1,250)	
Transfers from General Fund (as directed by Secretary of State)	(909)			
Government Grants Deferred amortisation	35,342		26,261	
Difference between amounts debited/credited to the Income and Expenditure account and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	2,840			
Write downs of deferred charges to be financed from capital resources	(6,496)		(10,196)	
Gain or loss on sale of HRA fixed assets	(339)		(159)	
Net profit/(loss) on sale of fixed assets	(37,381)			
Net charges made for retirement benefits in accordance with FRS 17	(32,651)	(208,483)	(38,584)	(129,098)
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>				
Minimum revenue provision for capital financing	6,984		7,551	
Capital expenditure financed from the General Fund	48		6,030	
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(14,506)		(9,504)	
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	38,726	31,252	33,586	37,663
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>				
Transfer of statutory surplus for the year on the Housing Revenue Account	4,435		4,935	
Transfers made at the discretion of the Council to or from reserves that have been earmarked for specific purpose	8,871	13,306	8,983	13,918
<b>Net additional amount required to be credited to the General Fund balance for the year</b>		<b>(163,925)</b>		<b>(77,517)</b>

### 4. GAIN/LOSS ON DISPOSAL OF FIXED ASSETS

This represents the gain/loss to the Council on the sale of fixed assets. The effects are reversed in the Statement of Movement on General Fund balance to avoid the impact on the general fund revenue balance. The assets are valued to market value at the point of sale.

	2007/08	2006/07
	Disposal	Disposal
	£'000	£'000
Market value of assets sold	26,582	27,601
*Adjustments for demolitions/transfers/disposals	37,381	0
Book value of disposals	63,963	27,601
Capital receipts received	(26,582)	(27,601)
Cost of disposal on dwellings	339	159
<b>Loss on Disposal</b>	<b>37,720</b>	<b>159</b>

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

## 5. PLANNING SERVICES: BUILDING REGULATIONS CHARGING ACCOUNT

The Council is required to disclose information regarding the setting of charges for the administration of its Building Control function. The statement below shows the total cost of the building control function divided between chargeable and non-chargeable activities.

	2007/2008			2006/2007		
	Chargeable	Non Chargeable	Total	Chargeable	Non Chargeable	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Expenditure</b>						
Employee costs	1,213	652	1,864	1,243	686	1,929
Transport	23	13	36	24	15	39
Premises	126	70	197	110	63	173
Supplies and services	181	36	216	191	21	212
Support services	92	185	277	104	229	333
<b>Total Expenditure</b>	<b>1,635</b>	<b>956</b>	<b>2,591</b>	<b>1,672</b>	<b>1,014</b>	<b>2,686</b>
<b>Income</b>						
Building Regulation Fees	1,671	185	1,856	1,681	236	1,917
Other Income		30	30	0	49	49
<b>Total Income</b>	<b>1,671</b>	<b>215</b>	<b>1,886</b>	<b>1,681</b>	<b>285</b>	<b>1,966</b>
<b>Deficit (Surplus) for the year</b>	<b>(36)</b>	<b>741</b>	<b>705</b>	<b>(9)</b>	<b>729</b>	<b>720</b>

## 6. CONTROLLED PARKING ACCOUNT

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

This account records all income and expenditure attributable to on-street parking activities, including enforcement. The account may incur a deficit in the year in which case the deficit must be made good from the General Fund at the end of the year. The use of any surplus is prescribed by legislation and is restricted largely to reinvestment within the service and highways and transportation initiatives.

	2007/2008	2006/2007
	£'000	£'000
<b>Expenditure</b>		
Employee costs	4,072	3,653
Premises	536	672
Transport	156	127
Supplies and services	1,426	1,276
Third party payments	1,459	457
Support services	1,923	1,777
Capital financing	28	28
Increase in provision for bad debts	0	2,627
<b>Total Expenditure</b>	<b>9,600</b>	<b>10,617</b>
<b>Income</b>		
Fees and charges	12,708	10,153
Decrease in provision for bad debts	974	0
<b>Total Income</b>	<b>13,682</b>	<b>10,153</b>
<b>(Surplus)/Loss for the year</b>	<b>(4,082)</b>	<b>464</b>
Balance at 1st April	0	934
Surplus for year	4,032	(464)
Funding of General Fund service initiatives.	(4,032)	(470)
<b>Balance at 31st March</b>	<b>0</b>	<b>0</b>

## 7. HOUSING SERVICES

The Housing Revenue Account (HRA), which is separately reported at page 63, is consolidated into the Income and Expenditure Account. Before consolidation certain adjustments are required to ensure the proper reporting of expenditure and income for the Council as a whole. The amounts consolidated are as follows:

	2007/2008 Gross Expenditure £'000	2007/2008 Gross Income £'000	2007/2008 Net Expenditure £'000	2006/2007 Net Expenditure £'000
Housing Revenue Account (page 63)	214,931	(104,719)	110,212	93,201
Internal recharges				
Corporate and Democratic Core	(339)		(339)	(536)
<b>Local Authority Housing</b>	214,592	(104,719)	109,873	92,665
Other Housing	244,976	(236,485)	8,491	8,600
Internal recharges				
Supporting people		(909)	(909)	(945)
<b>Other Housing Services</b>	244,976	(237,394)	7,582	7,655
<b>NET COST OF SERVICES</b>	<b>459,568</b>	<b>(342,113)</b>	<b>117,455</b>	<b>100,320</b>

## 8. MEMBERS' ALLOWANCES

Includes total allowances paid to Council Members of £852,441 in 2007/2008 (£837,794 in 2006/2007).

## 9. TRADING ACCOUNTS

The following accounts have been treated as "Trading Accounts" in 2007/2008 in accordance with Best Value Criteria

	2007/2008 Expenditure £'000	2007/2008 Income £'000	2007/2008 Surplus/ (Deficit) £'000	2006/2007 Surplus/ (Deficit) £'000
Vehicle Maintenance	7,019	7,211	192	70
Cleansing and Welfare Catering	10,836	10,486	(350)	(306)
Building and Property Services	165	213	48	24
Support Services	31,960	31,637	(323)	(459)
<b>TOTAL TRADING ACCOUNTS</b>	<b>49,980</b>	<b>49,547</b>	<b>(433)</b>	<b>(671)</b>

## 10. LEVIES

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

	2007/2008 £'000	2006/2007 £'000
Lee Valley Regional Park Authority	236	224
Environment Agency	142	88
London Pensions Fund Authority	1,149	1,188
<b>Total levies</b>	<b>1,527</b>	<b>1,500</b>

## 11. PRIVATE FINANCE INITIATIVE PROJECTS

The Council has entered into two Private Finance Initiative (PFI) projects for the refurbishment and replacement of schools. The first was signed on 28th March 2002 and financially closed on 28th June 2002. The value of the scheme is £327.03 million. Services commenced on 30th June 2002 and will end on 31st August 2027. The second was signed on 29th March 2002 and financially closed on 17th May 2002. The value of the scheme is £63.27 million. Services commenced on 31st May 2002 and will end on 31st March 2029.

The projected payments under the PFI agreements are as follows:

	2007/2008 Mulberry School £'000	2006/2007 Mulberry School £'000	2007/2008 Grouped Schools £'000	2006/2007 Grouped Schools £'000
Contracted payments due within 1 year	2,064	2,010	12,599	12,105
Contracted payments due within the following 5 years	10,672	10,392	66,999	63,065
Contracted payments after year ending 31st March 2012	35,629	39,358	212,758	206,770

## 12. AGENCY INCOME AND EXPENDITURE

The Council has an agency agreement with the Thames Water Authority whereby the Council is responsible for collecting unmetered water charges from council tenants. For this service the council receives a commission based on the total TWA bill chargeable for the year. In 2007/2008 this commission amounted to £812,559 (£905,000 : 2006/2007).

## 13. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

The Council is empowered by this Act to enter into an agreement with another local authority or public body for the provision of any administrative, professional or technical service. The authority entered into an agreement in May 2004 with the London Boroughs of Barking and Dagenham, Hackney, Havering and Newham to establish the London Thames Gateway Development Corporation (LTGDC). The LTGDC has the power to determine various planning applications within its area above an agreed threshold. The income received by the Council in 2007/08 from this agreement amounted to £31,915 (2006/07 £363,455).

## 14. OFFICERS' EMOLUMENTS

The numbers of employees whose remuneration, excluding pension fund contributions, was equal to or greater than £50,000 were as follows:

Remuneration Band £	2007/2008		2006/2007	
	Teaching Staff	Other Staff*	Teaching Staff	Other Staff*
50,000 - 59,999	210	144	180	102
60,000 - 69,999	59	45	46	35
70,000 - 79,999	21	16	10	15
80,000 - 89,999	5	14	7	7
90,000 - 99,999	4	11	5	6
100,000 - 109,999	6	2	1	2
110,000 - 119,999	0	1	0	3
120,000 - 129,999	1	2	0	3
130,000 - 139,999	0	3	0	2
140,000 - 149,999	0	0	0	1
150,000 - 159,999	0	0	0	0
160,000 - 189,999	0	2	0	1
190,000 - 239,999	0	1	0	0
<b>Total employees</b>	<b>306</b>	<b>241</b>	<b>249</b>	<b>177</b>

## 15. PUBLICITY

Section V of the Local Government Act 1986 requires the Council to disclose separately its expenditure on publicity.

	2007/2008	2006/2007
	£'000	£'000
Recruitment advertising	1,373	1,081
Media and public relations	980	1,217
Other	1	2
<b>Total expenditure</b>	<b>2,354</b>	<b>2,300</b>

## 16. AUDIT FEES

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

	2007/2008	2006/2007
	£'000	£'000
Core audit in accordance with s.5 of the Audit Commission Act 1998	445	414
Statutory inspections in accordance with s.10 of the Act	150	26
Audit of grant claims	99	195
Other services	0	30
<b>Total expenditure</b>	<b>694</b>	<b>665</b>

## 17. ECONOMIC DEVELOPMENT

The Local Government (Promotion of Economic Development) Regulations 1990 require authorities to disclose any financial assistance given to relevant bodies in the form of a loan with a rate of interest at less than market rate. At 31st March 2008 the Council had no outstanding loan agreements of this nature.

## 18. SECTION 137 OF THE LOCAL GOVERNMENT ACT 1972

This section, as amended, empowers councils to make contributions to certain charitable funds, not-for-profit bodies and mayoral appeals. No such contributions were made in 2007/08.

## 19. RELATED PARTY TRANSACTIONS

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

### (i) Central Government

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

### (ii) Partnerships

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

### (iii) Pension Fund

The Council borrows from the Pension Fund. The year end balance is shown in note 34 to the Core Financial Statements. The Pension Fund accounts are presented on pages 72 to 78 of this Statement.

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

Council Members have made declarations of their interests in the following organisations to which the Council made payments in 2007-08:

Organisations	Councillor	Payments by the Council £'000
Age Concern	A. Jackson	713
Bethnal Green and Victoria Park Housing Association	J. Peck	6
Cultural Industries Development Agency	D. Jones	149
	S. Khatun	
East End Homes	M Uz Zaman	1,026
Eastside Books Ltd	D. Jones	34
Ensign Youth Club	A. Asad	102
Greenwich & Dockland Festival	R. Bawden	25
Island Sports Trust	P. Golds	3
	B. Turner	3
Neighbours in Poplar	F. Miah	149
Poplar Harca	M Uz Zaman	2,423
Rich Mix Cultural Enterprise	S. Khatun	22
	C. Harper-Penman	
St. Hilda's East	S. Khatun	1,505
Stepney Dynamic Youth Club	A. Rahman Khan	5
Spitalfields City Farm	L. Alexander	57
Tower Hamlets Community Housing Ltd	H. Abbas	246
	S. Islam	
	A Omer	
	A. Salique	
Tower Hamlets Community Transport Ltd	M. Uz Zaman	123
	A. Ali	
Tower Hamlets Community Credit Union	H. Abbas	80
Tower Hamlets Law Centre	L. Rahman	240
	M . Abdus Salique	
Tower Hamlets Sports Council	A. Chowdhury	10
	S. Rouse	
Wapping Bangladesh Association	A. Ullah	40
Bengali Education Society	S. Ullah	6
Spitalfields Housing Association	H. Abbas	14
LABO Housing	D. Uddin	15
Stitches in Time	L. Begum	15
Keen Students School	H. Abbas	18
Mudchute Association	R. Eckhardt	152

## 20. POOLED BUDGETS

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

- (a) Integrated Community Equipment Service (ICES)
- (b) Services for Adults with Learning Difficulties (LDSA)
- (c) Integrated Services for Disabled Children in the Children's Trust Pathfinder (DCTP)
- (d) Commissioning Health and Social Care Services for Adults with Learning Disabilities (CLDSA)

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

<b>2007-08</b>	<b>ICES £'000</b>	<b>LDSA £'000</b>	<b>DCTP £'000</b>	<b>CLDSA £'000</b>	<b>OTS £'000</b>
<b>Income</b>					
The Council	916	1,247	5,755	17,161	1,516
Tower Hamlets Primary Care Trust	774	1,621	1,386	2,754	1,314
Learning Disabilities Development Fund				246	
	1,690	2,868	7,141	20,161	2,830
<b>Expenditure</b>	1,690	2,868	7,141	20,161	2,830
<b>Surplus/Deficit for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2006-07</b>	<b>ICES £'000</b>	<b>LDSA £'000</b>	<b>DCTP £'000</b>	<b>CLDSA £'000</b>	<b>OTS £'000</b>
<b>Income</b>					
The Council	801	1,229	5,029	16,083	1,512
Tower Hamlets Primary Care Trust	538	1,554	1,287	2,284	1,151
Learning Disabilities Development Fund				236	0
	1,339	2,783	6,316	18,603	2,663
<b>Expenditure</b>	1,339	2,783	6,316	18,603	2,663
<b>Surplus/Deficit for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

21. TANGIBLE FIXED ASSETS							
	Council Dwellings £'000	Other Land and Buildings £'000	Infrastructure £'000	Equipment £'000	Community £'000	Non-Operational £'000	Totals £'000
<b>Value as at 1st April 2007</b>	<b>1,102,366</b>	<b>594,908</b>	<b>98,857</b>	<b>8,994</b>	<b>40,205</b>	<b>86,776</b>	<b>1,932,106</b>
Additions	29,353	14,660	5,143	738	3,048	46	52,988
Disposals/Write off's	(204,383)	(16,019)	0	0	(203)	(28,201)	(248,806)
Revaluations	72,295	274,472	0	0	0	221	346,988
Reclassification of assets	0	(111)	0	0	0	0	(111)
<b>Value at 31 March 2008</b>	<b>999,631</b>	<b>867,910</b>	<b>104,000</b>	<b>9,732</b>	<b>43,050</b>	<b>58,842</b>	<b>2,083,165</b>
<b>Depreciation as at 1st April 2007</b>	<b>14,662</b>	<b>75,219</b>	<b>18,201</b>	<b>6,165</b>	<b>0</b>	<b>1,494</b>	<b>115,741</b>
Depreciation for the year	12,935	17,365	2,478	1,944			34,722
Revaluations	(14,662)	(41,785)					(56,447)
<b>Depreciation as at 31st March 2008</b>	<b>12,935</b>	<b>50,799</b>	<b>20,679</b>	<b>8,109</b>	<b>0</b>	<b>1,494</b>	<b>94,016</b>
<b>TOTAL NET BOOK VALUE at 31st March 2008</b>	<b>986,696</b>	<b>817,111</b>	<b>83,321</b>	<b>1,623</b>	<b>43,050</b>	<b>57,348</b>	<b>1,989,149</b>

Capital expenditure on dwellings relates principally to the conversion, improvement and enhancement of existing stock. The adjustments relate to a review of the Asset Register undertaken in 2007/08. This identified a number of assets which had previously been incorrectly classified as tangible fixed assets rather than deferred charges.

The relative fixed assets holdings of the General Fund and Housing Revenue Account can be analysed as follows: -

	Council Dwellings £'000	Other Land and Buildings £'000	Infrastructure £'000	Equipment £'000	Community £'000	Non-Operational £'000	Totals £'000
Housing Revenue Account	986,696	31,457	157	0	0	53,875	1,072,185
General Fund	0	785,654	83,164	1,623	43,051	3,472	916,964
<b>TOTAL NET BOOK VALUE at 31st March 2008</b>	<b>986,696</b>	<b>817,111</b>	<b>83,321</b>	<b>1,623</b>	<b>43,051</b>	<b>57,347</b>	<b>1,989,149</b>

22. TANGIBLE FIXED ASSET VALUATION							
	Council Dwellings £'000	Other Land and Buildings £'000	Infrastructure £'000	Equipment £'000	Community £'000	Non-Operational £'000	Totals £'000
<b>Analysis of Revaluations of Fixed Assets</b>							
Valued at historic cost			83,321	1,623	43,050	57,348	185,342
Valued at current value in:							
2007/2008: dwellings	986,696						986,696
2007/2008: schools		625,225					625,225
2006/2007: other housing		3,843					3,843
2005/2006: sports centres		66,786					66,786
2004/2005: offices		57,284					57,284
2003/2004: residential homes		63,973					63,973
<b>Value at 31 March 2007</b>	<b>986,696</b>	<b>817,111</b>	<b>83,321</b>	<b>1,623</b>	<b>43,050</b>	<b>57,348</b>	<b>1,989,149</b>



## 22. FIXED ASSET VALUATION (continued)

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

### General Fund Property Valuation

The Council normally operates a five-year rolling programme of revaluation. Approximately 1/5th of the asset portfolio is revalued every year. In 2003/2004 the Council revalued all General Fund assets held at current value in order to separately identify land and buildings on the fixed asset register. The valuations carried out complied with the requirements of Financial Reporting Standard (FRS) 15, "Tangible Fixed Assets", issued by the Accounting Standards Board. A table showing the analysis of revaluations of fixed assets is shown above.

Properties considered by the Council to be specialised within the definition provided by FRS 15 were valued on the basis of depreciated replacement cost. Properties considered by the Council to be non-specific were valued on the Existing Use Value basis.

Community assets have been included at historic cost. All assets with the exception of community assets are depreciated on a straight line basis. The projected asset lives, which form the basis of the depreciation charges, have been reviewed by the Head of Property Services.

The Head of Property Services and the Chief Financial Officer have undertaken a review of the value of assets as required under FRS 11, "Impairment of Fixed Assets", and do not consider that impairment will impact on such values.

### Housing Revenue Account Property Valuation

The valuation of Housing Revenue Account assets has been carried out by Hilbery Chaplin, Chartered Surveyors in accordance with guidelines produced by central government in the "Guidance on Stock Valuation for Resource Accounting".

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

### Depreciation

Depreciation on a straight line basis is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation). The bases adopted for each type of asset is disclosed in the Statement of Accounting Policies on page 8.

## 23. DEFERRED CHARGES

These are created when expenditure has been incurred on items which would otherwise be treated as revenue but are classified as capital for control purposes and have been financed from capital resources. Once financed, the expenditure is charged to revenue in the year it is incurred. The following

	2007-08		2006-07	
	Expenditure £'000	Revenue Charge £'000	Expenditure £'000	Revenue Charge £'000
Improvement grants	1,452	(1,452)	1,675	(1,675)
Grants to voluntary organisations	243	(243)	2,182	(2,182)
Church schools	76	(76)	347	(347)
Cash incentive scheme	224	(224)	454	(454)
I.T. development	1,498	(1,498)	1,566	(1,566)
Miscellaneous: Housing	1,381	(1,381)	2,222	(2,222)
Miscellaneous: General Fund	1,500	(1,500)	1,750	(1,750)
<b>TOTAL</b>	<b>6,374</b>	<b>(6,374)</b>	<b>10,196</b>	<b>(10,196)</b>

## 24. CAPITAL EXPENDITURE AND FINANCING

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

	2007/2008 £'000	2006/2007 £'000
<b>Expenditure</b>		
Tangible Fixed Assets		
<i>Operational</i>	52,942	69,688
<i>Non Operational</i>	46	1,580
Intangible Fixed Assets	692	888
Deferred Consideration	1,878	2,117
Deferred Charges	6,374	10,196
<b>TOTAL</b>	<b>61,932</b>	<b>84,469</b>
<b>Source of Finance</b>		
Borrowing	21,963	22,245
Capital Receipts and Contributions	29,166	41,414
Major Repairs Reserve	10,755	14,780
Direct Revenue Funding	48	6,030
<b>TOTAL</b>	<b>61,932</b>	<b>84,469</b>

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

	2007/2008 £'000	2006/2007 £'000
<b>Opening Capital Financing Requirement</b>	<b>443,333</b>	<b>474,927</b>
<b>Capital Investment</b>		
Operational Assets	52,988	71,268
Intangible Assets	692	888
Deferred Charges	6,374	10,196
Deferred Consideration	1,878	2,117
Other Long Term Liabilities	0	0
<b>Sources of Finance</b>		
Capital Receipts and Contributions	(29,167)	(41,414)
Major Repairs Reserve	(10,755)	(14,780)
Direct Revenue Funding	(48)	(6,030)
Net Revenue Provision	(6,954)	(7,551)
<b>Stock transfer loans repaid</b>	<b>(53,506)</b>	<b>(46,288)</b>
<b>Closing Capital Financing Requirement</b>	<b>404,835</b>	<b>443,333</b>
<b>Explanation of movements in the year</b>		
Increase (decrease) in underlying need to borrow (supported by Government financial assistance)	14,383	14,704
Repayment of External Loans Resulting from Stock Transfer	(53,506)	(46,288)
Increase in underlying need to borrow (unsupported by Government financial assistance)	625	(10)
<b>Decrease in Capital Financing Requirement</b>	<b>(38,498)</b>	<b>(31,594)</b>

## 25. ANALYSIS OF TANGIBLE FIXED ASSETS

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

	2007/2008	2006/2007
<b>Land and buildings</b>	<i>Number</i>	<i>Number</i>
Dwellings	13,096	15,703
Administrative buildings	37	57
Commercial properties	497	543
Depots	6	9
Cemeteries	2	2
Public mortuary	1	1
Recreation and leisure facilities	29	30
Schools	53	53
Social services establishments - Residential Homes, Day Centres etc.	21	28
Other	69	83
	<i>Hectares</i>	<i>Hectares</i>
<b>Parks and open spaces</b>	236	236
	<i>Kilometres</i>	<i>Kilometres</i>
<b>Infrastructure</b>		
Principal built up roads	14.7	14.7
Other built up roads	248.2	248.2

## 26. CAPITAL COMMITMENTS

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £1.8 million at 31st March 2008.

	Committed sum £m	Costs to 31/3/2008 £m	2008/2009 onwards £m
Harry Gosling Re-Model	2.46	0.67	1.79
<b>TOTAL</b>	<b>2.46</b>	<b>0.67</b>	<b>1.79</b>

## 27. LEASES

### Operating Leases

Two administrative buildings were leased during the year at Mulberry Place (15 years) and Anchorage House 13 years). These leases are accounted for as operating leases. The rents payable in 2007/08 were £3.5m.

	Other Land and Buildings £000
Operating Lease Payments in 2007/08	3.5
Operating Lease Payments in 2008/09	4.8
Operating Lease Payments in 2009/10 to 2011/12	5.3

## 28. INTANGIBLE FIXED ASSETS

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

	Balance at 1/4/2007	Expenditure 2007-08	Revenue Charge 2007-08	Balance at 31/3/2008
	£'000	£'000	£'000	£'000
Software licences	0	692	(692)	0

## 29. LONG TERM DEBTORS

	Balance at 1/4/2007	Advances	Income and adjustments	Balance at 31/3/2008
	£'000	£'000	£'000	£'000
<b>Mortgages</b>				
Housing associations	0			0
Right to buy	675	78	(178)	575
<b>TOTAL MORTGAGES</b>	<b>675</b>	<b>78</b>	<b>(178)</b>	<b>575</b>
Private Finance Initiative schemes	28,466	43,162	0	71,628
Premature Loan Redemption	2,839	0	(2,839)	0
Sundry loans	9,049	157	(8,715)	491
<b>TOTAL LONG TERM DEBTORS</b>	<b>41,029</b>	<b>43,397</b>	<b>(11,732)</b>	<b>72,694</b>

## 30. STOCK AND WORK IN PROGRESS

	2007/2008	2006/2007
	£'000	£'000
Work in progress: rechargeable works	2,870	3,923
Stocks	14	21
<b>TOTAL STOCKS AND WORKS IN PROGRESS</b>	<b>2,884</b>	<b>3,944</b>

## 31. TEMPORARY INVESTMENTS

Investments comprise short term deposits made for less than one year with banks, building societies and other local authorities.

### 32. DEBTORS AND PAYMENTS IN ADVANCE

	2007/2008	2006/2007
	£'000	£'000
Government	12,335	24,472
Her Majesty's Revenue and Customs	10,477	7,653
Rates, Community Charge and Council Tax payers	23,304	17,886
Rents: sundry tenants	4,681	4,583
Rents: homeless families	12,335	10,933
Employees	370	549
Payments in advance	4,004	2,799
Deferred considerations	26,241	25,706
Sundry other	77,179	74,940
<b>TOTAL DEBTORS</b>	<b>170,926</b>	<b>169,521</b>
<b>Provisions for bad debts</b>		
Rents: sundry tenants	(3,105)	(3,429)
Housing benefits overpayments	(8,640)	(7,309)
Rents: homeless families	(12,075)	(10,755)
Controlled parking fees	(3,241)	(4,134)
Rates, Community Charge and Council Tax payers	(10,329)	(9,010)
Sundry debtors	(14,278)	(12,440)
<b>TOTAL PROVISIONS FOR BAD DEBTS</b>	<b>(51,668)</b>	<b>(47,077)</b>
<b>TOTAL NET DEBTORS</b>	<b>119,258</b>	<b>122,444</b>

### 33. DEFERRED CONSIDERATIONS

"Deferred considerations" are in respect of initial capital contributions by the Council under Private Finance Initiative schemes. The balances are to be written off to the appropriate service revenue accounts over the lifetime of the contracts. The amounts charged are, however, excluded when determining the General Fund Surplus so there is no impact on the level of council tax. Movements in the balance between years can be analysed as follows:

	2007/2008	2006/2007
	£'000	£'000
Balance at beginning of year	25,707	24,840
Expenditure during the year	1,878	2,117
Charged to revenue	(1,344)	(1,250)
<b>BALANCE AT END OF YEAR</b>	<b>26,241</b>	<b>25,707</b>

### 34. FINANCIAL ASSETS & LIABILITIES

With effect from 1 April 2007, local authorities have had to adopt a major change of accounting policy in order to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom – the Statement of Recommended Practice 2007, issued by the Chartered Institute of Public Finance and Accountancy / LASAAC Joint Committee. This has been based on major changes in international accounting standards which have resulted in this country in the introduction of new U.K. accounting standards for financial instruments - FRS25, 26 and 29.

#### Amortised Cost

This change in accounting standards has meant that most financial instruments (whether borrowing or investment) have, in 2007/08, to be valued on an amortised costs basis using the effective interest rate (EIR) method. However, it should be noted that figures for 31st March 2007 which appear in these disclosure notes are shown unaltered from those which were published in the accounts for 2006/07 i.e. they have not been restated to amortised cost etc. Consequently, the figures for 31st March 2007 and 31st March 2008 are not properly comparable as they have been produced on two different basis. This is a one off problem which will not occur in the accounts for future years when two years' figures will be properly comparable.

#### Fair Value

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

Guidance from CIPFA states that as fair value valuations were not calculated as at 31st March 2007, the column for fair value as at 31st March 2007 in these disclosure notes cannot be filled in and so no figures appear.

For the very same reasons, no figures appear under 'Gains and losses on financial instruments' for 2006/07.

#### Compliance

This authority has complied with the following: -

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

#### Types of Financial Instruments

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

#### Financial Instrument Balances

	Long-Term		Current		Total	
	2007/2008 £'000	2006/2007 £'000	2007/2008 £'000	2006/2007 £'000	2007/2008 £'000	2006/2007 £'000
Borrowings						
Financial liabilities at amortised cost	264,882	336,023	14,018	38,012	278,900	359,626
Investments						
Loans and receivables	0	0	100,389	96,814	100,389	96,814

The balance sheet includes a number of adjustments which relate to debt restructuring which cannot be related to the current loan portfolio.

The adjustments are as set out below:

	£000s
Financial Instrument Balances	278,900
Debt Restructuring Adjustments	(2,839)
Total Borrowing	276,061

#### 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:

Financial Instruments Gains and Losses	Financial Liabilities measured at amortised cost £000s	Financial Assets Loans and receivables £000s
Interest expense	26,076	
Interest income		7,776
<b>TOTAL INTEREST AND INVESTMENT INCOME</b>	<b>26,076</b>	<b>7,776</b>

The interest payable relates to third party debt and excludes interfund interest payments amounting to £1.381 million. These payments to the HRA and Pension Fund have been included in the balance sheet.

Comparable figures are not available for 2006/07 due to the change in accounting standards

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

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost is disclosed below. The Council has not calculated fair values as at 31st March 2007.

#### Methods and Assumptions in valuation technique

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

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

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

The calculations are made with the following assumptions:

- For PWLB debt, the discount rate used is the rate for new borrowing as per rate sheet number 064/08.
- For other market debt and investments the discount rate used is the rates available for an instrument with the same terms from a comparable lender.
- We have used interpolation techniques between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- We have calculated fair values for all instruments in the portfolio, but only disclose those which are materially different from the carrying value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	2007/08 £'000 Carrying amount	2007/08 £'000 Fair value	2006/07 £'000 Carrying amount	2006/07 £'000 Fair value
Fair Value of Liabilities Carried at Amortised Cost				
PWLB - maturity	257,248	320,386	349,216	-
PWLB - annuity	2,209	2,206	2,999	-
PWLB - EIP	811	872	1,101	-
PWLB - variable	-	-	-	-
LOBOs	17,500	18,470	-	-
LOBO range accruals	73	81	-	-
Short term borrowing	1,059	1,059	6,310	-
Financial liabilities	278,900	343,074	359,626	0

NOTE. As a result of changes in accounting policy, premiums and discounts existing as at 31st March 2007 were re-examined and £3.690 million of premiums were used to adjust the carrying value of the instrument, resulting in a net increase / decrease in the total Balance Sheet value at 1st April 2007 of £3.690 million. The carrying amount of financial liabilities as at 31st March 2008 was £2.839 million. In addition it is now a requirement that the accrued interest of £2.904 million is included with the appropriate debt.

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

	2007/2008 Carrying amount £'000	2007/2008 Fair value £'000	2006/2007 Carrying amount £'000	2006/2007 Fair value £'000
Fair Value of Assets Carried at Amortised Cost				
Deposits with banks and building societies	100,389	100,393	96,814	-
<b>TOTAL</b>	<b>100,389</b>	<b>100,393</b>	<b>96,814</b>	<b>0</b>

The fair value is higher/lower than the carrying amount because the Councils portfolio of investments includes a number of fixed rate loans where the interest rate is receivable is lower/higher than the rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above/below current market rates increases the amount that the authority would receive if it agreed to early repayment of loans.

#### Nature And Extent Of Risks Arising From Financial Instruments

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

#### 1. Credit Risk

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

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

	Amounts at 31 March 2008 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2008 %	Estimated maximum exposure to default and uncollectability £'000
Deposits with banks and other financial institutions	100,389	-	-	-
Bonds and other securities	-	-	-	-
Customers	-	-	-	-
<b>TOTAL</b>	<b>100,389</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

## Debtors

The Council does not generally allow credit for customers, such that £8.17 million of the £19.168 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2008 £'000
Credit Risk	
Less than three months	10,998
Three to six months	4,085
Six months to one year	1,172
More than one year	1,386
<b>TOTAL</b>	<b>19,168</b>

## 2. Liquidity Risk

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

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

	2007/2008 £'000	2006/2007 £'000
Loans outstanding		
Public Works Loans Board	257,437	358,153
Market debt	17,500	-
Temporary borrowing	1,059	6,311
<b>TOTAL</b>	<b>275,996</b>	<b>364,464</b>
Less than 1 year	14,018	38,012
Between 1 and 2 years	12,901	15,459
Between 2 and 5 years	49,345	54,188
Between 5 and 10 years	98,452	116,614
More than 10 years	101,280	140,191
<b>TOTAL</b>	<b>275,996</b>	<b>364,464</b>

## 3. Market Risk

### Interest rate risk

The Council is exposed to interest rate risk in two different ways; the first being the uncertainty of interest paid/received on variable rate instruments, and the second being the affect of fluctuations in interest rates on the fair value of an instrument.

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

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

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

The treasury management team has a strategy for assessing interest rate exposure that feeds into the setting of the annual budget.

According to this assessment strategy, at 31 March 2008, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£'000
Interest Rate Risk	
Increase in interest payable on variable rate borrowings	0.172
Increase in interest receivable on variable rate investments	0.959
Impact on Income and Expenditure Account	-0.787

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

### Price risk

The Council does not generally invest in equity shares but does have a shareholding to the value of £0.260m in the Local Authorities Mutual Limited (LAML) in association with a number of other London Authorities.



### 35. CREDITORS AND RECEIPTS IN ADVANCE

	2007/2008 £'000	2006/2007 £'000
Government	36,207	31,693
Inland Revenue/Customs and Excise	7,803	7,368
Other authorities	0	3
Rates, Community Charge and Council Tax payers	29,410	29,708
Rents: sundry tenants	1,144	1,144
Rents: homeless families	265	265
Receipts in advance	35,407	26,801
Sundry other	38,368	52,418
<b>TOTAL CREDITORS</b>	<b>148,604</b>	<b>149,400</b>

### 36. DEFERRED CREDITS

Deferred credits consist of deferred liabilities for the element of lease payments which meets the capital cost of properties acquired under a finance lease. The Council has no such liabilities in 2007/08 and 2006/07.

### 37. CAPITAL GRANTS UNAPPLIED

	2007/08 £'000	2006/07 £'000
Balance at 1 April 2007	14,255	14,729
Capital grants received	22,772	21,328
Total receipts for year	37,027	36,057
Receipts applied to finance capital expenditure	(15,793)	(21,802)
<b>BALANCE AS AT 31 MARCH 2008</b>	<b>21,234</b>	<b>14,255</b>

### 38. DEFERRED GOVERNMENT GRANTS AND CONTRIBUTIONS

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

	2007/2008 £'000	2006/2007 £'000
<b>Balance at 1 April 2007</b>	132,252	136,711
Write off of prior years Grants and Contributions	(14,834)	
Grants and Contributions applied to capital investments	17,712	21,802
* Amounts released in year	(35,342)	(26,261)
<b>Balance at 31 March 2008</b>	<b>99,788</b>	<b>132,252</b>

\* In line with Audit recommendation in 2006/07 Govt. Grants and Contributions were reviewed for terms of release as a result of which Highways Roads & Transport Services received a significantly higher release of prior years grants & contributions.

## 39. PROVISIONS

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

	Balance at 1/4/2007 £'000	Used in Year £'000	Contribution in Year £'000	Balance at 31/3/2008 £'000
(a) Insurance Fund	5,295	1,895		3,400
(b) Single Status	2,792		1,783	4,575
(c) Asylum Seekers	100			100
(d) Liability to DEFRA for BMW landfill usage	1,226	891		335
(e) Administrative Buildings Lease Equalisation	10,337		1,054	11,391
(f) Repayment of deposits	496	62		434
(g) Education salaries liability	196			196
(h) Repayment of European funding	394			394
(i) Miscellaneous	195	195		0
(j) Pension liability - part time staff	400			400
(k) E-procurement	30			30
(l) Barkantine PFI	552		548	1,100
(m) Housing Technical Services restructure	2,430	2,430		0
(n) Over-recovery of service charges	79	79		0
(o) Housing subsidy	3,539	3,539		0
(p) Dangerous structures	43	30		13
(q) Youth and community contracts	27	27		0
(r) Metropolitan Police	0		176	176
(s) Employment Tribunal	0		60	60
(t) Commissioning Responsibility	0		53	53
<b>TOTAL</b>	<b>28,131</b>	<b>9,148</b>	<b>3,674</b>	<b>22,657</b>

### Nature of material provisions and/or movements

- (a) To cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property. Amounts are transferred to the provision from the insurance reserve on an annual basis if a reliable estimate can be made of the likely settlement amount.
- (b) For additional costs resulting from the single status agreement which changed employees' conditions of service. An element of uncertainty exists regarding the amount, which is a global estimate, and the timing of payments although there is a likelihood that payments will be made in 2008/09.
- (c) As cover for non-payment of Government grant in respect of payments by the Council for accommodation services. The provision was reduced during the year to reflect advice received from an external solicitor.
- (d) The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of Biodegradable Municipal Waste (BMW). The Landfill Allowance Trading Scheme allocates tradable landfill allowances to each WDA up to the amount of the WDA's 'cap'. As landfill is used, a liability is recognised for actual BMW landfill usage.
- (e) The provision is used to equalise the economic benefits of an initial rent free period or reverse premium over the term of a lease. An element of uncertainty exists over annual amounts payable as interest rates and future uplift levels cannot be predicted with accuracy.
- (f) The provision is used to hold deposits received from contractors with approval for erecting temporary structures. On completion of the work, the deposits will be refunded to the contractors, less deductions for any liabilities incurred.
- (g) To accommodate the anticipated pay rise due to ex-employees following the cessation of the national pay body in 1994.
- (h) There are a number of European funded schemes where there is a possibility that grant will need to be repaid.
- (i) This provision allows for accrued costs of negotiations with trade unions.
- (j) To reflect the potential liability of 40 ex-employees, based on the additional pension contribution costs that the Council would have incurred if these staff had been allowed to join the pension fund.
- (k) To provide for set up costs of electronic invoicing for small and local suppliers.
- (l) To provide for the potential liability of PFI credits not being issued by the DCLG for the Barkantine PFI Scheme.
- (m) Redundancy notices were issued to 43 staff following an in-house restructure. The provision is required to meet the associated redundancy costs.
- (n) To provide for potential refund of overpayment of service charges.
- (o) To meet the potential repayment of housing subsidy in respect of a repayment of overhanging debt from the DCLG.
- (p) The Council is in dispute over the cost of various works under its dangerous structure obligations. The provision has been established to meet the cost of these works once the amount of the liability has been agreed.
- (q) The youth work contracts provide for a 10% bonus to be paid at the end of each contract year. This provision is to meet this obligation.
- (r) An invoice is not yet forthcoming from Met Police, LBTH will liable to repay the Home Office grant.
- (s) Council admitted the unfair dismissal of an employee as we did not properly adhere to our own procedures
- (t) Dispute between Newham and LBTH, over which authority should be paying the contribution for a former LBTH resident's nursing case is referred to Secretary of State for Health.care,

#### 40. MOVEMENT ON RESERVES

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

	Balance at 1/4/2007 £'000	Net Movement in year £'000	Balance at 31/03/2008 £'000	Purpose of Reserve	Further Detail of Movements
Fixed Asset Restatement Account	706,129	(706,129)	0	Replaced by Revaluation Reserve	see note 41 and 42
Revaluation Reserve	0	429,602	429,602	Store of gains on revaluation of fixed assets	see note 41
Capital Adjustment Account	571,894	563,669	1,135,563	Store of capital resources set aside to meet past expenditure	see note 42
Capital Receipts Unapplied	7,814	1,569	9,383	Proceeds of fixed asset sales available to meet future capital investment	see note 43
Pensions Reserve	(305,393)	125,539	(179,854)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	see note 48
Housing Revenue Account	17,115	4,435	21,550	Resources available to meet future costs for council houses	see HRA statements
Major Repairs Reserve	45	2,181	2,226	Resources available to meet capital investment in council housing	see HRA statements
General Fund	18,478	7,398	25,876	Resources available to meet future costs for non-housing services	see Statement of Movement on General Fund Balances
Earmarked Reserves	101,240	13,484	114,724		see note 47
<b>TOTAL</b>	<b>1,117,322</b>	<b>441,748</b>	<b>1,559,070</b>		

#### 41. REVALUATION RESERVE

	2007/2008 £'000
<b>Balance at 1st April</b>	0
Revaluation gains on assets revalued in year:	
Dwellings	76,615
LBTH Schools	314,010
PFI Schools	43,162
Revaluation of assets disposed during the year:	
Dwellings	10,342
Other	5,372
Write out Revaluation Balances on assets disposed in year:	
Dwellings	(10,342)
Other	(5,372)
Difference between Depreciation on Current Value and Depreciation on Historic Cost	(4,185)
<b>BALANCE AT 31st MARCH</b>	<b>429,602</b>

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

With the replacement of the Fixed Asset Restatement Account (FARA) in 2007/08, the 2006/07 closing FARA balance has been transferred to the Capital Adjustment Account.

#### 42. CAPITAL ADJUSTMENT ACCOUNT

	2007/2008 £'000	2006/2007 £'000
<b>Balance at 1st April</b>	571,894	494,396
Fixed Asset Adjustments:		
Depreciation (General Fund)	(20,869)	0
Depreciation (HRA)	(13,853)	(16,822)
Impairments (GF)	(2,845)	
Difference between Depreciation on Current Value and Depreciation on Historic Cost	4,185	0
Sales of Fixed Assets	(26,582)	0
Write-Off of Fixed Assets (inc. transfer to RSL)	(222,620)	0
Write out Revaluation Reserve Balance on Assets Disposed of in Year	15,713	0
		0
Amortisation of Deferred charges	(8,510)	(12,334)
Resources set aside to finance Capital Expenditure:		
Capital Receipts	11,454	19,613
Capital Grants and Contributions	50,176	28,744
Direct Revenue Financing (General Fund)	48	1,247
Direct Revenue Financing (HRA)	0	2,300
Major Repairs Allowance	10,755	14,779
Minimum Revenue Provision	6,984	(6,317)
Stock Transfer Loans Repaid	53,506	46,288
Transfer from FARA	706,127	
<b>BALANCE AT 31st MARCH</b>	<b>1,135,563</b>	<b>571,894</b>

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and financed through the capital controls system. The balance is matched by fixed assets within the Balance Sheet and does not represent cash resources available to the Council. In line with SORP requirements the balance on the Fixed Asset Restatement Account (FARA) in 2007/08 has been transferred to the Capital Adjustment Account.

#### 43. CAPITAL RECEIPTS UNAPPLIED

	Housing £'000	Other £'000	Total £'000
<b>Balance at 1st April, 2007</b>	<b>7,814</b>	<b>0</b>	<b>7,814</b>
Receipts from sales of assets	21,363	6,167	27,530
<b>Total receipts for year</b>	<b>29,177</b>	<b>6,167</b>	<b>35,344</b>
Receipts paid to central government	(14,506)	0	(14,506)
Receipts applied to finance capital expenditure	(11,455)	0	(11,455)
<b>BALANCE AT 31st MARCH 2008</b>	<b>3,216</b>	<b>6,167</b>	<b>9,383</b>

#### 44. DEFERRED CAPITAL RECEIPTS

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

	2007/2008 £'000	2006/2007 £'000
Mortgages	556	722
	<b>556</b>	<b>722</b>

#### 45. STREET TRADING ACCOUNT

	2007/2008	2006/2007
	£'000	£'000
<b>Expenditure</b>		
Employee costs	1,013	1,064
Refuse collection and disposal	704	702
Support services	472	450
Other expenditure	124	94
<b>Total Expenditure</b>	<b>2,313</b>	<b>2,310</b>
<b>Income</b>		
Street trading charges	1,940	2,094
Other income	50	0
Decrease in provision for bad debts	73	0
<b>Total Income</b>	<b>2,063</b>	<b>2,094</b>
<b>Deficit/(surplus) for the year</b>	<b>250</b>	<b>216</b>
Balance at 1st April	(152)	64
Deficit for the year	(250)	(216)
<b>BALANCE AT 31st MARCH</b>	<b>(402)</b>	<b>(152)</b>

The Council operates a separate Street Trading Account under the London Local Authorities Act 1990. S.32 of the Act enables the Council to recover from the traders the reasonable costs in connection with their functions under the Act - notably, refuse collection/disposal and administrative/technical support.

#### 46. CONTINGENT LIABILITIES

##### Housing Transfers to Registered Social Landlords

Between March 1998 and March 2008 the Council transferred tenanted and leasehold properties to other landlords - 7363 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to Eastend Homes; 1,985 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields HA. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council.

##### Further Stock Transfers

A small number of further transfers of Council Housing Estates involving up to 700 homes may take place over the next year which require environmental warranties to be given for land on the estates. These potential liabilities are being covered by taking out insurance as cover for the first 10 years. Although some liability may occur to the Council after 10 years, most if not all of the potential for claims will occur in the first 5 years following each transfer when the major works will be carried out.

##### Planning Approval for Residential Development

In December 2005, the Council gave planning approval for mixed use business and residential development at 33-37 The Oval, a short distance from the National Grid Gas Holder. Due to the location of the development the Health & Safety Executive should have been consulted prior to permission being granted, but this consultation did not take place. The Council is therefore revisiting its planning decision which may result in a claim from the Developer for costs and damages incurred in the development.

##### Leasehold Valuation Tribunal

A case has recently been taken voluntarily by the Council to the LVT to obtain an adjudication on the reasonableness of the Council's management and administration fees which the Council charges leaseholders. Depending upon the outcome of the adjudication there may be a liability on the Council.

##### London Authorities Mutual Limited (LAML)

On 1st October 2007 the authority became a participating member of LAML. LAML is a vehicle for managing the authority's risks and for enhancing its overall risk management processes. Our holding in LAML means we are liable for a share with our partners for losses arising from LAML and share equally, any gains recognised by the company.

## 47. EARMARKED RESERVES

	2007/2008 £'000	2006/2007 £'000
<b>Corporate</b>		
(a) Insurance Fund	25,985	21,668
(b) Decent Homes	21,684	18,706
(c) Final Accounts review	2,219	2,198
(d) Trading Account net balances	693	834
(e) Community use of buildings	200	989
(f) Personal Computers refresh	975	751
(g) Olympic Legacy	1,500	0
(h) Single Status	1,205	0
<b>Chief Executive's &amp; Resources</b>		
(i) Corporate initiatives	1,741	1,441
(j) Miscellaneous Information Technology (IT) projects	380	380
(k) Underspends carried forward	145	175
(l) Administrative buildings car parks	13	13
<b>Development and Renewal</b>		
(m) Building Control	160	124
(n) Neighbourhood Renewal	3,075	2,675
(o) Crossrail	154	0
(p) New Deal for Communities	359	0
<b>Communities, Localities &amp; Culture</b>		
(q) Underspends carried forward	250	250
<b>Education</b>		
(r) Schools delegated balances	34,227	31,275
(s) Education miscellaneous	2,392	2,257
(t) Underspends carried forward	93	330
(u) Tower Hamlets PCT	100	0
<b>Housing</b>		
(v) Housing Revenue Account (HRA) Earmarked Reserve	16,000	16,000
(w) Accommodation Scheme	1,174	1,174
<b>TOTAL EARMARKED RESERVES AT 31st MARCH</b>	<b>114,724</b>	<b>101,240</b>

The nature of the above reserves is described below and on the next page.

- (a) The Council is self insured for most liability and property risks. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision.
- (b) The Council is currently considering the transfer of its housing stock, if agreed by tenants. This reserve represents the accumulated amount set aside towards meeting the anticipated future corporate cost to the General Fund of making the transfer. The reserve was increased during the year in accordance with the Council's budget.
- (c) Held to meet any unfunded expenditure identified following a review of the Council's final accounts.
- (d) This balance represents the accumulated net surpluses on internal trading accounts. See also note 9 to the Core Financial Statements.
- (e) Reserve for future strategies in respect of community use of buildings.
- (f) Reserve established to meet the future cost of replacing personal computers.
- (g) For the purpose of making a grant available to the developers of the Olympic Aquatics Centre approved by Cabinet in July 2007.
- (h) This is an NJC National Agreement and therefore places a contractual commitment on all Councils to reduce the basic week for former manual employees
- (i) Reserve established to provide time-limited resources to accelerate performance improvement or efficiency programmes.

#### 47. EARMARKED RESERVES (continued)

- (j) For various projects to achieve Best Value and help meet national "e-government" targets.
- (k) A reserve established to carry forward any unspent Chief Executive budget to the new financial year.
- (l) An amount carried forward to fund the costs of green transport initiatives under the Green Transport Policy.
- (m) Under Government regulations chargeable building control activities should break even over a 3 year period. The reserve represents the surplus on such activities in the year.
- (n) A reserve established to fund additional neighbourhood renewal expenditure.
- (o) for discussions between the Council and Cross London Rail Links over the detailed programming, design and implementation of the works for this 10 year major construction project
- (p) The CLG and GoL wrote to all NDCs requesting that expenditure in NDC areas be reviewed in order that grant could be maximised
- (q) A reserve established to carry forward any unspent budget for cleansing and the installation of a fixed generator in the town hall to the new financial year.
- (r) This represents unapplied revenue balances held by the Council on behalf of schools with delegated spending authority. The balance is committed to be spent on the education service.
- (s) Minor balances relating to building improvements and unspent grants
- (t) A reserve established to carry forward unspent Education budget provision.
- (u) Tower Hamlets PCT contribution for use of Family Intervention Programme.
- (v) The reserve is in accordance with the Housing Business Plan approved by Cabinet on 6th August 2003. It was created because of the potential disposal of a significant amount of the Council's housing stock as part of "Housing Choice". This could result in timing differences between the loss of income in respect of dwelling rents and service charges, and expenditure reductions. In addition there remain uncertainties regarding housing subsidy as the Government has changed the management and maintenance allowance within its calculation. The reserve has been established so that both the timing differences and subsidy uncertainty can be properly managed. This will ensure the Council has the ability to adjust financing to avoid significant future fluctuations in the Housing Revenue Account and thereby maintain overall financial stability.
- (w) Reserve will be used before 2010 to help towards meeting the Governments Target for Councils to reduce, by 50%, the number of families in temporary accommodation by 2010.

## 48 PENSION SCHEME

The Council offers retirement benefits to its staff as part of their terms and conditions of employment and makes contributions to pension

### (i) Non-Education employees

In 2007/2008 the Council paid £38.0 million (£35.2 million in 2006/2007) into the Local Government Pension Scheme, which it administers.

The LGPS is a "funded" scheme, which means that both the Council and staff contribute into a fund at a rate calculated to balance the

	2007/2008	2006/2007	% of Pensionable Pay	
	£'000	£'000	2007/2008	2006/2007
			%	%
Future service rate	18,811	18,551	14.50	14.50
Past Service rate	13,622	13,433	10.50	10.50

The Council has discretion to increase pension payments in particular circumstances. The capital costs of agreed increases are as follows:

	2007/2008	2006/2007
	£'000	£'000
In year	0	1,522
Earlier years for which payments are still being made	8,415	8,972
	<b>8,415</b>	<b>10,494</b>

### (ii) Education Employees

Additionally, the Council pays contributions into the Teachers' Pension Scheme, and the Local Government Pension Scheme (separately

	2007/2008	2006/2007	% of Pensionable Pay	
	£m	£m	2007/2008	2006/2007
			%	%
London Pensions Fund Authority	0.36	0.41	19.30	19.30
Teacher's Pension Scheme	9.81	8.98	14.10	13.65
	<b>10.17</b>	<b>9.39</b>		

The Council is responsible for all pension payments, and related annual increases, relating to added years benefits it has awarded. The

	2007/2008	2006/2007	% of Pensionable Pay	
	£m	£m	2007/2008	2006/2007
			%	%
Annual pension payments	0.080	0.220	0.09	0.09
Lump sum payments on retirement	0.200	0.170	0.00	0.00
	<b>0.280</b>	<b>0.390</b>		

The Teachers' Pension Scheme is a defined benefit scheme, administered by the Department for Education and Skills (DfES). Although the



#### 48. PENSION SCHEME (continued)

##### Transactions Relating to Retirement Benefits

When retirement benefits are earned from the LGPS scheme the future net cost to the Council is recognised under "Net Cost of Services". The cost is 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. The use of this method means that the cost will increase as employees approach retirement. The interest cost (resulting from an adjustment for inflation) and expected return on the schemes' assets are recognised under "Net Operating Expenditure". However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement General Fund.

Balance during the year:

	The Council		LPFA		Total	
	2007/2008 £'000	2006/2007 £'000	2007/2008 £'000	2006/2007 £'000	2007/2008 £'000	2006/2007 £'000
<b>Income and Expenditure Account</b>						
<b>Net Cost of Services</b>						
Current service costs	21,770	27,489	490	635	22,260	28,124
Impact of settlements and curtailments	4,748	2,637	0	54	4,748	2,691
<b>Net Operating Expenditure</b>						
Interest cost	53,371	48,750	2,867	2,660	56,238	51,410
Expected return on assets in the scheme	(48,682)	(41,880)	(1,913)	(1,761)	(50,595)	(43,641)
<b>Net Charge to the Income and Expenditure Account</b>	<b>31,207</b>	<b>36,996</b>	<b>1,444</b>	<b>1,588</b>	<b>32,651</b>	<b>38,584</b>
<b>Statement of Movement in the General Fund Balance</b>						
Reversal of net charges made for retirement benefits in accordance with FRS 17	(31,207)	(36,996)	(1,444)	(1,588)	(32,651)	(38,584)
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>	<b>(31,207)</b>	<b>(36,996)</b>	<b>(1,444)</b>	<b>(1,588)</b>	<b>(32,651)</b>	<b>(38,584)</b>

##### Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities attributable to the Council at 31 March in respect of the LGPS are shown below:

	The Council		LPFA		Total	
	2007/2008 £'000	2006/2007 £'000	2007/2008 £'000	2006/2007 £'000	2007/2008 £'000	2006/2007 £'000
Estimated assets	664,879	695,859	41,957	39,273	706,836	735,132
Estimated liabilities	(837,851)	(986,327)	(48,839)	(54,198)	(886,690)	(1,040,525)
<b>Net liability</b>	<b>(172,972)</b>	<b>(290,468)</b>	<b>(6,882)</b>	<b>(14,925)</b>	<b>(179,854)</b>	<b>(305,393)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total net liability of £180 million has a significant impact on the net worth of the Council as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the schemes' actuary.

##### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both schemes have been assessed by Hymans Robertson, an independent firm of actuaries, based on the latest triennial valuation as at 1 April 2004. Their main assumptions have been:

	The Council		LPFA	
	2007/2008 %	2006/2007 %	2007/2008 %	2006/2007 %
Rate of inflation	3.6	3.2	3.6	3.2
Rate of increase in salaries	5.1	4.7	5.1	4.7
Rate of increase in pensions	3.6	3.2	3.6	3.2
Rate for discounting scheme liabilities	6.9	5.4	6.9	5.4

Assets are valued at fair value, principally market value from investments, and consist of the following categories, by proportion of total assets held.

	The Council			LPFA		
	Long Term Return %	2007/2008 %	2006/2007 %	Long Term Return %	2007/2008 %	2006/2007 %
Cashflow matching				4.5	4.5	4.5
Equity investments	7.7	7.7	7.8	7.7	7.7	7.8
Bonds	5.7	5.7	4.9			
Property	5.7	5.7	5.8			
Cash	4.8	4.8	4.9	4.8	4.8	4.9

Although the Teachers' Pension Scheme is a defined benefits scheme, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees.

#### 48. PENSION SCHEME (continued)

##### Actuarial Gains and Losses

The actuarial gains and losses on the pension reserve are as follow:

	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004
	£'000	£'000	£'000	£'000	£'000
	%	%	%	%	%
<b>The Council</b>					
Differences between the expected and actual return on assets	(90,238)	486	82,900	19,911	47,396
Differences between actuarial assumptions about liabilities and actual experience	32,032	15	149	2,802	785
Changes in the demographic and financial assumptions used to estimate liabilities	110,904	63,168	(118,900)	(134,133)	0.1
	<b>52,698</b>	<b>63,669</b>	<b>(35,851)</b>	<b>(111,420)</b>	<b>48,181</b>
	13.2	6.5	(3.6)	-13.6	7.4
<b>London Pensions Fund Authority</b>					
Differences between the expected and actual return on assets	336	1	1,453	197	1,194
Differences between actuarial assumptions about liabilities and actual experience	4,324	(156)	(103)	(1,741)	(72)
Changes in the demographic and financial assumptions used to estimate liabilities	8,560	2,071	(5,140)	(6,886)	(0.2)
	<b>13,220</b>	<b>1,916</b>	<b>(3,790)</b>	<b>(8,430)</b>	<b>1,122</b>
	17.5	3.5	(6.9)	(17.3)	2.6
<b>TOTAL</b>					
Differences between the expected and actual return on assets	(89,902)	487	84,353	20,108	48,590
Differences between actuarial assumptions about liabilities and actual experience	36,356	(141)	46	1,061	713
Changes in the demographic and financial assumptions used to estimate liabilities	119,464	65,239	(124,040)	(141,019)	0
	<b>65,918</b>	<b>65,585</b>	<b>(39,641)</b>	<b>(119,850)</b>	<b>49,303</b>

#### 49. TRUST FUNDS

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

	Balance at 1/4/2007 £'000	Expenditure £'000	Income £'000	Balance at 31/3/2008 £'000
(a) Welfare Savings	446	433	403	416
(b) King Bequest Fund	13			13
(c) Childrens Trust Funds	13	7	1	7
(d) Social Services Trust Funds: sundry other	72	430	438	80
(e) Tower Hamlets Further Education Trust	305	148		157
(f) Globe Town Picture Fund	155	0	5	160
(g) Millwall Park Compensation Fund	328			328
(h) Sundry Other	56			56
<b>TOTAL TRUST FUNDS</b>	<b>1,388</b>	<b>1,018</b>	<b>847</b>	<b>1,217</b>

This Fund represents monies held by Social Services residential establishments on behalf of residents in their care. It is used to

(a) finance the purchase of goods and services on request of residents.

This Fund was established with a legacy from the will of a former resident of the borough. The terms of the will restrict expenditure

(b) to specific activities which enhance the environment of the local community.

(c) These Funds represent monies held and/or invested by the Council on behalf of children in care.

These Funds represent monies held by the Council on behalf of any residents of the borough (including those in private (d) accommodation) who are unable to manage their own personal affairs.

The Council also holds a number of deposits relating to Trust Funds administered by the Council. The funds are held in an interest bearing account maintained by the Council. The account is excluded from the financial statements relating to the Council. The relevant Trusts and transactions during the financial year ended 31st March 2008 may be summarised as follows:-

This was established by the Council in conjunction with Canary Wharf Ltd with the objective of "the advancement of education and training for the residents of the London Borough of Tower Hamlets". The Council is the sole Trustee and the Trust is registered with

(e) the Charities Commission (No. 1002772). Accounts relating to the Trust have been deposited with the Charities Commissioners.

(f) This Fund was established with the proceeds of the sale of a painting by the Council.

(g) Funds received from the Docklands Light Railway to reinstate and improve Millwall Park following construction works.

(h) Sundry Other - includes funds representing a number of miscellaneous deposits.

#### 50. STATEMENT OF NET ASSETS EMPLOYED

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

	Balance at 31/03/08 £'000	Balance at 31/03/07 £'000
General Fund	1,029,736	67,812
Housing Revenue Account	531,928	1,051,991
<b>TOTAL</b>	<b>1,561,664</b>	<b>1,119,803</b>

#### 51. RECONCILIATION OF REVENUE CASH FLOW

	2007/2008 £'000	2006/2007 £'000
Net General Fund Revenue Expenditure	(7,398)	(1,128)
Net Housing Revenue Account Expenditure	(4,435)	(4,776)
Net Statutory Street Trading Account Expenditure	250	216
Net Collection Fund Revenue Expenditure	2,745	661
Deduct interest paid	(34,125)	(24,902)
Deduct Minimum revenue provision	(6,984)	(7,551)
Deduct Revenue Contributions to Capital	(48)	(6,030)
Payments to Capital Receipts Pool	14,506	9,504
(Increase)/decrease in revenue creditors	(328)	(26,715)
Increase/(decrease) in stocks	(1,100)	699
Add interest received	8,050	6,018
Deduct contributions to Reserves and Provisions (net)	8,011	(17,357)
Other non-cash items	(249)	
Increase/(decrease) in revenue debtors	(3,672)	16,340
HRA depreciation	(12,935)	(14,662)
<b>REVENUE NET CASHFLOW</b>	<b>(37,712)</b>	<b>(69,683)</b>

**52. OTHER GOVERNMENT GRANTS**

	2007/2008	2006/2007
	£'000	£'000
Alcohol and Drug Misuse	1,552	2,840
HIV/Aids	235	241
Asylum Seekers Accommodation	1,133	1,347
Promoting Independence	1,887	1,660
Preserved Rights	1,058	1,135
Children's Services	1,020	1,648
Dept of Health: Other	2,870	2,926
Other Social Services	4,402	4,455
DWP: Benefits: Administration	4,994	4,356
DWP: Benefits: Council Tax	25,475	30,099
DWP: Benefits: Rent Rebates	74,611	68,333
DCLG: Housing Subsidy	30,015	28,591
DCLG: Single Regeneration Grant	102	1,925
DCLG: Home Insulation & Improvement Grants	549	360
Home Office: Civil Defence	-	9
Standards Fund	36,307	36,639
Mandatory Awards	53	-
FEFC Access	466	418
Education and Training	31,700	26,930
Dedicated Schools Grant	214,012	197,620
Nursery and other childrens grants	18,061	5,780
European Social Grants	102	13
New Deal	7,253	4,201
Neighbourhood Renewal Fund	14,540	16,357
Supporting People	15,670	15,264
Connexions	536	638
Other Revenue Grants	15,573	8,687
<b>TOTAL OTHER REVENUE GRANTS</b>	<b>504,176</b>	<b>462,472</b>

**53. MOVEMENTS IN CASH EQUIVALENTS & RECONCILIATION OF MANAGEMENT OF LIQUID RESOURCES, FINANCING TO BALANCE SHEET**

	31/03/08 £'000	31/03/07 £'000	Movement £'000	31/03/07 £'000	31/03/06 £'000	Movement £'000
Cash overdrawn	(22,753)	(19,197)	(3,556)	(19,197)	(16,024)	(3,173)
Other cash and officer balances	48,241	52,298	(4,057)	52,298	39,826	12,472
<b>NET (DECREASE)/INCREASE IN CASH EQUIVALENTS</b>	<b>25,488</b>	<b>33,101</b>	<b>(7,613)</b>	<b>33,101</b>	<b>23,802</b>	<b>9,299</b>

Cash overdrawn  
Other cash and officer balances  
**NET (DECREASE)/INCREASE IN CASH EQUIVALENTS**

**Reconciliation of Management of Liquid Resources and Financing**

	Balance 31/3/2007 £'000	Cash Flow £'000	Balance 31/3/2008 £'000
<b>Management of Liquid Assets</b>			
Short Term Investments	96,814	2,374	99,188
Movement in short borrowing	38,012	23,994	14,018
<b>Financing</b>			
Long term borrowing	326,452	64,409	262,043
	<b>33,101</b>	<b>90,777</b>	<b>375,249</b>
<b>Balance Sheet</b>			
Short term investment	96,814	3,575	100,389
Movement in short borrowing	38,012	23,994	14,018
Movement in long term borrowing	326,452	64,409	262,043
	<b>461,278</b>	<b>91,978</b>	<b>376,450</b>

**Management of Liquid Assets**  
Short Term Investments  
Movement in short borrowing  
**Financing**  
Long term borrowing

**Balance Sheet**  
Short term investment  
Movement in short borrowing  
Movement in long term borrowing

#### 54. DEDICATED SCHOOLS GRANT

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

Details of the deployment of DSG receivable for 2007/08 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure £000s	Individual Schools Budget £000s	Total £000s
Original grant allocation to Schools Budget for the current year in the authority's budget	27,951	187,901	215,852
Adjustment to finalised grant allocation	(1,876)	36	(1,840)
DSG receivable for the year	<b>26,075</b>	<b>187,937</b>	<b>214,012</b>
Actual expenditure for the year	18,612	192,016	210,628
(Over)/underspend for the year	<b>7,463</b>	<b>(4,079)</b>	<b>3,384</b>
Use of schools budget brought forward	921	0	921
(Over)/underspend from prior year	7,893	(5,205)	2,688
<b>(Over)/underspend carried forward to 2008/09</b>	<b>16,277</b>	<b>(9,284)</b>	<b>6,993</b>

(Note 1)

Note 1: overspend in Individual Schools Budget reflects the movement of the School Specific Contingency in year, i.e. whilst categorised at the beginning of the year as central expenditure, the Contingency is distributed to schools in year and thus reflected in the actual spend at school level.

#### 55. POST BALANCE SHEET EVENTS

The Council has made an application to the Department of Communities and Local Government for permission to set up and Arms Length Management Organisation (ALMO). This permission is expected to be granted in the early part of 2008/09.

#### 56. JOINT ARRANGEMENTS THAT ARE NOT ENTITIES (JANE)

The authority has accounted for its investment in the Local Authorities Mutual Limited (LAML) and means to carry on its own business and will account for its part of the assets, liabilities, income, expenditure and cash flows arising from the new structure. In the event the LAML is unable to meet its financial obligations, the liability would fall jointly to the subscribing members'. This risk has been allowed for within the Insurance Fund Reserve.

#### 57. FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

In conjunction with its professional advisors the authority undertook a restructuring of its debt in 2007/08. The discounts receivable from the lenders associated with this exercise are held in the Financial Instruments Adjustment Account and credited to the revenue accounts in accordance with relevant legislation. Debt restructurings undertaken years prior to 2006/07 have been aggregated with long term borrowing in accordance with proper accounting practice.

#### 58. The Statement of Accounts was authorised for issue on 30th June 2008 by the Director of Resources

Mr Chris Naylor ACA MACantab

## HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

for the year ended 31st March 2008

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	2007/2008 £'000	2006/2007 £'000
<b>INCOME</b>			
Gross Rental Income			
Rents of dwellings	8	60,198	66,209
Non dwelling rents		3,443	3,088
Charges for services and facilities			
Heating and other charges		2,580	2,180
Leaseholder charges		10,497	11,508
HRA Subsidy receivable			
General		14,951	15,964
Major Repairs Allowance		12,935	14,662
Contribution towards expenditure		115	115
Reduction in provision for bad debts		0	621
<b>TOTAL INCOME</b>		<b>104,719</b>	<b>114,347</b>
<b>EXPENDITURE</b>			
Repairs, maintenance and management			
Repairs and maintenance		22,506	22,000
Supervision and management		28,992	39,314
Rents, rates, taxes and other charges		1,270	2,318
Rent rebates		1,401	2,423
Increase in provision for bad debts		4,151	0
Depreciation of fixed assets	6		
On dwellings		12,935	14,662
On other assets		918	2,160
Impairment relating to housing stock transfer		142,220	88,254
Debt management costs		199	115
<b>TOTAL EXPENDITURE</b>		<b>214,592</b>	<b>171,246</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		<b>109,873</b>	<b>56,899</b>
HRA services share of Corporate and Democratic Core		339	536
<b>NET COST OF HRA SERVICES</b>		<b>110,212</b>	<b>57,435</b>
Gain or loss on sale of HRA fixed assets		339	159
Amortisation of premiums and discounts	10	668	848
Interest payable		20,811	24,468
Interest and investment income		(1,337)	(1,099)
Pensions interest cost	7	7,563	9,387
Expected return on pension assets	7	(6,888)	(8,055)
<b>(DEFICIT)/SURPLUS FOR THE YEAR ON HRA SERVICES</b>		<b>131,368</b>	<b>83,143</b>

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

for the year ended 31st March 2008

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.

	2007/08	2006/07
	£'000	£'000
(Deficit)/Surplus for the year on the HRA Income and Expenditure Account	131,368	83,143
Net additional amount required by statute to be credited to the HRA balance for the year	(135,803)	(88,078)
Increase in the HRA Balance	<b>(4,435)</b>	<b>(4,935)</b>
Balance on the Statutory HRA Brought Forward	(17,116)	(12,181)
<b>Balance on the Statutory HRA Carried Forward</b>	<b>(21,551)</b>	<b>(17,116)</b>



## NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2007/2008		2006/2007	
	£'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>				
Write down of deferred charges to be financed from capital resources	(218)		(454)	
Government Grants Deferred amortisation	6,327		1,204	
Gain or loss on sale of HRA fixed assets	(339)		(159)	
Impairment relating to housing stock transfer	(142,220)		(88,254)	
Net charges made for retirement benefits in accordance with FRS 17	(2,862)		(5,397)	
Transfers from General Fund (as directed by Secretary of State)	(909)	(140,221)	(946)	(94,006)
<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 funded by HRA			2,222	
Transfer to/from the Major Repairs Reserve	(918)		(2,160)	
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	5,336	4,418	5,866	5,928
<b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>		<b>(135,803)</b>		<b>(88,078)</b>

## 2. HOUSING STOCK

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

	2007/2008	2006/2007
Low rise flats (1-2 storeys)	230	368
Medium rise flats (3-5 storeys)	7,525	8,690
High rise flats (6 or more storeys)	4,543	5,623
Houses and bungalows	795	1,022
<b>TOTAL AT 31st MARCH 2008</b>	<b>13,093</b>	<b>15,703</b>

## 3. FIXED ASSETS

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

	2007/2008 £'000	2006/2007 £'000
<b>Total value at 1st April 2007</b>	1,332,015	1,204,171
Additions, disposals, transfers and revaluations	(259,827)	127,844
<b>Total value at 31st March 2008</b>	<b>1,072,188</b>	<b>1,332,015</b>

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

	Operational Dwellings £'000	Other land and buildings £'000	Non- Operational £'000	TOTAL £'000
<b>Total value at 1st April 2006</b>	1,118,472	38,007	46,299	1,202,778
Additions, disposals, transfers and revaluations	(30,767)	4,455	31,537	5,225
<b>Total value at 31st March 2007</b>	1,087,705	42,462	77,836	1,208,003
Additions, disposals, transfers and revaluations	(101,009)	(10,845)	(23,961)	(135,815)
<b>TOTAL VALUE AT 31st MARCH 2008</b>	<b>986,696</b>	<b>31,617</b>	<b>53,875</b>	<b>1,072,188</b>

The vacant possession value of dwellings within the Council's HRA was £2,624 million in 2007/2008 (£2,872 million in 2006/2007). This represents the value of the dwellings if they were available as vacant properties and could therefore be sold if the council chooses to do so. The adjustment factor provided measures the difference between market rented and social rented property at a regional level.

## 4. MAJOR REPAIRS RESERVE

	2007/2008 £'000	2006/2007 £'000
<b>BALANCE AT 1st APRIL 2007</b>	45	163
Transfer from Capital Adjustment Account	13,853	16,821
Transfer to or from HRA		
Depreciation on non-dwellings	(917)	(2,160)
Excess of Major Repairs Allowance over dwellings depreciation	0	0
Financing of capital expenditure	(10,755)	(14,779)
<b>BALANCE AS 31st MARCH 2008</b>	<b>2,226</b>	<b>45</b>

## 5. CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

	Dwellings £'000	Other land & buildings £'000	Other £'000	Total £'000
<b>Expenditure</b>	25,933	2,025	218	<b>28,176</b>
<b>Sources of finance</b>				
Borrowing	13,644	-	218	<b>13,862</b>
Useable capital receipts	495	600	-	<b>1,095</b>
Revenue contributions	-	-	-	<b>0</b>
Capital grants	1,064	1,400	-	<b>2,464</b>
Major Repairs Reserve	10,730	25	-	<b>10,755</b>
<b>TOTAL CAPITAL FINANCING</b>	<b>25,933</b>	<b>2,025</b>	<b>218</b>	<b>28,176</b>

### (ii) Capital Receipts

Capital receipts in 2007/08 from the disposal of fixed assets within the HRA amounted to £26.85 million (£15.39m in 2006/07) as follows:

	2007/2008 £'000	2006/2007 £'000
Dwellings	25,902	13,816
Other land and buildings	944	248
Other assets	0	1,325
<b>TOTAL CAPITAL RECEIPTS</b>	<b>26,846</b>	<b>15,389</b>

## 6. DEPRECIATION

The total depreciation charge for the year was £13.8 million (£16.8 million in 2006/2007) made up of £12.5 million (£14.8 million in 2006/07) in respect of council houses and £0.9 million (£2 million in 2006/07) in respect of other housing assets. In the case of council housing, assets have been depreciated in line with the Major Repairs Allowance as this is the amount (based on a 30 year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an appropriate measure of depreciation. Other housing assets have been depreciated using a 40 year life cycle. An analysis of the depreciation charges is set out below.

	2007/2008 £'000	2006/2007 £'000
<b>Operational Assets</b>		
Council dwellings	12,935	14,779
Other land and buildings	798	1,306
Equipment	115	732
Infrastructure	5	5
<b>Non-Operational Assets</b>		
Investment Properties	0	0
<b>TOTAL DEPRECIATION</b>	<b>13,853</b>	<b>16,822</b>

## 7. PENSION COSTS

These figures represent the cost of pensions attributable to the HRA. Further details of the treatment of pensions costs are shown in note 48 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note. The following transactions have been made in the account for the year.

	The Council		LPFA		Total	
	2007/2008 £'000	2006/2007 £'000	2007/2008 £'000	2006/2007 £'000	2007/2008 £'000	2006/2007 £'000
<b>Net Cost of Services</b>						
Current service costs	2,178	4,045	8	20	2,186	4,065
<b>Net Operating Expenditure</b>						
Interest cost	7,519	9,300	44	87	7,563	9,387
Expected return on assets in the scheme	(6,858)	(7,998)	(30)	(57)	(6,888)	(8,055)
<b>Amount to be met from Government grant and local taxpayers</b>						
Movement in Pension Reserve	2,486	500	(12)	(31)	2,474	469
	<b>5,325</b>	<b>5,847</b>	<b>10</b>	<b>19</b>	<b>5,335</b>	<b>5,866</b>
<b>Employer's contribution to scheme</b>	<b>(5,325)</b>	<b>(5,847)</b>	<b>(10)</b>	<b>(19)</b>	<b>(5,335)</b>	<b>(5,866)</b>

## 8. RENT ARREARS

	2007/2008	2006/2007
Gross rent arrears at 31st March (£000's)	3,739	4,243
Arrears as % of rent receivable	6.2	6.0
Provision made for bad debts (£000's)	3,106	3,429

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

Authorities are allowed to transfer sums to the HRA from another revenue account on the basis of directions issued by the Government. The £0.9 million transferred during 2007/08 relates to "Supporting People" services provided by the Council.

## 10. AMORTISED PREMIUMS AND DISCOUNTS

This relates to premiums payable on the premature redemption of housing debt, which is charged to the HRA over 10 years. The sum of £0.85 million relating to 2007/08 has been transferred to the General Fund. In addition £0.18 million was received in discounts.

**COLLECTION FUND**  
for the year ended 31st March 2008

	Note	2007/2008 £'000	2007/2008 £'000	2006/2007 £'000	2006/2007 £'000
<b>INCOME</b>					
Council Tax (net of benefits)	2	62,889		59,194	
Transfers from General Fund - Council Tax Benefits		25,663	88,552	24,323	83,517
National Non-Domestic Rates	3		254,745		240,590
<b>TOTAL INCOME</b>			<b>343,297</b>		<b>324,107</b>
<b>EXPENDITURE</b>					
Precepts and demands	2				
<i>London Borough of Tower Hamlets</i>		64,817		60,212	
<i>Greater London Authority</i>		23,550	88,367	21,796	82,008
Distribution of prior year surplus on Collection Fund			1,986		2,505
Non domestic rates:					
<i>Payment to National Pool</i>		253,785		239,643	
<i>Cost of collection allowances</i>		960	254,745	947	240,590
Provision for bad debts	5		944		(335)
<b>TOTAL EXPENDITURE</b>			<b>346,042</b>		<b>324,768</b>
<b>DECREASE IN FUND BALANCE</b>			<b>(2,745)</b>		<b>(661)</b>
<b>COLLECTION FUND BALANCE</b>					
Balance at the beginning of the year			2,514		3,175
(Deficit)/Surplus for the year			(2,745)		(661)
<b>BALANCE AT END OF YEAR</b>			<b>(231)</b>		<b>2,514</b>

## NOTES TO THE COLLECTION FUND

### 1. GENERAL

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

Included within the £231k Collection Fund deficit is the GLA Precept of £62k, this is reflected by way of a debtor in the Council's Consolidated Balance Sheet.

### 2. COUNCIL TAX

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

Band	Market Value in April 1991	Fraction of Band D
A	Less than £40,000	6/9
B	£40,000 - £52,000	7/9
C	£52,000 - £68,000	8/9
D	£68,000 - £88,000	9/9
E	£88,000 - £120,000	11/9
F	£120,000 - £160,000	13/9
G	£160,000 - £320,000	15/9
H	£320,000 or more	18/9

By multiplying the number of properties in each band (after allowing for discounts, exemptions and non-collection) by the fractions involved the Council calculates the number of "Band D equivalent" properties in the borough (known as the Council Tax Base) and how much a Band D tax of £1 would produce. For 2007-08 this was £0.077 million (£0.076 million for 2006-07) allowing for a non-collection rate of 3.00% (3.00% in 2006-07).

When the 2007-08 Council Tax was set the position was as follows:

Band	2007/08 No. of Properties	2007/08 Council Tax Base	2006/07 No. of Properties	2006/07 Council Tax Base
A	1,128	729	1,116	722
B	20,406	15,395	20,332	15,339
C	26,527	22,872	26,212	22,601
D	15,254	14,796	13,974	13,555
E	10,622	12,593	10,310	12,223
F	5,053	7,080	4,976	6,972
G	2,101	3,397	2,158	3,489
H	327	634	320	621
<b>Total</b>	<b>81,418</b>	<b>77,496</b>	<b>79,398</b>	<b>75,522</b>

The Council Tax is made up of amounts for the Greater London Authority as well as the Council. The Band D tax and total amount to be raised in the last 2 years was as follows:

	2007/2008		2006/2007		Increase £	%
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000		
Tower Hamlets	836.37	66,322	797.28	62,117	39.09	4.90
Greater London Authority	303.88	24,031	288.61	22,396	15.27	5.29
<b>TOTAL</b>	<b>1,140.25</b>	<b>90,353</b>	<b>1,085.89</b>	<b>84,513</b>	<b>54.36</b>	<b>5.01</b>

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

Under the arrangements for the National Non-Domestic Rates the Council collects business rates for its area which it pays to the Government. The Government then redistributes this to local authorities on the basis of a fixed amount per head of population. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2007-08 was 44.4p in the £ (43.3p in the £ in 2006-07), The total rateable value in the borough as at 31st March 2008 was £684.1 million (£694.9 million at 31st March 2007).

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

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

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

Contributions are made from the Collection Fund Income and Expenditure Account to a provision for bad debts. During 2007/2008 £0.944 million was contributed to the Council Tax bad debt provision and £2.766 million of irrecoverable debts were written off.

# PENSION FUND ACCOUNT

for year ended 31st March 2008

## DEALINGS WITH MEMBERS ACCOUNT

	Note	2007/2008 £'000	2006/2007 £'000
<b>Income</b>			
Contributions receivable			
Employees	3	7,784	7,710
Employers	3	38,015	37,555
		45,799	45,265
Transfer values receivable		4,426	4,288
<b>Total income</b>		<b>50,225</b>	<b>49,553</b>
<b>Expenditure</b>			
Benefits payable	4	31,471	28,236
Transfer values payable		4,803	4,056
Payments to leavers - repayment of contributions		10	240
Administration		946	891
Other expenses		3	(9)
<b>Total expenditure</b>		<b>37,233</b>	<b>33,414</b>
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>12,992</b>	<b>16,139</b>

## RETURN ON INVESTMENTS

		2007/2008 £'000	2006/2007 £'000
Investment income	11	17,780	16,408
Change in market value: Realised		65,861	28,855
Change in market value: Unrealised		(116,253)	(3,474)
Investment management expenses		(2,001)	(1,911)
<b>NET RETURN ON INVESTMENTS</b>		<b>(34,613)</b>	<b>39,878</b>

## CLOSING NET ASSETS

Net assets brought forward		704,843	648,826
Net increase during the year		(21,621)	56,017

## CLOSING NET ASSETS OF THE SCHEME

**683,222**      **704,843**

## NET ASSETS STATEMENT

		2007/2008 £'000	2006/2007 £'000
<b>Investments Assets</b>			
Fixed interest securities - Public Sector		39,262	27,630
Fixed interest securities - Private Sector		52,340	0
Fixed interest securities - Overseas		12,366	62,375
Index Linked Securities		57,501	51,809
Equities - UK		168,745	205,128
Equities - Overseas		263,343	249,837
Managed and Unitised Funds			
Property		78,188	87,632
Other		34	83
		671,779	684,494
<b>Other Net Assets</b>			
Debtors less Creditors	5/6	2,978	(4,166)
Cash	7	8,465	24,515
<b>TOTAL NET ASSETS</b>		<b>683,222</b>	<b>704,843</b>



## NOTES TO THE PENSION FUND ACCOUNT

### 1. PENSION FUND

The Pension Fund is a funded, defined benefits scheme which provides for the payment of pensions to employees of The London Borough of Tower Hamlets. Benefits include retirement pensions, also widows' pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from employees, from the council admitted bodies and from interest and dividends on the Fund's investments.

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial disposition of the Fund. The only items that are required to be excluded by regulations are liabilities to pay pensions and other benefits in the future which are reported on separately in the actuary's statement.

### 2. ACCOUNTING POLICIES

(a) Accounts

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with the Statement of Recommended Practice (Financial Reports of Pensions Schemes), but the disclosure requirements are limited to those shown below.

(b) Basis of preparation

Except where otherwise stated, the accounts have been prepared on an accruals basis - income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2008.

(c) Investments

Investments are shown in the Net Assets Statement at their market value, which has been determined as follows:

(i) Listed securities are shown by reference to mid-market price at the close of business on 31 March 2008

Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on the 31 March 2008.

(ii) Unit trust and managed fund investments are stated at the mid point of the latest prices quoted by their respective managers prior to the (iii) 31 March 2008.

(iv) Freehold property and leasehold property are included on the basis of their open market value.

### 3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority and council's admitted bodies in respect of its own contributions and those of its pensionable employees. The employers' contributions are made at a rate determined by the Fund's actuary which is the rate considered necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rate used during the financial year ending 31 March 2008 was 14.5%. It should be noted that the Triennial Revaluation of the fund concluded in 2007 has increased the rate to 15.8% and this rate will apply from the 1st April 2008. Contributions shown in the revenue statement may be categorised as follows:-

	2007/2008			2006/2007		
	Council £'000	Admitted Bodies £'000	Total £'000	Council £'000	Admitted Bodies £'000	Total £'000
From employees						
Ordinary contributions	7,542	242	7,784	7,433	277	7,710
From employers						
Ordinary contributions	18,198	490	18,688	17,878	812	18,690
Additional contributions	19,327		19,327	18,865	0	18,865
	37,525	490	38,015	36,743	812	37,555
<b>Total contributions</b>	<b>45,067</b>	<b>732</b>	<b>45,799</b>	<b>44,176</b>	<b>1,089</b>	<b>45,265</b>

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

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

	2007/2008			2006/2007		
	Admitted		Total	Admitted		Total
	Council	Bodies		Council	Bodies	
	£'000	£'000	£'000	£'000	£'000	£'000
Pension payments to retired members	(24,660)	(428)	(25,088)	(23,497)	0	(23,497)
Lump sums paid on retirement	(5,716)	(261)	(5,977)	(4,713)	0	(4,713)
Death grants	(406)	0	(406)	(566)	0	(566)
<b>TOTAL BENEFITS PAYABLE</b>	<b>(30,782)</b>	<b>(689)</b>	<b>(31,471)</b>	<b>(28,776)</b>	<b>0</b>	<b>(28,776)</b>

#### 5. DEBTORS

All transactions are accounted for on an accruals basis. The following material amounts were due to, or payable from, the Pension Fund as at 31st March 2008. All amounts related to the administering authority

	2007/2008	2006/2007
	£'000	£'000
Dividends receivable	2,212	2,411
Tax recoverable	236	166
Interest receivable	523	458
Admitted Bodies: Contributions	309	135
Investment sales	1,122	620
Benefits payable	10	
<b>TOTAL DEBTORS</b>	<b>4,412</b>	<b>3,790</b>

#### 6. CREDITORS

	2007/2008	2006/2007
	£'000	£'000
Administration	539	614
Benefits payable	0	20
Investment purchases	895	7,322
<b>TOTAL CREDITORS</b>	<b>1,434</b>	<b>7,956</b>

#### 7. CASH

	2007/2008	2006/2007
	£000	£000
Cash was held as follows:		
GMO	2,915	2,735
INVESTEC	33	1
Aberdeen: Fixed Interest Portfolio	958	6,206
Aberdeen: Private Equity Portfolio	0	40
Aberdeen: UK Equities	238	0
Schroders: Multi Asset Portfolio	(1)	7,582
Schroders: Property Portfolio	2,097	1,635
Martin Currie	1,165	5
Merrill Lynch	1	0
London Borough of Tower Hamlets	1,059	6,311
<b>TOTAL CASH</b>	<b>8,465</b>	<b>24,515</b>

## 8. TAXATION

### UK Income Tax

The fund is an exempt approved fund under the Finance Act 1970 and is therefore not liable to UK income tax on interest and dividends and property income nor to capital gains tax.

### Value Added Tax

By virtue of the Council being the administrating authority, VAT input tax is recoverable on all fund activities.

### Overseas Tax

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

## 9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Pension Fund at 31st March 2008

	2007/2008	2006/2007
<b>London Borough of Tower Hamlets</b>		
Active Members	5,382	5,376
Pensioners	3,590	3,557
Deferred Pensioners	4,328	4,176
	<b>13,300</b>	<b>13,109</b>
<b>Admitted Bodies</b>		
Active Members	148	139
Pensioners	54	38
Deferred Pensioners	180	180
	<b>382</b>	<b>357</b>

The following bodies have been admitted into the Fund:

- Tower Hamlets Community Housing
- Redbridge Community Housing Limited
- East End Homes
- Greenwich Leisure Limited
- Swan Housing
- Bethnal Green and Victoria Park Housing Association
- Toynbee Housing Association

## 10. INVESTMENT MANAGEMENT

<u>Manager</u>	<u>Mandate</u>
GMO	Global Equity
Martin Currie	UK Equity
Schroders	Property
Investec	Residual Venture Capital Fund
Baillie Gifford	Overseas Equities
Aberdeen Bonds	Fixed Interest, UK Equities and Private Equity

The Aberdeen private equity holding represents the residual holding transferred from a former manager.

The market value of the fund comprises the following:

	2007/2008		2006/2007	
	£ million	%	£ million	%
GMO	173.5	25.4	178.7	25.6
Martin Currie	88.5	13.0	103	14.7
Schroders	80.4	11.8	184.0	26.3
Aberdeen Bonds	162.9	23.8	143.4	20.5
Aberdeen Equities	67.1	9.8	0.0	0.0
Baillie Gifford	109.8	16.1	0.0	0.0

The high level of trading activity in the year reflects the transition from a balanced to a specialist management structure. The purchases and sales are set out below:

	2007/2008	2006/2007
	£'000	£'000
Purchases	497,948	741,595
Sales	(393,494)	(669,447)
<b>NET SALES</b>	<b>104,454</b>	<b>72,148</b>

There were no stock lending arrangements operational in the year.

## 11. INVESTMENT INCOME

There was no stock lending arrangements operational in the financial year. Dividends and interest shown in the revenue statement are broken down as follows:

	2007/2008	2006/2007
	£'000	£'000
Dividends from property managed funds	1,919	1,927
Interest from fixed interest securities	2,490	2,138
UK equities	7,285	7,863
Foreign equities	6,271	4,031
Interest on cash deposits	(321)	371
Taxation	132	78
Underwriting commission	4	0
<b>TOTAL</b>	<b>17,780</b>	<b>16,408</b>

## 12. UNLISTED SECURITIES

The value of listed and unlisted securities is as follows:

	2007/2008 £000	2006/2007 £000
Unlisted	66	40
Listed	680,178	708,969
Working Capital	2,978	(4,166)
	<b>683,222</b>	<b>704,843</b>

## 13. ACTUARIAL POSITION

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

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

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

	£ Million
2008/2009	12.50
2009/2010	12.50
2010/2011	12.50

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

The method of calculating the employer's contribution rate derives the cost of the benefits building up over the year following the valuation date. This method is known as the "Projected Unit Method". It is a method considered appropriate by the actuary for a Fund open to new members. As the Fund remains open to new members, its age profile is not currently rising significantly.

If the age profile began to rise significantly, the projected unit method would calculate an increase in current service cost as scheme members approached retirement. In completing the valuation, the actuary has adopted a market value method to derive the financial assumptions by considering various average yields and average market values in the 12 months leading to the valuation date. This represents a change from previously adopted traditional techniques where the assumptions adopted have reflected expectations of long term averages.

The assumptions used in the calculation and applied during the intervaluation period are summarised as follows:

	2007	2004
Investment Returns (Equities)	5.9%	6.7%
Pay Increases	4.7%	4.4%
Price Inflation	3.2%	2.9%

The next statutory revaluation is due in 2010 with the results to be implemented in April 2011.

## 14. RELATED PARTY TRANSACTIONS

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

## 15. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2008.

## 16. Post Balance Sheet Events

There are no significant post balance sheet events to report.

## 17. Voluntary Contributions

There are no additional voluntary contributions to report.

## 18. Regulations

The Social Services Act 1986, the Financial Services Act, the Pensions Act and the Local Government Pension Scheme Regulations 1995 and 1997 have imposed a number of changes on local authority Pension Funds. In particular changes on local authority Pension Funds.

- Contributors now have the right to make additional voluntary contributions to enhance their pension. The
- (a) Council made such a scheme available to staff through Norwich Union.  
Permanent full time employees can now opt out of the Local Government Scheme and make their own
  - (b) pension fund arrangements.
  - (c) Since 1995, all employees (except teachers) are eligible to join the scheme.

- The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 - SI 2002 No. 1852, require administering authorities to update and publish a Statement of Investment
- (d) Principles and Myners Compliance Statement. These documents are available on the Council's website.  
The Council is also required to prepare and publish a Communications Strategy, Governance Statement and
  - (e) Funding Strategy Statement all of which are available on the Council's website.

**Chris Naylor ACA MACantab**  
**Corporate Director of Resources**  
**30th June 2008**

## AUDITOR'S REPORT

At the date of publication of the Statement of Accounts (30th June 2008) the auditor had not completed the audit of the statement and had therefore not issued an opinion on it.

## GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

### FINANCIAL TERMS

<b>Accounting Period</b>	The period of time covered by the Council's accounts. The Council's financial year is the period from 1st April to the following 31st March.
<b>Accrual</b>	The recognition of income and expenditure as it is earned or incurred viz not as cash received or paid.
<b>Actuary</b>	Independent advisor to the Council on the financial position of the Pension Fund.
<b>Actuarial Valuation</b>	Independent triennial review of the Pension Fund assets, liabilities and reserves, the results of which, including recommended employer's contribution rates, the Actuary reports to the Council.
<b>Amortisation</b>	The writing off of intangible assets or loan balances to revenue service accounts over an appropriate period of time.
<b>Balances</b>	The surplus or deficit on any account at the end of an accounting period. The term is often used specifically to refer to the availability of unallocated revenue reserves.
<b>Budget</b>	A statement defining the Council's policies over a specified period of time in terms of finance.
<b>Capital Charges</b>	Charges made to individual service revenue accounts to reflect the cost of the assets employed. Charges may include both notional interest and depreciation elements (also referred to as asset rentals).
<b>Capital Expenditure</b>	Expenditure incurred on the purchase or improvement of significant assets including land, buildings and equipment, which will be of use or benefit in providing services for more than one financial year.
<b>Capital Financing Charges</b>	The annual cost of capital, including principal repayments, interest charges and leasing costs.
<b>Capital Receipts</b>	Income received from the sale of capital assets.
<b>Contingent Liabilities</b>	Where possible "one-off" future liabilities or losses are identified but the level of uncertainty is such that the establishment of a provision is not appropriate. Such items are disclosed in the form of a note to the accounts.
<b>Council Tax</b>	The main source of local taxation to local authorities. This is levied on households within its area by the billing authority and the proceeds paid into its Collection Fund for distribution to precepting authorities and for use by its own General Fund.
<b>Creditors</b>	Amounts owed by the Council at the end of the accounting period.
<b>Debtors</b>	Amounts owed to the Council at the end of the accounting period.
<b>Earmarked Reserves</b>	Balances set aside to meet specific future, usually non-recurring, commitments.
<b>Fees and Charges</b>	Income receivable as payment for goods or services provided.
<b>Formula Grant</b>	A grant paid by the Government made up of redistributed NDR and RSG.
<b>Intangible Assets</b>	Capitalised expenditure not resulting in a tangible asset. Such amounts are amortised over an appropriate period.



<b>(National) Non-Domestic Rate(s)</b>	A levy on businesses based on the rateable value of the premises they occupy. It is also known as “business rates”, the “uniform business rate” and the “national non-domestic rate”. Local authorities collect the rate as agents for the Government which then redistributes the income to authorities on the basis of population.
<b>Post Balance Sheet Events</b>	Significant events which occur after the end of the accounting period but prior to the date when the accounts are issued.
<b>Precept</b>	The precepting authorities’ council tax. This is collected by billing authorities on behalf of the precepting authorities.
<b>Precepting Authorities</b>	Those authorities which are not billing authorities, i.e. do not collect the council tax and non-domestic rate. The Council bills and collects on behalf of the Greater London Authority.
<b>Private Finance Initiative</b>	Contracts whereby private sector suppliers provide services and/or capital investment in return for unitary payment; subject to agreed performance targets.
<b>Provisions</b>	Amounts set aside to meet probable "one-off" future liabilities or losses but where exact dates and amounts are uncertain.
<b>Revenue Expenditure</b>	This is the routine day to day cost of providing the Council services.. Under the Local Government and Housing Act 1989, all expenditure is regarded as revenue unless it is specifically classified as capital.
<b>Revenue Support Grant</b>	A grant paid by central government as part of "formula grant" to support local authority services in general, as opposed to specific grants which may only be used for a prescribed purpose.
<b>Support Services</b>	Professional, technical and administrative activities, such as Finance, Information Technology and Human Resources, which support the provision of front line services

#### ABBREVIATIONS

<b>ALMO</b>	Arms Length Management Organisation
<b>BMW</b>	Biodegradable Municipal Waste
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>CLG</b>	Department for Communities and Local Government
<b>DEFRA</b>	Department for Environment, Food and Rural Affairs
<b>DCSF</b>	Department for Children, Schools & Families
<b>FRS</b>	Financial Reporting Standard
<b>GLA</b>	Greater London Authority
<b>HRA</b>	Housing Revenue Account
<b>LAML</b>	London Authorities Mutual Limited
<b>LATS</b>	Landfill Allowance Trading Scheme
<b>LEA</b>	Local Education Authority
<b>LGPS</b>	Local Government Pension Scheme
<b>LPFA</b>	London Pensions Fund Authority
<b>MRA</b>	Major Repairs Allowance
<b>MRP</b>	Minimum Revenue Provision
<b>(N)NDR</b>	(National) Non-Domestic Rate(s)
<b>PCT</b>	Primary Care Trust
<b>PFI</b>	Private Finance Initiative
<b>PWLB</b>	Public Works Loans Board
<b>RSG</b>	Revenue Support Grant
<b>SRB</b>	Single Regeneration Budget
<b>WDA</b>	Waste Disposal Authority

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