Audit Committee

Thursday, 27 January 2022 at 6.30 p.m.

Committee Room One - Town Hall, Mulberry Place,

5 Clove Crescent, London, E14 2BG

Agenda

Chair: Councillor Val Whitehead

Members

Vice-Chair: Councillor David Edgar

Councillor James King, Councillor Ayas Miah, Councillor Eve McQuillan, Councillor Kyrsten Perry, Councillor Leema Qureshi and Councillor Rabina Khan

Observers (Independent Persons):
Charlotte Webster (Independent Person)

Substitutes:
Councillor Bex White, Councillor Tarik Khan, Councillor Abdal Ullah and Councillor Peter Golds

[The quorum for the Audit Committee is 3 Members]

Further Information

Reports for consideration, meeting contact details, public participation and more information is available on the following pages.

Public Information

Viewing or Participating in Committee Meetings

The meeting will be broadcast live on the Council's website. A link to the website is detailed below. The press and public are encouraged to watch this meeting on-line. Please note: Whilst the meeting is open to the public, the public seating in the meeting room for observers will be extremely limited due to the Covid19 pandemic restrictions. You must contact the Democratic Services Officer to reserve a place, this will be allocated on a first come first served basis. No one will be admitted unless they have registered in advance.

Meeting Webcast

The meeting is being webcast for viewing through the Council's webcast system.
http://towerhamlets.public-i.tv/core/portal/home

Contact for further enquiries:

Farhana Zia, Democratic Services,
1st Floor, Town Hall, Mulberry Place, 5 Clove Crescent, E14 2BG
Tel: 020 7364 0842
E-mail: farhana.zia@towerhamlets.gov.uk
Web:http://www.towerhamlets.gov.uk/committee

Electronic agendas reports and minutes. Copies of agendas, reports and minutes for council meetings can also be found on our website from day of publication. To access this, click www.towerhamlets.gov.uk/committee and search for the relevant committee and meeting date. Agendas are available on the Modern.Gov, Windows, iPad and Android apps.	Scan this code for an electronic agenda:

London Borough of Tower Hamlets

Audit Committee

Thursday, 27 January 2022

6.30 p.m.

		PAGE NUMBER(S)
	APOLOGIES FOR ABSENCE	
1.	**DECLARATIONS OF INTEREST**	5 - 6
	Members are reminded to consider the categories of interest, identified in the Code of Conduct for Members to determine: whether they have an interest in any agenda item and any action they should take. For further details, see the attached note from the Monitoring Officer. Members are also reminded to declare the nature of the interest at the earliest opportunity and the agenda item it relates to. Please note that ultimately it is the Members' responsibility to identify any interests and also update their register of interest form as required by the Code. If in doubt as to the nature of an interest, you are advised to seek advice prior the meeting by contacting the Monitoring Officer or Democratic Services.	
2.	**MINUTES OF THE PREVIOUS MEETING(S)**	7 - 18
	To confirm the minutes of the Audit Committee held on 1st December 2021.	
3.	**DELOITTE ITEMS FOR CONSIDERATION**	
3 .1	**Report to the Audit Committee on the audit for the year ended 31 March 2019**	19 - 98
3 .2	**Report to the Audit Committee on the audit for the year ended 31 March 2020**	99 - 162
3 .3	**London Borough of Tower Hamlets Pension Fund Final Report to the Audit Committee on the 2018/19 audit**	163 - 182
3 .4	**London Borough of Tower Hamlets Pension Fund Status Report to the Audit Committee on the 2019/20 audit**	183 - 202

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Next Meeting of the Committee:
Thursday, 24 March 2022 at 6.30 p.m. to be held in the Committee Room One - Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

DECLARATIONS OF INTERESTS AT MEETINGS– NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Code of Conduct for Members at Part C, Section 31 of the Council's Constitution

(i) Disclosable Pecuniary Interests (DPI)

You have a DPI in any item of business on the agenda where it relates to the categories listed in **Appendix A** to this guidance. Please note that a DPI includes: (i) Your own relevant interests; (ii)Those of your spouse or civil partner; (iii) A person with whom the Member is living as husband/wife/civil partners. Other individuals, e.g. Children, siblings and flatmates do not need to be considered. Failure to disclose or register a DPI (within 28 days) is a criminal offence.

Members with a DPI, (unless granted a dispensation) must not seek to improperly influence the decision, must declare the nature of the interest and leave the meeting room (including the public gallery) during the consideration and decision on the item – unless exercising their right to address the Committee.

DPI Dispensations and Sensitive Interests. In certain circumstances, Members may make a request to the Monitoring Officer for a dispensation or for an interest to be treated as sensitive.

(ii) Non - DPI Interests that the Council has decided should be registered – (Non - DPIs)

You will have 'Non DPI Interest' in any item on the agenda, where it relates to (i) the offer of gifts or hospitality, (with an estimated value of at least £25) (ii) Council Appointments or nominations to bodies (iii) Membership of any body exercising a function of a public nature, a charitable purpose or aimed at influencing public opinion.

Members must declare the nature of the interest, but may stay in the meeting room and participate in the consideration of the matter and vote on it **unless:**

- A reasonable person would think that your interest is so significant that it would be likely to impair your judgement of the public interest. **If so, you must withdraw and take no part in the consideration or discussion of the matter.**

(iii) Declarations of Interests not included in the Register of Members' Interest.

Occasions may arise where a matter under consideration would, or would be likely to, **affect the wellbeing of you, your family, or close associate(s) more than it would anyone else living in the local area** but which is not required to be included in the Register of Members' Interests. In such matters, Members must consider the information set out in paragraph (ii) above regarding Non DPI - interests and apply the test, set out in this paragraph.

Guidance on Predetermination and Bias

Member's attention is drawn to the guidance on predetermination and bias, particularly the need to consider the merits of the case with an open mind, as set out in the Planning and Licensing Codes of Conduct, (Part C, Section 34 and 35 of the Constitution). For further advice on the possibility of bias or predetermination, you are advised to seek advice prior to the meeting.

Section 106 of the Local Government Finance Act, 1992 - Declarations which restrict Members in Council Tax arrears, for at least a two months from voting

In such circumstances the member may not vote on any reports and motions with respect to the matter.

Further Advice contact: Janet Fasan, Director of Legal and Monitoring Officer, Tel: 0207 364 4800.

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 6.32 P.M. ON WEDNESDAY, 1 DECEMBER 2021

COMMITTEE ROOM ONE - TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

Members Present:

Councillor Val Whitehead (Chair)
Councillor David Edgar
Councillor Kyrsten Perry
Councillor Rabina Khan
Councillor James King*
Councillor Ayas Miah*
Councillor Eve McQuillan*
Councillor Leema Qureshi*
Charlotte Webster (Independent Person)

Other Councillors Present:

Councillor Andrew Wood* - observing

Others Present:

Mayor John Biggs	–	(Executive Mayor)

Officers Present:

Kevin Bartle*	–	(Interim Corporate Director, Resources and Section 151 Officer)
Raj Chand*	–	(Director, Customer Services)
Vicky Clark*	–	(Director of Integrated Growth and Development)
Janet Fasan*	–	(Director of Legal & Monitoring Officer)
Dan Jones*	–	(Director, Public Realm)
Jennifer Peters*	–	(Divisional Director, Planning and Building Control, Place)
Denise Radley*	–	(Corporate Director, Health, Adults & Community)
Paul Rock	–	(Head of Internal Audit, Anti-Fraud and Risk)
Stephen Shapiro*	–	(Head of Asset Management)
Karen Swift*	–	(Divisional Director, Housing and Regeneration)
Nisar Visram*	–	(Director of Finance, Procurement & Audit)
Farhana Zia	–	(Democratic Services Officer, Committees, Governance)

*Attended virtually – online

APOLOGIES FOR ABSENCE

Apologies for absence were received from Mr Will Tuckley, Chief Executive of London Borough of Tower Hamlets.

1. DECLARATIONS OF INTEREST

There were no pecuniary declarations of interest declared at the meeting by the members.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes from the meeting held on the 20th October 2021 were agreed to be an accurate record of the meeting and were approved by the Committee.

3. DELOITTE ITEMS FOR CONSIDERATION

There were no reports from Deloitte for consideration.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Annual Governance Statement 2020-2021

The Mayor, Mr John Biggs introduced the report and stated steady improvement had been made since 2015, in respect to the governance processes within the council. The Mayor said progress had been made in children services with better outcomes for children and families, however 2020-21 had been a challenging year for the Council, especially with the challenge of Covid-19. The Mayor said the Council had responded to this crisis extremely well and continued to make improvements in areas such as financial accounts and budget processes. The Mayor said there was still work to do regarding Special Education Needs however the Council was on the right track to improve.

Mr Paul Rock, Head of Internal Audit, Fraud and Risk added this was a draft copy of the Annual Governance Statement (AGS) and Committee members were being asked for their comments. Mr Rock said the final version of the AGS would be presented to the Committee along with the financial statement of accounts at the January 2022 meeting.

In response to comments and questions from Member the following was noted:

- Councillor Edgar concurred this had been a challenging year for the Council. He asked the Mayor what opportunities Covid-19 had presented? The Mayor responded stating the biggest transformation

was the step towards remote working, which had been liberating. He said this had improved the work/life balance for staff but equally the Council had to be mindful of isolation and mental health of staff. He said it had also increased cross-departmental working with the use of electronic meetings.

- Mr Rock added that from the feedback he had received directors and managers felt more empowered during the pandemic to make quicker and faster decisions. He said this should be retained whilst looking to improve governance and streamline processes.
- In respect to the 'limited' assurance given, Mr Rock said he would base his opinion on several considerations, such as the outcomes of internal audit and anti-fraud activity undertaken during the year plus the significant issues with the statement of accounts as well as external assurance reports.
- Mr Kevin Bartle, Interim Corporate Director for Resources and Section 151 Officer said the direction of travel for the Council's accounting systems and processes, had been significantly overhauled and improved and said this ought to be recognised.
- Councillor Khan quoted from a letter dated 21st July 2021 from the Local Government Social Care Ombudsman and asked why the issue raised therein had not been included in the AGS. Discussion regarding the letter took place and it was agreed this could be included in the final AGS.
  - **ACTION:** The points raised in the letter to be incorporated and addressed in the AGS, after consultation with the Mayor and Chief Executive and appropriate Director.

The Audit Committee **RESOLVED** to:

1. Review and agree the 2020/21 Annual Governance Statement.

4.2 Corporate Risk Register Quarterly Progress Report Q3

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented the Corporate Risk Register and said this was a regular report to the Committee. He said the report provided an update against the Risk plan and how the Council was performing against key targets. Mr Rock said Directors from the Place Directorate were also present for any questions relating to the Directorate's risk register.

Mr Rock also thanked members of the Committee and the Overview & Scrutiny Committee members for attending the risk session that was held on the 24th November and said the matters raised were being prioritised and would be presented to the Corporate Leadership Team.

In response to questions and comments from members, in relation to the Corporate Risk register the following was noted:

- Ms Charlotte Webster, Independent person stated the Corporate Risk Register, and the Directorate Risk Register were rather long and not easily accessible. She asked if it were possible to pull out and highlight the top risks for each register, with commentary on what progress had been made to lower the risk.
  - **ACTION:** Future reports to the Audit Committee to highlight the top risks for each register and provide a commentary on the action taken to lower the risk.
- In reference to page 52, RS0056, Councillor Khan asked how the additional money from the government, during Covid-19, had been used and accounted for? Mr Kevin Bartle, Interim Corporate Director for Resources and Section 151 said that as far as the risk register is concerned, it was not felt necessary to account separately for Covid grants in relation to whether the Council might overspend overall, although details of Covid related spending is analysed in detail in the regular budget monitoring reports to Cabinet.
- In reference to page 53, BCLR013, Councillor Khan asked about the EU-UK trade and cooperation agreement, and why there was no comment provided under the 'existing control measures' column? Mr Rock, Head of Internal Audit, Fraud and Risk responded stating that this was on the corporate risk register as a means of acknowledging that there could be potential or unknown risks to the council over the coming 12 to 24 months during the exit out of the EU. Mr Rock said he would speak to the owner of the risk to see if more specific information and mitigations as required to be added to the risk.
- In reference to page 54, ASD0015 and vulnerable adults, Councillor Khan asked if complaints were used to monitor the progress against the risk. She said the letter she had referenced earlier ought to be included under this risk. Ms Denise Radley, Corporate Director for Health, Adults and Community stated the letter referred to did not relate to Adult Social Care. She explained how issues raised were identified and resolved at the informal stage and how the Directorate Leadership Team reviewed and analysed complaints every two weeks. Ms Radley said they identified emerging themes and triangulated issues before they developed into formal complaints.
- In reference to page 57, PLC0013, Grenfell and cladding, Councillor Khan said the work the Council had done to address this was commendable, however the information in the risk register ought to be in the public domain and accessible to leaseholders. Ms Karen Swift, Director for Housing, said the information relating to what the Council had done to address fire safety and the Building Safety Bill was on the Council's Website and there was a whole series of webpages devoted to the topic, which are constantly reviewed and refreshed.

In response to questions and comments from members, in relation to the Place Directorate Risk register the following was noted:

- In reference to page 73, DTLC0003 Councillor Khan asked if more information could be provided in relation to land searches. Ms Jennifer Peters, Director for Planning and Building Control said there was a significant amount of work to do to ensure the data collected on land searches could be automated and verified. She said this was to avoid human errors. She said this work was progressing and therefore this had been identified as a risk.
- In reference to page 72, DRD0062 Councillor Perry asked what had been done to progress the capital works programme. Ms Vicky Clark, Director of Integrated Growth and Development responded stating the progress on the capital works programme was dependent on funding. She said her team worked closely with the Resources Directorate to ensure schemes identified could be delivered however this was an iterative processing involving consultation with members and senior managers as well as prioritising one scheme over another.
- In reference to page 72, DRD0062, Councillor Edgar asked about the deadline quoted in the 'required control measures' column and why this was out of date. Ms Vicky Clark acknowledged the register needed to be updated and said the Asset Management and Infrastructure Working Group was working closely with clients and project managers to identify and deliver projects, within the resources they had. She said the capital works programme was reviewed frequently.
- In reference to page 79, PLC0013, Councillor Edgar said there was significant detail provided on Grenfell under 'existing control measures' and nothing under the 'required control measure.' He asked why this column had been left blank. In response Ms Swift stated the Council was working closely with the government and the GLA and a considerable amount of work had been undertaken, with a good working relationship building cross organisations. Ms Swift said this ought to highlighted in the register and that this would be updated. Ms Swift also said that once government funding came to end, the Council would need to look at how it can resource further work, as part of the budget setting process. The Mayor, Mr John Biggs added regular reports came to Cabinet and the Corporate Leadership Team on the progress being made especially as Tower Hamlets had a high concentration of tall buildings.
- In reference to page 82, PMP0006 Town Hall Delivery, the risk register quoted September 2021, as the date for review. Councillor Edgar asked if further information could be provided in relation to this. The Mayor responded stating the external works of the Town Hall would be complete by May 2022, but internal fittings would take some time to progress thereafter.
- In reference to PLC0021, 'Chater House', the Chair asked what progress had been made in relation to the building valuation. She asked why the register had not been updated to show the progress made. Ms Vicky Clark responded stating at one of the issues related to the housing management provider and the other related to fire safety. She said action had been taken to mitigate against the fire hazard and

remedial work was being undertaken to ensure the building was fire compliant.

- The Chair, Councillor Whitehead commented that there was quite a striking gap between the risk scores and appetite in relation to the Place Directorate's risk register.
- Councillor Edgar then made several observations regarding the Place Directorate's risk register, referring to PLC0021, PMP0006 and HPHS0002 as examples and said the register required updating, with more accurate information on how the risks had been mitigated against.
  - **ACTION:** Owners of risks in the Place Directorate to update the risk register to ensure it is current and up to date, stating the remedial action taken against each identified risk.

The Chair thanked the attendees for their participation in the meeting.

The Audit Committee **RESOLVED** to:

1. Note the corporate risks, and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at the next Committee meeting (or separately before the meeting if urgent).
2. Note the Place Directorate risks and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the directorate's objectives at the next Committee meeting (or separately before the meeting if urgent).

4.3 Internal Audit and Anti-Fraud Progress Report

Mr Paul Rock, Head of Internal Audit, Fraud and Risk stated the report provided members with an update on the progress made against the delivery of the 2021/22 Annual Audit Plan and highlighted any significant issues since the last report to the Audit Committee in October 2021. An update on anti-fraud activity was also included in the report.

Mr Rock said progress had been slower this quarter largely due to the resources available. He said he hoped to have a new member of staff start in the New Year but in the meantime would be using BDO – their external auditor partner to undertake some of the audits as per the audit plan. Mr Rock said he was 'on course' to deliver 30 audits this year, as he had done for the past two years and that this would provide enough evidence from him to base his annual opinion on.

In respect to management responses to reports these had been slow and as such Mr Rock had raised this with the Corporate Leadership Team. He said the fully implemented, higher priority actions were at 35% and whilst the

overall percentage is 80-85%, if the partially implemented high priority areas are also included, this figure needed to improve.

He said the Fraud outcomes continued to be on a positive trajectory, with a further conviction secured for housing fraud. Mr Rock also referred members to paragraph 3.27 and said changes had been implemented in respect to how information is managed from informants. In respect to the second action relating to how information is shared, Mr Rock said he would report back in March 2022 once he has discussed and formed a view on this.

In response to questions and comments from members the following was noted:

- The Chair Councillor Whitehead said it was disappointing the actions agreed with management were at 35%. She said as these were agreed actions, she would expect management to actively look to implement them as soon as possible.
- In relation to the NFI, and data matches the Chair asked if this related to the resources issue, within the team? Mr Rock said his team co-ordinated the NFI matches on behalf of the Council. However, it was for individual officers/managers to best manage the risk, within the resources they have. Mr Rock said there was no doubt there was a resourcing challenge when it came to reviewing over 11,000 matches.
- Referring to the Audit Plan 2021/22, page 105 and the audit relating to 'Climate Change', the Chair requested this audit be pushed back to the 'green' list as it was an important topic to audit and scrutinise. Councillors Perry and Khan agreed with this. Councillor Khan added that an equalities impact assessment on how Climate Change affects BAME communities should also be included.
- Mr Rock agreed to adding the 'Climate Change' audit back on the plan and said the information provided in the workplan was a high-level outline for the audit. He said the audit would be scoped and rationalised, taking into account any Equalities Impact Assessments that have been undertaken in relation to any policies or procedures adopted by the Council.
  - **ACTION:** The Climate Change Audit be added back to the list of audits to be undertaken this year 2021/22.
- Mr Rock confirmed the audits relating to the Adult Safeguarding Board, page 109 and Empty Properties page 108, were going ahead and said these would be reported to the Committee once they had been finalised.
- In reference to the NNDR report – non-domestic rates, Ms Webster asked what the cause of the delay had been in getting a management response? Mr Rock said this was due to the untimely death of an officer and as such there had been delays. He said they were working with the team to get the information required.
- In respect to how CLT would track late responses to actions, Mr Rock said the Chief Executive had made it very clear to managers his expectation on delivering on agreed actions. Mr Rock said the data on

agreed actions was presented to CLT as well as the audit reports which had missed implementation dates. He said this was reported to CLT before it was presented to the Committee.

- **ACTION:** Ms Webster asked if a list of outstanding audits with agreed actions could be provided to the Committee, showing their age and the Directorates they belong to. She said this would help members understand where the issues are.

- Ms Webster asked which audit would drop off the plan, if the 'Climate Change' audit was taken on? Mr Rock said this was a good challenge. He said he would have to justify whatever is taken off the plan. He said he will need to reflect on this and possibly consider giving this to BDO to undertake.

The Chair thanked Mr Rock for his report before inviting the Officers present for the Asset Management 'limited' assurance report to address the Committee.

Asset Management

Ms Vicky Clark, Director of Integrated Growth and Development and Mr Stephen Shapiro, Interim Head of Asset Management said the 'limited' assurance report had assisted in uncovering the issues identified. Ms Clark said they helped to pinpoint the areas that needed focus. For example, having an up-to-date asset management strategy. Ms Clark said work on this would begin early next year. She said the asset management team was also working with the legal team to expediate transactions as this was a much-needed source of income to the council. She said they were working through the recommendations made by the Internal Audit team.

Mr Shapiro added that the audit had assisted in strengthening the team. He said they had been working on the number of outstanding rent and lease renewals and bringing these up to date.

In response to questions and comments made by members the following was noted:

- Councillor Edgar said he had commented on asset management for a long time and better communication between asset managers, lawyers and tenants was needed. He said he often received complaints from small businesses about rent review delays. He said delays had financial consequences, especially if the current tenant had wanted to assign the tenancy to a new business.
- Councillor Edgar said information about the outstanding amount should be provided to clients in a way they can understand rather than pages of the account ledger. Ms Clark said they were reviewing the approach to rent reviews and said they have agreed as far as possible that when doing reviews, they would document at 'passing' the rent and hold the rent at the date of the review rather than back date it, phase and manage the rent increases.

The Audit Committee **RESOLVED** to:

1. Note the contents of this report and the overall progress and assurance provided, as well as the findings/assurance of individual reports.
2. Approve the updated annual internal audit plan for 2021/2022.

4.4 Internal Audit Charter and Anti-Bribery Policy

Mr Paul Rock, Head of Internal Audit, Fraud and Risk stated the Public Sector Internal Audit Standards required the Internal Audit Charter and Anti-Bribery Policy to be reviewed annually. He said the charter and policy had been updated to reflect the current roles and responsibilities and ensure it is fit for purpose.

Members of the Committee had no question from Mr Rock.

The Audit Committee **RESOLVED** to:

1. Review and approve the Internal Audit Charter; and
2. Review and approve the Anti-Bribery Policy.

4.5 Treasury Management Mid-Year Report for 2021-22

Mr Nisar Visram, Director of Finance, Procurement and Audit presented the Treasury Management mid-year report. He said the report summarised the council's investments and borrowing as at 30th September 2021. He said the economic outlook and interest rate forecast from the Council's treasury advisors Arling Close informed how the treasury management activities were performing. Mr Visram referred members to paragraph 3.4.8 and the table therein and said interest rate increases were anticipated.

In respect to investments, Mr Visram said £328M was invested and appendix 1 gave a breakdown of where the investments were held. He said investments were mainly in money market funds or with other public sector bodies. He said the council was on target to meet the budgeted investment returns. In respect to borrowing, £71.5M were from external loans, mainly with the Public Works Loan Board or banks. Mr Visram said, looking at the prudential indicators, they were within the limits set at the beginning of the year.

In response to questions and comments from members the following was noted:

- Councillor Edgar stated he found the report to be clear and comprehensive. He said he liked the format of the report.
- Councillor Perry said it this was one area the council should be proud of. She said the investments and collective pooling as a strengthen against the backdrop of the other financial struggles and pandemic the council was facing.

The Audit Committee **RESOLVED** to:

1. note the contents of the treasury management activities and performance against targets for the half year ending 30 September 2021; and
2. note the Council's investments as set out in Appendix 1. The balance outstanding as at 30 September 2021 was £328.20m.

4.6 Complaints Report

Ms Raj Chand, Director of Customer Services presented the complaints report and said this report had been requested by the Committee. She said the report set out how complaints are responded to from the Local Government and Social Care Ombudsman (LGSCO) and the lessons learnt. Ms Chand said the annual review letter referred to earlier by members was appended to the report and said the number of complaints had reduced from 47 in 2018/19 to 39 complaints in 2020/21. She said the performance percentage had increased from 34% to 69% but further work was required to improve the response rate. Ms Chand referred members to the historical issues set out at paragraph 2.4 of the report and the service improvements set out at paragraph 2.9. She said steps were being taken to improve the handling of LGSCO complaints, with better use of technology, guidance and a outcomes-based protocol.

Referring to the LGSCO letter, appended at Appendix 1, the statistical data showed 83% of complaints were upheld, with 95% of recommendations being implemented, with 4% of complaints being judged as being satisfactorily remedied by the Council. Ms Chand said with the service improvements cited she hoped further progress could be made.

Ms Chand also said the Information Governance structure was also being reviewed to see how complaints handling, members enquiries and information requests are processed and responded to.

In response to questions and comments from members the following was noted:

- The Chair said it was good the report recognised the missed timescales, for the areas covered by the Information Governance team. The Chair gave an example of a missed deadline for a housing association query that she had raised and said it was important for the Council to ensure the data and records it held aligned with Registered Providers. Ms Chand responded stating work was ongoing in relation to this and she had met with the Tower Hamlets Housing Forum, together with members of the General Purposes Committee to ensure the data held was accurate and that there is continued dialogue between them.
- Councillor Edgar commented that the letter from the LGSCO was blunt and said they had made helpful suggestions on how to improve the complaint process. He said he was encouraged by the trends and said it gave some measure to drive change in the handling of complaints. Councillor Edgar said it was important to ensure communication with complainants was clear and timely. Ms Chand responded stating she

agreed with the observations made by Councillor Edgar and said a key part of the review would be to complete the circle, in terms of how the Customer had found the complaint handling process. Ms Chand offered to provide an annual and/or quarterly report on complaints if this was what the Committee wanted.

- Councillor Khan asked why the letter from the LGSCO published in July 2021, was coming to the Committee in December 2021. Referring to the letter she said the 25 upheld decisions related to Adult Social Care, Housing and Recycling. Councillor Khan said these were distressing to read and said it was critical to understand how the Directorates had learnt lessons and had improved services. In response the Chair said this was the first time the Committee had asked for a report on complaints and said she'd welcome future reports to the Committee. She said the suggestion to which directorates and services the complaints related to could be incorporated in future reports.
  - **ACTION:** The Audit Committee to receive on an annual basis a report outlining the number of complaints referred to the LGSCO and the number upheld. The report is to include the annual review letter from the LGSCO and provide a breakdown on the areas and Directorates the complaints relate to and the remedial action taken by the service.

The Audit Committee **RESOLVED** to:

1. Complaints referred to the Local Government and Social Care Ombudsman (LGSCO)
2. The LGSCO Annual Review Letter
3. Lessons learnt/ service improvements made to the complaints process

5. AUDIT COMMITTEE WORK PLAN

The Audit Committee noted the work plan for the forthcoming meetings of the Committee.

6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no urgent business to be discussed.

The meeting ended at 8.53 p.m.

Chair, Councillor Val Whitehead
Audit Committee

This page is intentionally left blank

Deloitte.

TOWER HAMLETS

Page 19

Agenda Item 3.1

London Borough of Tower Hamlets

Report to the Audit Committee on the audit for the year ended 31 March 2019

Issued on 17 January 2022 for the meeting on 27 January 2022

Contents

Final report

Appendices

1. Key messages

Introduction

The key messages in this report

We have pleasure in presenting our report to the audit committee of the London Borough of Tower Hamlets (the Council) on our work on the audit of the financial statements for the year ended 31 March 2019.

Status of our work	Completion of the audit has been delayed well beyond the original deadline of 31 July 2019 due to the time to investigate and resolve issues identified during our original field visit and subsequently, the quality of the council's record keeping and the pace at which officers have responded to audit requests. We previously issued progress reports in July 2019, November 2020 and April 2021 which described challenges encountered in the audit process for the 2018/19 audit and attended other meetings to give oral updates. Audit committee members have also received updates from officers and a report from an external consultant on the closure process for the 2018/19 statement of accounts. Whilst our audit is nearing completion, there are a number of procedures which remain outstanding, including: • Review of updated statement of accounts • Receipt of documentation for some sample items and responses to other audit requests • Other items noted as outstanding throughout this report • Other concluding procedures including review for subsequent events and receipt of management representation letter. In addition, our predecessor has not yet certified the closure of their audits for years ended 31 March 2018 and 31 March 2017. As we understand the remaining matters which they are considering are relevant and material to the statement of accounts for the year ended 31 March 2019, we do not propose to issue our opinion until these earlier audit certificates have been issued.
Key areas of audit judgement	The key judgements in the audit process related to: • The appropriateness of expenditure capitalised in the year • The valuation of properties • The valuation of a provision for the cost of settling appeals against rateable values made by business ratepayers • The treatment of an historical amount of £20m previously carried in payables • The appropriateness of restating comparative information and opening balances for various items • The valuation of the council's pension liabilities • The accounting for an indemnity given to Tower Hamlets Homes Limited (THHL) in respect of pension contributions • The recognition basis for various income streams • The decision on whether to prepare group accounts. We report our conclusions on these areas in sections 3 and 4. This repeats information previously communicated but we have reported in this way, as a reminder for audit committee members due to the elapse of time and in order to provide a complete picture of our findings and areas of judgement.

Introduction

The key messages in this report

Findings and conclusion

We have identified a number of adjustments or disclosure deficiencies in the version of the statement of accounts published in draft on the council's website on 19 October 2021. We have included a summary of these items at Appendix A. We have highlighted there those misstatements and disclosure deficiencies which officers have informed us will be corrected in the final version of the statement of accounts and have assumed that where these are material to our opinion, this will be done. Where this is not the case, we expect these matters will be referred to in our audit report on the financial statements. We also draw attention to an unresolved matter in relation to the valuation of council dwellings at page 20.

As noted above, there are a number of items of information which we are yet to receive. We have assumed for the purpose of this report that the information will be provided and we will be able to conclude satisfactorily on it.

We expect our opinion will be qualified in respect of the following matters:

- The council has not consolidated the financial statements of its subsidiaries, Tower Hamlets Homes Limited and King George V Fields Trust and other interests. Had these been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined. Our opinion on the Authority's financial statements is also qualified for this matter as the failure to consolidate all subsidiaries is a departure from the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. In addition , the strategic report and directors' report do not consider the effects of the failure to consolidate this subsidiary. In view of the significance to the accounts, we expect to give an adverse opinion.
- Note 40 Pension Scheme discloses the plan assets and defined benefit obligations held by the Authority, amounting to £1,444m and £2,133m respectively at 31 March 2019. Within these figures are assets and liabilities of £111.0m and £119.6m respectively, in respect of individuals currently or previously employed by the Authority's subsidiary, Tower Hamlets Homes Limited. Contrary to the footnote within note 40, these amounts include amounts arising from employment periods both before and after the transfer dates. In our opinion, the under International Accounting Standard 19 Employee Benefits, the Authority should recognise and measure amounts relating to employment periods prior to the relevant individuals' transfer date, but not after. To the extent that the net pension obligation relates to retirement benefits accrued after individuals transferred to Tower Hamlets Homes Limited, the obligation to make meet the cost of contributions should be measured and disclosed in accordance with International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets. In these circumstances, we are unable to quantify the effect of the application of the incorrect accounting standard. The effect of this is also not disclosed in the narrative report.
- Note 8 to the financial statements reconciles the Net Expenditure in the Comprehensive Income and Expenditure Statement (CIES), by service, for the year ended 31 March 2019, to the Expenditure Chargeable to General Fund and Housing Revenue Account (HRA) amounts for the year. We were unable to obtain sufficient appropriate audit evidence concerning the analysis by service of Expenditure Chargeable to General Fund and Housing Revenue Account balances or the reconciliation to the amounts presented in the CIES because, due to [reason], the Authority has not able to provide supporting analyses or reconciliation to the accounting records.
- Note 33 Officers' Remuneration discloses the number of employees receiving remuneration of more than £50,000 in bands of £5,000. We were unable to obtain sufficient appropriate audit evidence regarding the headcount figures for the year ended 31 March 2019 because of discrepancies between payroll reports and expenditure totals in the accounts. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Introduction

The key messages in this report

Other information included in the statement of accounts	We have reviewed the council's narrative report and annual governance statement to consider whether they are misleading or inconsistent with other information known to us from our audit work. We did not identify any inconsistencies which we consider to be material but did identify a small number of instances where information in the narrative report had not been updated for changes made to the financial statements or where descriptions in the narrative report were inconsistent with those used in the financial statements or were otherwise unclear. In addition, the narrative report has not been updated for significant events subsequent to the year end and, in particular, makes no reference to the pandemic or to changes made to the council's medium term financial strategy in its latest iteration. We recommend officers update for these matters which we have summarised in Appendix A.
Duties as public auditor	We did not receive any questions or objections from local electors in respect of the 2018/19 statement of accounts. We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Use of resources	As reported in our April 2021 report, we expect our conclusion on the council's use of resource will be qualified in respect of: • financial reporting arrangements. This is, in particular, due to the volume and significance of changes required to the original draft statement of accounts and the long delay in finalising the accounts for publication • arrangements relating to childrens services as improvements in arrangements which resulted in a rating of "Good" in Ofsted's reinspection of the service in 2019/20 were not in place throughout the whole of 2018/19. In addition, we expect our conclusion to be qualified in respect of arrangements for managing risks effectively and establishing a sound system of internal control.
Whole of government accounts	As the finalisation of the council's statement of accounts for 2018/19 has been delayed beyond the publication of the Whole of Government accounts for that year, we are no longer required to provide a report to the National Audit Office on the consistency of the council's consolidation return with its statement of accounts and other matters.

2. Our audit explained

Our audit explained

We tailor our audit to your organisation and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your operations and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks and our use of resources work, we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Determine materiality

When planning our audit we set our materiality at £25m based on an estimate of gross expenditure. We have reported in this paper all uncorrected misstatements above £1,250k.

These are unchanged from the thresholds previously reported to you.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we had identified. Following issues identified in early testing, we identified a further significant risk in respect of income from grants and contributions. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit Committee's attention our conclusions on the significant audit risks And on other judgments included in the section on other areas of audit focus. In particular the Audit Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on the current status of our audit work, we envisage issuing an audit Report which is qualified in respect of the matters summarised in the key messages section of this report.

Deloitte Confidential: Government and Public Services

3. Significant audit risks

Significant audit risks

Valuation of properties

Risk and Deloitte challenge and response	Conclusions
Risk The Council is required to hold property assets within Property, Plant and Equipment at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value. **Deloitte challenge and response** We have tested the design and implementation of controls within the valuation process. With the assistance of our internal valuation specialist we have performed the following procedures: • Assessed the qualifications, experience, objectivity and independence of the valuer • Tested factual inputs, such as building areas, to source documentation • Assessed the appropriateness of the methods and assumptions used by the valuer • Tested a sample of individual asset valuations • Tested the posting of the valuation to the accounting records. • Assessed Officers' rationale for concluding that have there was no material change between the data valuation and the reporting date for those assets not revalued at the reporting date.	**Conclusion on the design and implementation of key controls** The valuation of properties has not been well controlled. Whilst the Council is taking steps to remediate the position, the following significant control deficiencies were present in the production of the 2018/19 draft statements of accounts: • The Council did not have controls to ensure that information provided to the valuer for the purpose of his valuation was complete and accurate and the design of controls over subjective inputs to the valuation is not clear. • We have not been able to obtain documentation to be clear on how changes in individual asset values have been scrutinised and followed up with the valuer. This would require formalising the criteria for selection of individual asset values for investigation, consistently applying these criteria and then documenting the conclusion on exceptions for review and approval. • The calculation and recording of entries relating to the valuation is performed in the fixed asset register. The fixed asset register is maintained on an excel spreadsheet. Typical spreadsheet controls we would expect to see over the design and maintenance of a spreadsheet used for the initiation and recording of significant financial transactions have not been adopted. • Officers' process for assessing whether there had been a material change on assets not selected for revaluation at the reporting date was not adequate. Further information all this is given below. We have responded to these control deficiencies by increasing the seniority of staff involved in the audit of this area. We also draw attention to the recommendations made in relation to the valuer's report in our April 2021 report. **Conclusion on our substantive audit procedures** Our testing and subsequent investigations carried out by officers has identified a number of issues. For assets valued on a depreciated replacement cost basis, land and building areas should reflect the size and layout of the building and ancillary land were it to be re-provided on a least cost basis, using a modern design and on an optimised site (the "modern equivalent asset"). However, it is common and acceptable to use the actual areas of the existing asset. For developed land areas for schools (i.e. the footprint of the buildings together with ancillary built on land such as playgrounds and car park) we understand that the areas used for the original valuation at 31 March 2019 were derived from either the building footprint or gross development value of the building, but did not receive a complete explanation. The approach did not comply with the modern equivalent asset principle and resulted in areas which were as a whole significantly less than the actual developed land areas for the existing assets. Officers have obtained a second updated valuation using the actual areas for the existing assets.

Significant audit risks

Valuation of properties (continued)

Deloitte challenge and conclusion

- The valuation of school buildings uses information on their gross internal area. That data is provided by the Council to the valuer. Officers identified discrepancies with site plan information for the sample items selected by us and in the light of this, extended their investigation to cover the building areas for all schools. A second updated valuation has been obtained for the schools affected.
- Together these adjustments related to an increase in the valuation of schools of £118m at 31 March 2019.
- The same information on building areas was used in the valuations at 31 March 2017 and 31 March 2018. As a result, officers have restated building valuations at these earlier reporting dates using the revised actual building area information. The same information on developed land areas was also used in the valuation at 31 March 2018. The position for the valuation at 31 March 2017 is less straight forward rather than developing separate assumptions for land area and price per hectare. For that valuation, the valuer calculated the developed land area as a percentage of the building. We have concluded this approach is not appropriate. Officers have restated the valuation at 31 March 2017 using the information on site areas and price per hectare used in the 31 March 2018 valuation. The restatements led to an increase in schools at 31 March 2018 of £300m and 1 April 2017 of £436m.
- The valuation of land used in preparing the published accounts for 2017/18 assumed a value of £17.8m per hectare for developed land. The same assumption was used for the valuation at 31 March 2019 in the initial version of the 2018/19 accounts. Subsequently, within the 2018/19 accounts, the valuation at 31 March 2018 has been updated for a change in the assumption from £17.8m to £11.1m per hectare. We agreed that the new assumption fell with a reasonable, albeit broad, range based on the range of values observable in the market. We considered the position for earlier years. Following further discussion with the valuer, we concluded that this was a change in estimate, rather than the correction of an error. This is because:
    - Based on research carried out by the valuer and other information considered by our valuation specialist, transaction values are highly dependent on the density of the subsequent development and we have concluded that both original and revised price per hectare both fall within the wide range of observed market prices.
    - The transactions which the valuer has relied on for the lower price per hectare relate to market transactions completed after the date of approval of the 2017/18.
- Two assets were surplus, but were classified in other land and buildings within the Property, Plant and Equipment note. In addition to the disclosure misstatement, surplus assets are required to be valued on a different basis, which reflects the property's highest alternative use, rather than its existing (or previous) use. The Council has obtained new valuations for these properties on the correct valuation basis which has resulted in an increase to their previously recorded values at 31 March 2019 of £12.2m. As the properties have been surplus for a number of years, the Council has also obtained revised valuation at earlier reporting dates with similar increases. The accounts for both years have been updated for these changes, including restatement of comparative information. Officers performed a review and did not identify any further surplus assets included in operational categories.
- We identified one property where a lease has been granted over part of the property. The lease had not been taken into account by the valuer, but following enquiries of the valuer, we are satisfied that the impact on the valuation is clearly trivial.
- Properties acquired for use as temporary accommodation during 2018/19 were not included in the valuation programme. These have now been valued resulting in a reduction in their value at 31 March 2019 of £11.1m.

Significant audit risks
Valuation of properties (continued)

Deloitte challenge and conclusion

- The Code does not require properties to be revalued on an annual basis, but does require valuations to be carried out where there has been a material change. Assets measured at current value which were not included in the 2018/19 valuation programme totalled £220.5m. In addition, assets with valued as part of the 2018/19 valuation programme with an effective date of 1 April 2018 and where the valuation was not updated at the reporting date totalled £110.3m.
- The Council assesses whether there has been a material change over the financial year through its review of the market review report commissioned from its valuer. We challenged the appropriateness of officers' approach as:
    - Officers had not evaluated the possible cumulative change since the date of the last valuation of properties (noting that for some properties this is earlier than the start of the financial year)
    - Officers had not quantified the possible effect of market changes in the market review report on property values.
- Officers have subsequently performed work to address both these points and have calculated an estimate of change since the last date of valuation for those assets measured at current value but not revalued at the reporting date which is significantly below our materiality threshold. Our property valuation specialist is examining this and we will provide an oral update to the meeting.
- In addition, we have had regard to the results of the 2019/20 valuation programme. The programme included the revaluation at 31 March 2020 of approximately half of those assets not revalued at 31 March 2019. The recorded gain on these assets is not indicative of an earlier, material change.

As set out in Appendix D we are waiting for information before finalising our work on the valuation.

Significant audit risks

Management override of controls

Risk and our response

Risk

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Deloitte response and challenge

We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts in evaluating the judgements made in the preparation of the financial statements.

Journals

- We have tested the design and implementation of controls in relation to journals.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used our proprietary data analytics tool to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

Significant transactions

- We did not identify any significant transactions outside the normal course of business or where the business rationale was not clear. However we draw to the attention of audit committee members a lower value transaction examined as part of our journal entry testing. The transaction involved recording a contribution from an NHS entity of £3m immediately prior to the year end. We concluded that the transaction was artificial and intended to be unwound and therefore an adjustment has now been made to reverse it. We concluded this based on:
  - The way in which the transaction was characterised in correspondence between the two parties
  - The absence of a written agreement on how the contribution was to be applied by the council (which is a requirement of the governing legislation)
  - The existence of a second transaction, subsequent to the reporting date, where a contribution was made by the council to the NHS entity in the same amount (i.e. having the effect of repaying the original contribution). Again, a written agreement was not put in place recording how the contribution was to be applied, this time by the NHS entity.

Accounting estimates

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest as summarised on page 4, including the NNDR appeals provision; the pension liability and debt provisions.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.
- We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Significant audit risks

Management override of controls (continued)

Conclusions

Conclusion on the design and implementation of key controls

Journals are raised through two routes. As explained more fully in section 6, Control observations, "bulk upload" route does not require approval of journals before posting. This is a significant control deficiency.

There is no requirement to prepare management position papers to explain and support estimates and we have referred to various examples throughout this report where this has not been done or where the analysis is incomplete. The failure to prepare documentation which fully explains and supports key estimates with associated management review also represents a significant control deficiency.

Conclusion on our substantive audit procedures

Our overall conclusion on estimates is as follows:

- The council has made various changes to estimates in the original version of the accounts. We conclude that misstatements arose due to errors in factual inputs to estimate calculations or as a result of the initial analysis being inadequate, rather than intentional manipulation of financial information.
- Entries relating to the valuation of PPE and related depreciation charges and gains and losses on disposal and pension liabilities do not impact on the usable reserves of the council and we would generally expect that there is little or no incentive for the council to manipulate this information.
  - The property valuation as a whole is towards the prudent end of a reasonable range because the land value used for assets at depreciated replacement cost is at the lower end of the range we would expect. This assumption is more prudent than the equivalent assumption at 31 March 2018 and contributed to the overall reduction in the carrying value of PPE compared to the prior year. Pension liabilities are also towards the more prudent end of a reasonable range. This is because, the council's actuary, in their methodology for deriving inflation rate assumptions, did not make a common adjustment to allow for an assumed inflation rate premium within observed market data. The method used by the actuary has not changed from the prior year and therefore involved a similar level of prudence in the position at 31 March 2018.
  - Conversely, the remaining useful economic lives of council dwellings (an average of 54 years) has been set towards the upper end of the range we would regard as reasonable of 30 to 60 years, resulting in a comparatively low depreciation charge. The remaining useful economic life for non residential properties is assumed, on the advice of the council's valuer, to be 50 years, regardless of age or condition of the property. As this results in a depreciation charge of only £14m, we concluded that we did not expect this simplification to result in a material misstatement but are not able to quantify.
- Entries relating to judgements which do impact on the amount of usable reserves were generally centred and consistent with prior year (following revision where relevant) and did not show evidence of bias. Changes in the approach to the estimation of the appeals provision and housing benefit overpayment bad debt provision contributed to an increase and reduction in the amount of provision, respectively, in comparison to the prior year. We identified two estimates where we have proposed an adjustment – one to increase provisions (in this case the NNDR appeals provision) and one to reduce to a bad debt provision against amounts due from leaseholders in respect of contributions to major works (as summarised in Appendix A).

Significant audit risks

Capitalisation of expenditure

Risk and Deloitte challenge and response	Conclusions
Risk The Council has a substantial capital programme, including revenue expenditure which, for funding purposes, is treated in the same way as capital expenditure (REFCUS). Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards. The Council has greater flexibility over the use of revenue resource compared to capital resource. There is also, therefore, an incentive for officers to misclassify revenue expenditure as capital. **Deloitte response and challenge** We have tested the design and implementation of controls to ensure that only capital expenditure which meets the conditions for capitalisation is accounted for as such. We have tested a sample of items capitalised (including amounts in REFCUS) to ensure they are valid and meet the conditions for capitalisation.	**Conclusion on the design and implementation of key controls** As reported previously, we were not able to identify a documented internal control to prevent or detect the incorrect classification of revenue spend as capital. This represents a significant control deficiency. We have responded to this deficiency by increasing the seniority of staff involved in this work. **Conclusion on our substantive audit procedures** We did not identify any items from our testing which had been inappropriately capitalised. In the our April 2021 report we commented on other matters arising from this testing. We provide an update on those matters in the Appendix C.

Significant audit risks

Income from grants and other contributions

Risk and Deloitte challenge and response

Risk

Our early testing identified issues in relation to grants and other contributions. We have pinpointed the significant risk to:

- Contributions by leaseholders to major works which in the original version of the accounts were recognised in the comprehensive income and expenditure statement on a cash basis. Under IFRS 15 Revenue from contracts with customers, revenue is either recognised over time or at a point in time depending on an analysis of how performance obligations in the contract are satisfied. In this case, the obligation to carry out the works is satisfied over time and therefore contributions should have been recognised as spend on the capital project was incurred.
- Community infrastructure levy which in original version of the accounts (and in previous years) was recognised in the comprehensive income and expenditure statement when invoiced. Revenue should be recognised when payment is due under the relevant legislation, in this case on commencement of the development.

Officers have carried out an exercise for the purpose of both the 2018/19 and 2019/20 accounts to re-analyse both leaseholder contributions and community infrastructure levy across all periods presented in these statements.

There is a risk that leaseholder contributions and community infrastructure may not be recognised in the correct period as a result of errors in the execution of this exercise.

Recognition of grant income and contributions is not inherently complex nor does it involve significant judgement. Errors were also identified in the recognition of grants where grant income had been deferred inappropriately and where grant debtor and creditor control accounts had not been properly reconciled. As these balances, after adjustment, were not material, we concluded that there was not a significant risk of material misstatement associated with the recognition of other grant income.

Deloitte response and challenge

We have tested the design and implementation of controls to ensure that grant income and contributions are recognised in the correct period.

We carried out focused testing on the exercise carried out by officers to implement a change in recognition basis for major works across all periods presented in the 2018/19 and 2019/20 statements of accounts.

Our procedures in respect of contributions from leaseholders to major works included:

- Re-calculating accrued income at 31 March 2019, 31 March 2018 and 1 April 2017 for a sample of leaseholders, agreeing inputs to that calculation to records of individual and block gross values and capital expenditure records and testing whether recognition principles have been correctly applied, based on the timing of the related capital expenditure.
- Testing the completeness of income recorded in 2018/19 by tracing from the items in the capital programme to income records for the relevant year.

Our procedures in respect of community infrastructure levy (again to test the exercise carried out by officers), included:

- Understanding the Council's process for capturing and recording the commencement of developments
- Testing accrued income at 31 March 2019, 31 March 2018 and 1 April 2017 to commencement notices, invoice and subsequent receipt of cash
- Testing income in 2019/20 to commencement notices, invoice and subsequent receipt of cash
- Tracing a sample of developments from the Exacon system (used to record information on projects which have commenced) to income records.

Significant audit risks

Income from grants and other contributions

Conclusions

Conclusion on the design and implementation of key controls

The Council has prepared and shared with us process notes in relation to grant income and contributions. We are not clear from these what controls operate within this process to ensure that grant income and contributions are recognised in the correct period and in practice errors have been identified. This represents a significant control deficiency.

We have responded to this deficiency by increasing the seniority of staff involved in this work.

Conclusion on our substantive audit procedures

Our procedures on contributions from leaseholders to major works did not identify any exceptions.

Our testing of community infrastructure levy identified the incorrect accrual of income of £2.8m at 1 April 2017 relating to a development which did not commence until 2017/18. This has now been corrected.

4. Other areas of judgement

Other areas of judgement
Prior year adjustments

Area of judgement and conclusion

Our initial work during 2019, and subsequent investigations carried out by officers, identified accounting issues impacting on prior periods.

Officers concluded on the basis of these investigations that comparative information for 2017/18 and opening balances at 1 April 2017 and 1 April 2018 should be restated.

Description of restatement	Reference	Effect on net assets at 1 April 2017		Effect on 2017/18 total comprehensive income			Effect on net assets at 31 March 2018	
		Assets	Liabilities	Income from services	Spend on services	Other	Assets	Liabilities
		£m	£m	£m	£m	£m	£m	£m
Correction of property related errors								
PPE valuation	Pages 9-11	415.1			(21.7)	90.9	345.9	
Academy conversion	April report					141.5	(141.5)	
Correction of income recognition related errors								
Leaseholder contributions	April report	18.0	6.1			(2.2)	10.5	15.7
Community infrastructure levy	April report	9.4				(2.4)	10.3	1.6
Grant income recognition	Appendix D	(2.8)	6.6	(1.1)			(3.7)	8.5
Correction of presentation errors								
Bank accounts in credit offset	Appendix D	42.2	(42.2)				24.8	(24.8)
Offset of internal income and expenses	Page 22			42.8	(42.8)			
Correction of omission of liabilities								
Teacher discretionary pension award	April report		(9.4)					(9.4)
Correction of other errors								
Consolidation of schools balances	Pages 19-20	1.6		7.0	0.3		(1.9)	(3.8)
Other corrections				1.7	0.4	(2.6)	(0.3)	0.7
Total		**483.5**	**(38.9)**	**50.4**	**(63.8)**	**225.2**	**244.1**	**(11.5)**

We have provided a commentary on the circumstances and accounting issues giving rise to these restatements elsewhere within the report or in our April 2021 report.

Other areas of judgement

Prior year adjustments (continued)

Area of judgement and conclusion

The decision on whether to restate prior periods typically involves two key areas of judgement.

- Firstly prior period information is only restated where there has been a change in accounting policy or to correct for a material error. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. The first area of judgement can therefore be in determining whether or not an item is a prior period error.

  Our principal challenges were in two areas

  - In relation to the selection of an appropriate value per hectare for developed land. We discuss this further on pages 10-11.
  - As part of the 2018/19 accounts process, a valuation of council dwellings was carried out at an effective date of 1 April 2018. This resulted in a valuation which was £113m (10%) lower than the carrying amount at 31 March 2018. This raises a question as to whether the change arises from a change in accounting estimate, for example due to further information becoming available after the date of approval of the 2018/19 accounts, or whether it relates to an error in the carrying amount at 31 March 2018.

  The valuation at 31 March 2018 was derived from a valuation of council dwellings performed at 1 April 2017 which was then updated to 31 March 2019 by applying an index of 4.5% to account for the estimated market increase over 2017/18. The uplift was applied in line with advice in a market review report issued by the council's valuer in April 2018.

  We have inspected the market change report which explains that reported index is derived solely from Land Registry information. The Land Registry information for the London Borough of Tower Hamlets shows a reduction and not an increase over 2017/18. The scale and direction of the change in valuation between the two full valuations (i.e. 1 April 2017 and 1 April 2018) is consistent with the information currently observed in the Land Registry information.

  Land Registry information is updated continuously and retrospectively – however, the scale of the implied change would be unusual (both overall and for the various data points referenced in the valuer's report). The valuer has been contacted by the council for his comments but he has not been able explain further as we understand he did not retain a copy of the data on which his market review report was based.

  Whilst we cannot determine what information was shown in the Land Registry record at the time the valuer prepared his market change report in April 2018, the valuation should reflect information available at the time of approval of the accounts (in July 2018). Given the four month interval, we consider it unlikely that a valuation performed at this point would have resulted in a valuation which was significantly different to the valuation which was subsequently performed at 1 April 2018. The council is discussing this with the predecessor auditor and we will conclude once we know the outcome of this.

Other areas of judgement

Prior year adjustments (continued)

Area of judgement and conclusion

- The second area of judgement is whether a prior period error is material. IAS 8.42 requires restatement only of material prior period errors. Immaterial prior period errors shall not be corrected through restatement of comparatives. Officers have decided to correct all prior period errors identified.

  Adjustments to the valuation of properties (£204m at 31 March 2018 and £415m at 1 April 2017 – see pages 10-11) and to derecognise academies at 31 March 2018 (£142m) are 8, 17 and 6 times materiality set for planning purposes, respectively and we regard as material.

  In our report to the audit committee in December 2020, we highlighted this as an area where we would normally expect management to prepare a position paper setting out and explaining their view and requested that this be done. This has not been done and the position on whether other adjustments are individually material involves greater judgement.

  In the case where more than one prior period error has been identified, the accounting guidance requires consideration of the collective effect of errors, as well as whether they are individually material. Where a material prior period error is being corrected through restatement of comparative balances, this does not automatically mean that any other prior period errors identified should also be corrected regardless of their materiality. However, in this case, in view of the volume and size of other errors identified, we consider the approach taken by officers is, in general, reasonable and has been applied consistently and without bias.

In addition to the error relating to the valuation of council dwellings discussed on the previous page, we note the following errors and disclosure deficiencies in relation to prior period information which have not been corrected in the version of the accounts published on 19 October 2021:

- A restatement has been made to "gross-up" bank overdrafts which have been incorrectly set-off against deposit amounts. The restatement did not include three accounts which were not included in the trial balance presented to us for audit. The accounts are involved in placing surplus schools cash on overnight markets. The Council's agreement with the bank does not give the Council a legally enforceable right of set-off and therefore the overdraft should not be set-off against the deposit on the balance sheet. The understatement of cash and cash equivalents and bank overdraft at the reporting dates presented are: 31 March 2019 - £23m; 31 March 2018 - £26m; and 31 March 2017 - £28m. We have included this in Appendix A, Audit Adjustments.
- An analysis performed by officers identified fixed terms deposits with maturity dates falling after 12 months of the relevant reporting date which had been classified within short term (i.e. current) investments. As these are not held for trading and were not, given their remaining period to maturity, expected to be realised within twelve months of the reporting date, these should be reclassified to long term (i.e. non current) investments. As this exercise was not performed under after the publication of the October 2021 version of the draft statement of accounts, we have included these as proposed adjustments in Appendix A, Audit Adjustments. The amounts involved at the respective reporting dates are: At 1 April 2017 - £30m from short term to long term investments; At 31 March 2018 - £85m from short term to long term investments. In addition, as a proposed adjustment at 31 March 2019 had not been made, an adjustment is also needed in the closing balance sheet to reclassify £12m from long term to short term investments.
- In Note 2 of the draft statement of accounts, relating to the restatements, amounts have been misclassified between categories of restatement. Further information is given in Appendix A, Audit Adjustments.
- Comparative information in disclosure notes has been restated, including disclosures on higher paid employees, but relevant disclosures in relation to the restatement have not been given. Further information is given in Appendix A, Audit Adjustments.

Other areas of judgement

Indemnity given to THHL in respect of future pension costs

Area of judgement and conclusion

Staff who transferred from the Council to Tower Hamlets Homes Limited (THHL) continued to be members of the Local Government Pension Scheme administered by the council.

At that time, the council entered into a management agreement with THHL in which it agreed to meet the cost of benefits accrued by transferring employees up to the date of their transfer.

On 31 March 2009, the then Corporate Director, Resources appears to have extended this obligation by writing to the Board of THHL and agreeing that the Council "indemnifies THHL in respect of all liabilities that have arisen or may arise from pension obligations".

On the basis of this letter, the Council has recorded a pension liability equal to the full amount of the liability relating to the THHL section of the London Borough of Tower Hamlets Pension Scheme (i.e. the liability recorded relates to the cost of settling benefits accrued from individuals' service both before and after their transfer to THHL). In turn, THHL has recorded both a liability and reimbursement asset of the same amount. Using statutory mitigation arrangements, the relevant revenue account (in this case the Housing Revenue Account) is being charged as contributions become payable, rather than as benefits are earned by individuals. Pension benefits which have accrued relating to individuals' service with the Council prior to their transfer to THHL represent post-employment benefits and are accounted for in the same way as pension benefits provided to other Council staff.

Conversely, pension benefits which individuals have accrued in respect of service rendered after their transfer to THHL do not represent employee benefits from the perspective of the Council. This is because they do not arise from service rendered to the Council (or the individual's termination) – instead they arise from the commercial arrangements put in place between the Council and THHL.

As a result, benefits accruing after an individual's transfer date fall outside the scope of IAS 19 Employee Benefits and should instead be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The consequences of this analysis are, in relation to the part of the liability attributable to post transfer service, that:

- The liability should be classified within Provisions on the balance sheet and not under Liability related to defined benefit pension scheme.
- The liability should be quantified using the measurement rules of IAS 37 which are different to IAS 19.
- Entries to the Comprehensive Expenditure and Income Statement should be calculated and presented on a different basis to that currently reflected.
- Statutory mitigation arrangements do not apply. As a result, the full amount of the provision should be charged to the Housing Revenue Account and subsequent changes in the provision charged or credited to the Housing Revenue Account.

At 31 March 2019, plan assets included in respect of this section were £111.0m and gross liabilities were £119.6m.

We are not able to quantify the adjustments needed as an exercise has not been performed to split the pension liability between amounts attributable pre and post transfer service and to re-measure the part attributable to post transfer service under IAS 37. We therefore expect to qualify our opinion in respect of this matter.

Other areas of judgement

Consolidation of schools balances

Area of judgement and conclusion

Officers identified errors in relation to the recording of cash and other transactions involving schools.

These issues arose because of:

- The complex system of entries used to record disbursements and other flows between the council and individual schools
- The use of only a single general ledger control account within the main council ledger to record the balances for some seventy different bank accounts, together with, we understand, a failure to perform a full reconciliation between the general ledger control account on the one hand and the total of the reconciled cash books for the individual schools on the other.

Following investigation, officers have recorded the following restatement of comparative information:

£m	Restatement to correct classification errors	Other restatements	Total restatement
Short term debtors	(8.2)	0.5	(7.7)
Cash and cash equivalents	12.0	(6.2)	5.8
Short term creditors	(3.8)	-	(3.8)
General Fund	-	7.8	7.8
Schools reserves	-	(2.1)	(2.1)
Gross income	-	0.3	0.3
Gross expenditure	-	7.0	7.0

Officers have also made changes to the original version of cash and cash equivalents and other balances at 31 March 2019.

Our procedures have focused on changes to cash balances and has included:

- Discussion of the nature of changes made between original and final versions of the accounts
- Requesting a full reconciliation between the general ledger control account and the individual reconciled cash book balances
- Performing procedures to test the completeness of cash book amounts included in that reconciliation
- Performing tests on the reconciled cash balances on a sample basis.
- Inspection of documentation relating to other accounts balances.

Other areas of judgement

Consolidation of schools balances (continued)

Area of judgement and conclusion

We found that:

- In relation to other restatements of comparative information (see table on previous page), we have not been able to obtain full information on the changes made to income and expenditure in 2017/18 or to the amount of reserves at 31 March 2018. We understand the approach taken by officers was to adjust school reserves to agree to the total of the individual school reserves on returns made by schools, adjusted for known errors identified by officers' investigation. The General Fund balance was then treated as a balancing amount in agreeing to the adjusted net asset position and resulting in a reduction in the closing General Fund reserve at 31 March 2018 of £7.0m.
- There are differences between the reconciled cash position and amended general ledger control account balance of £699k, £934k, £2,625k and £1,560k at 31 March 2020, 31 March 2019 and 31 March 2018 and 1 April 2017 respectively. It was apparent from these unresolved differences that correcting journals posted to the general ledger control account were incomplete.
- The reconciled cash position incorrectly included amounts due from HMRC of £1,246k, £1,644k, £1,189k and £1,499k at 31 March 2020, 31 March 2019, 31 March 2018 and 1 April 2017, respectively. Officers have informed us that these amounts relate to input tax on schools expenditure for the final month or two months of each year which are to be reclaimed from HMRC. Officers' investigation also found that, as a result of an oversight, amounts relating to Feb/March 2020, Feb/March 2019 and Feb/March 2018 input tax had not been subsequently reclaimed and remain outstanding. The updated accounts include a journal to reclassify amounts from cash and cash equivalents to short term debtors to the extent that officers believe that amounts remain recoverable.
- Our sample of reconciling items in individual cash book reconciliations identified a high rate of error (approximately half at 31 31 March 2019), where payments were deducted from the cash balance before their release, resulting in the understatement of both cash and short term creditors or included invalid entries which should be released to income. Officers have not quantified the error and therefore no adjustment has been made. The amount of unpresented cheques and BACS is £8,127k, £7,309k and £25,712k at 31 March 2019, 31 March 2018 an 1 April 2017, respectively, representing the maximum amount of error at each reporting date.

In view of the uncertainty over the correct balance, we have not proposed adjustment but draw audit committee members attention to the fact that there is uncertainty over cash balances at each reporting date presented.

Other areas of judgement

Release of credit balance

Area of judgement and conclusion

We have previously reported to you on a release of a credit of £20.0m which had been brought forward on the balance sheet as part of a larger credit balance relating to the collection of taxes. Our conclusion on this is unchanged and no further information on the transaction has come to light subsequently. We have repeated our conclusion here, however, in order to give a complete picture within this report on all areas of identified judgement that remain.

Officer's subsequent investigation of the balance concluded that:

- The amount had accumulated over a period of several years and related to posting errors involving the bad debt provision for business rates arrears. The amount represented the part of the provision which was identified to be in excess of requirement as a result of the posting errors.
- This position was identified in 2014/15 and the amount which was in excess of requirement was transferred to an account included in Short term creditors.
- In the original version of the 2018/19 accounts, authorised for issue in May 2019, an entry was made to release the credit to the General Fund.
- As the amount was originally charged to the Collection Fund as a bad debt provision and was now in excess of the required amount, the liability should have been released in the Collection Fund and not to the General Fund.

On the basis of this conclusion:

- Officers wrote to MHCLG in September 2019 for guidance and MHCLG have agreed that the amount can be accounted for as an in-year release of the provision in the Collection Fund. This means that the benefit of the reversal is subject to the 100% local retention and pan London pooling arrangements applicable to 2018/19.
- Correcting entries have been made in the Council accounts and supplementary Collection Fund statement in line with the guidance from MHCLG.

We inspected officers' concluding report prepared as a basis for these entries. We concluded that:

- The information provided through officers' investigation is not sufficient to determine which original entries (if any) were erroneous.
- The analysis of entries giving rise to the original credit supports that the credit relates to the collection and disbursement of business rates.
- Our work on the Collection Fund does not identify the need for a balance to be held (either amounts due to business rates payers; bad debt provision; or amounts due other preceptors arising from transactions in the period).
- Whilst the quality of records means that the position is not certain, it is, as a result, probable that the amount: forms part of the Collection Fund balance sheet; is in excess of any requirement; and should be released to the Collection Fund.
- The credit has been released on the bad debt expense line within the Collection Fund supplementary statement. Officers have explained why this is the appropriate classification, but the evidence for this (or alternate) classifications is very limited. However, the amount is immaterial to the presentation of the Collection Fund.

Other areas of judgement

Release of credit balance

Area of judgement and conclusion

Our procedures also included considering whether it was appropriate to account for the release of the credit as a current year item in the Council's accounts or whether opening balances and prior year information should be restated. Officers have told us that they have been unable to determine the reason for the decision taken in 2014/15 to carry forward the "excess" provision amount, rather than release to the Collection Fund.

We have concluded:

- As the excess provision amount was substantially accumulated during a period when the council was acting as an agent for central government in the collection of all business rates, it is reasonable to conclude that officers, at that time, considered it was likely that amounts previously deducted from past remittances to central government in relation to the excess provision would need to be paid to central government in the future and therefore that it was appropriate to carry this credit balance on the balance sheet. The lack of adequate contemporaneous documentation (as explained further below) increases the amount of judgement involved in this accounting decision.
- The release of the credit therefore arises from a change in estimate arising from the department's clarification of its expectations.
- It is therefore appropriate to account for the release in 2018/19 and not by restatement of opening balances.

Officers' investigations identified a brief comment in a working paper in 2014/15 on the accounting treatment. However, this did not adequately explain either the preceding treatment or the rationale for transferring the credit to a separate, short term creditor account. Similarly, we have not been able to obtain documentation which explains the decision to carry forward this credit at subsequent year ends or which explains either the decision to release the credit in 2018/19 or the initial decision to release this to the General Fund and not the Collection Fund.

This type of documentation forms an important part of the Council's accounting records and the absence of the documentation and appropriate internal scrutiny of the decision-making represents a significant control deficiency.

Other areas of judgement

Disclosures

Area of judgement and conclusion

The Code requires disclosure of the number of employees receiving remuneration of more than £50,000 in bands of £5,000.

A set out in our April 2021 report, the disclosure (including comparative information) had been updated as the original version did not include information for staff at schools which had opted out of the corporate payroll arrangement. We also reported that:

- Officers had prepared the revised disclosures based on payroll reports submitted by the schools using outsourced providers.
- For a number of schools there are large variances between the total of these reports and total staff costs in returns submitted by those schools and consolidated into the accounts.
- We had requested information on how officers have assurance over the completeness and accuracy of the payroll reports in the light of the unreconciled differences.

We have been unable to obtain a reconciliation or other evidence which provides assurance over the completeness payroll reports. In view of enhanced user interest in higher paid and senior employee disclosures, we regard this as material and therefore expect to qualify our audit report in respect to this matter.

Note 8 to the financial statements discloses an analysis by service of expenditure chargeable to General Fund and Housing Revenue Account balances with a reconciliation to amounts determined in accordance with generally accepted accounting principles and presented in the Comprehensive Income and Expenditure Statement. We were unable to obtain sufficient appropriate audit evidence concerning analysis by service of expenditure chargeable to General Fund and Housing Revenue Account balances or the reconciliation to the amounts presented in the Comprehensive Income and Expenditure Statement as the Authority has not able to provide supporting analyses or reconciliation to the accounting records.

We also expect to qualify our opinion in respect of this matter.

Other areas of judgement

Preparation of group accounts

Area of judgement and conclusion

Authorities with interests in subsidiaries, associates and/or joint ventures are required to prepare group accounts in addition to their single entity financial statements unless their interest is considered not material.

The council has subsidiaries but has not prepared group accounts as officers have concluded that group accounts would not be materially different to the council's single entity accounts.

We have summarised information for the two principal subsidiaries to the right, being THHL (a wholly owned subsidiary) and King George V Fields Trust (for which the council is corporate trustee) from their draft or published accounts. Other subsidiaries individually and in aggregate are clearly trivial. The analysis includes entries which would be made to eliminate transactions between group components in order to illustrate the extent to which group accounts would be different to the council's single entity accounts.

£m	THHL	KGVFT	Eliminations	Total
Revenue	(31.9)	(1.4)	31.9	(1.4)
Expenditure	31.1	1.2	(31.9)	0.4
Deficit on provision of services	(0.8)	(0.2)	-	(1.0)
Total comprehensive income	0.7	(0.2)	(1.5)	(1.0)
Total assets	16.6	16.7	(11.0)	22.3
Total liabilities	(12.4)	(0.1)	11.0	(1.5)
Net assets	4.2	16.6	-	20.8

Officers identified an entry of £22.8m in the fixed asset register within community assets relating to expenditure on Mile End Park. The Park is owned by KGVFT and not by the council. Based on a review of changes to this record since 2007, officers have determined that the amount relates to a Millennium Commission funded project which encompassed the construction of the Green Bridge linking two parts of the park, the creation of "gardens" with associated pavilions and other works in the Park. Officers have also concluded that the entry substantially duplicates other entries relating to shop units and pavilions recorded at current value within the other land and buildings category. Officers formed this view on the basis of discussions with colleagues in the estates team to understand the likely disposition of expenditure. However, the information to corroborate this second assumption is limited and there is also contradictory evidence including that the entry in community assets has been accounted for in the past as land and not depreciated and an analysis of spend suggest that expenditure on the Green Bridge (which includes the spend on the shop units) and the creation of the gardens (which includes the spend on the pavilions) account for only half of the total expenditure on the Millennium project.

Officers have made an adjustment in the updated accounts to remove the entry relating to the Millennium project. Notwithstanding the question of whether assets have been duplicated, this is appropriate as the council does not own Mile End Park and the assets are instead owned by an entity with a separate legal personality. However, to the extent that the expenditure relates to assets not already recorded on either the council's balance sheet or the balance sheet of KGVFT (such as expenditure on landscaping, the design of the park and the laying out of footpaths), these would need be recorded on the group's balance sheet (in the event that one was to be prepared) under the council's accounting policy for community assets which requires such assets to be carried at depreciated historic cost.

Officers have prepared a management position paper which analyses both quantitative and qualitative considerations and concludes that the group accounts would not be materially different to the council only accounts. The paper does not consider the possibility that part or all of the spend on the parks might be brought on to the council's balance sheet. However, as the net assets of the subsidiaries are close to materiality it is reasonable to conclude that group accounts would be materially different to the council's single entity accounts. As group accounts have not been prepared, we expect to qualify our report in respect of this matter.

Other areas of judgement

NNDR appeals provision

Area of judgement and conclusion

We have previously reported in relation to the original version of the accounts:

- The Council has made a provision of £1.3m for the estimated cost of appeals made by business ratepayers to their bills.
- We had been provided with an analysis prepared by an external adviser which indicates a provision requirement of £8.9m for appeals made against the 2010 Ratings List, of which the Council's share would be £5.8m.
- No provision has been made for appeals against the 2017 Ratings List.

We further reported in relation to an updated version of the accounts circulated to the audit committee for the January 2021 meeting:

- Officers had increased the appeals provision at 31 March 2019 by £12.8m. This was determined as an amount equal to the Council's share of the reversal of the credit of £20m discussed earlier (resulting in the aggregate of these two adjustments having no impact on the Collection Fund surplus).
- Whilst a revised provision calculation had not been prepared, the Council had supported its view that the revised provision is reasonable by reference to a comparison with other authorities. The comparison with other authorities shows that the revised provision remains towards the bottom (but no longer at the extreme) end of the range - but other points on that range might give a provision that was materially higher.

Subsequent to the meeting in April, officers have provided an updated analysis which estimates the provision required using historical information on the proportion of appeals which are successful and average refund amounts as a proportion of rateable value. The calculation suggests a provision which is £1.0m higher than the recorded amount. As the calculation provided an evidence based estimate, we focused our work on this.

Our procedures included making the following challenges:

- The calculation took into account appeals received up to 31 March 2019 and made no allowance for claims received or expected after this date. The council has formed the general view that it is unable to form a reliable estimate of the appeals which have not yet been made. This is because (i) ratings lists typically have different types and profile of issues relating to them (ii) the check and challenge process introduced for the 2017 ratings list is designed and expected to impact on ratepayer appetite to appeal against rateable values. As a result, there is insufficient information on which to model expected future appeals. Whilst we conclude that this view is reasonable, in this instance, due to the delay in the accounts and audit process, there is a longer period of post balance sheet information available.
- The calculation used historical information in relation to appeals determined prior to 31 March 2019 and not the full data set available to the council. As a consequence, data sets for some appeals types are very small and may be less accurate.
- The data includes apparent duplicates or instances where the same business ratepayer has appealed on multiple grounds and we may not expect the effect to be additive.

We have estimated the effect of adjusting for these matters would be to increase the provision by £10m, of which the council's share would be £6.4m. Whilst the council's provision falls within a range of possible outcomes (taking into account variability within the historical data), as the recorded amount (a) does not take account of the analysis which the council has performed (b) their analysis ignores information subsequent to the reporting date which should have been taken into account, we have proposed an adjustment.

Other areas of judgement

Pension liability relating to the Tower Hamlets Pension Fund

Background

The Council participates in the fund it administers, as well as the Local Government Pension Scheme fund administered by the London Pension Fund Authority (LPFA). Our comments on this page deal with the much larger liability relating to the Council's own pension fund and not to the liability relating to the LPFA fund.

The Council's pension liability is affected by the McCloud legal cases in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability. The actuary has not estimated the impact on the Council's liability but we understand has advised the Council that he does not expect the impact would be significant.

Deloitte response

- We obtained a copy of the actuarial report for the Council Pension Fund produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown in the table opposite.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities.
- We performed substantive analytical procedures on movements.
- We reviewed the disclosures within the accounts against the Code.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.40%	2.36%	Centred
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.50%	2.25%	At prudent end of reasonable range
Salary increase (% p.a.) (over RPI inflation)	-1.2%	n/a	Entity specific assumption. See below

Deloitte commentary on findings to date

The Council has not adjusted the pension liability for the impact of the McCloud/Sargeant rulings, in view of the advice from its actuary that adjusting for this would not have a significant impact. The scale of impact is in particular driven by assumptions on future salary increases and the age of the membership. The salary increase assumption used to calculate the pension liability relating to the Tower Hamlets Pension Scheme is towards the lower end of what local government employers have assumed and the average age of the active membership is 52 years is comparatively high – both these factors indicating a smaller impact. We have estimated the impact to be an increase in the pension liability of £1.6m and have proposed this as an adjustment.

The lower assumed salary increase is not inconsistent with recent experience or assumptions made in the Council's Medium Term Financial Strategy and the Council has confirmed that this is their best estimate.

The plan assets used in the original actuarial calculation were determined by the actuary using information at an earlier date, rolled forward on the basis of estimated investment returns. The estimate of investment returns was optimistic. The actuary has now revised his calculations based on the actual plan assets shown in the draft pension scheme accounts. This has resulted in a reduction to the net pension liability of £15m which has been reflected in the current version of the accounts.

As set out in more detail in the separate report on the pension scheme audit, stale prices by the custodian to value one of the scheme's investment. The impact, if adjusted, would be to decrease the net pension liability on the council's balance sheet by £1.0m and we have proposed this as an adjustment.

The actuary has not allowed for an assumed risk premium in market information used to derive inflation rate assumptions. It is now common practice to adjust for an inflation risk premium. As this has not been done, the inflation assumptions are at the prudent end of the range we consider to be reasonable.

5. Use of resources

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources

Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report. We also set out in our audit planning report the two areas of significant risk identified by our risk assessment procedures performed at that point. These risks both related to the risk that matters giving rise to the previous year's qualified conclusion are also relevant to the current year. The prior year qualifications related to: an Ofsted rating of inadequate for children's services; and the council's best value improvement plan.

At the time of issue of our 2019/20 audit planning report our 2018/19 audit was ongoing. We used the report to update you on two further risks we had identified which required further evaluation to determine if they were significant risks:

- A risk relating to the council's administration of the London Borough of Tower Hamlets local government pension scheme in the light of reports which the council has needed to make to the Pensions Regulator. We have now completed that risk assessment work, including consideration of the further matters which we have recommended the council report to the Pensions Regulator and gained an understanding of the council's arrangements in relation to administration of the pension scheme. We concluded on the basis of this further risk assessment work that there was not a significant risk in respect of our value for money conclusion and therefore have not performed further work.

- We also determined that the volume and nature of misstatements identified during the audit process for the 2018/19 financial statements, as well as the time taken to investigate and resolve issues identified, represented a risk of weaknesses in financial reporting arrangements. We concluded this was a significant risk to our value for money conclusion.

We have now completed other risk assessment work, including reviewing the revised version of the 2018/19 Annual Governance Statement and internal audit reports issued as part of both the 2018/19 and 2019/20 internal audit programmes. On the basis of this further risk assessment work we have identified the following additional risk to our value for money conclusion:

- There is a risk that there is a material weakness in arrangements to manage risks effectively and maintain a sound system of internal control.

We set out information on the significant risks and our response on the following pages.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Risk title	Ofsted rating of inadequate for children's services
Risk description	In their inspection report published on 7 April 2017, Ofsted rated children's services in Tower Hamlets as "inadequate". This overall assessment incorporated inadequate ratings for the following assessment categories: children who need help and protection; and leadership, management and governance. Our predecessor concluded that these circumstances provided evidence of weaknesses in proper arrangements. There is a risk that the matters giving rise to the previous year's qualified conclusion are also relevant to the current year.
Procedures performed	We have read the original inspection report and reports from subsequent monitoring visits and discussed with the Corporate Director responsible for children's services. We have also read the Council's disclosures made about this issue in the Annual Governance Statement.
Conclusion on risk	We conclude that our VFM conclusion should be qualified in respect of this matter. This is because: • Children's services are an important and high profile service • The Council's rating from its regulator was "inadequate" during 2018/19 • Whilst it is apparent from both the Council's own internal monitoring and monitoring visits that the CQC have carried out that improvements have been made, these arrangements were not in place throughout the year and in particular the Ofsted inspection reports from the early part of 2018/19 identify some areas where there had been limited improvement.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Risk title	Financial reporting arrangements
Risk description	In our 2019/20 audit plan, we identified an additional risk in relation to financial reporting. The Council's statement of accounts has been significantly delayed and there has been a period of uncertainty over the true financial performance in 2018/19 and amount of resources available at 31 March 2019 while officers investigate and quantify potential or actual misstatements in the draft statement of accounts. The Council has recognised in its updated draft annual governance statement for 2018/19 that there significant deficiencies in controls over financial reporting. There is a risk that these matters indicate material weaknesses in financial reporting arrangements. Reliable and timely financial reporting that supports the delivery of strategic priorities is a key component of informed decision-making.
Procedures performed	We have evaluated: • the volume, size and significance of adjustments required to the original version of the statement of accounts and their cause. • the control observations made in the course of our work. • the report commissioned by the Council into the 2018/19 accounts closure and audit process.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Risk title	Financial reporting arrangements (continued)

Conclusion on risk	We conclude that our VFM conclusion should be qualified in respect of this matter. This is because:
	
	1. The length of time taken to provide information and explanations to support transactions in the accounts; to investigate issues which have arisen; and prepare amended financial statements leading to an expected delay in excess of two years for the target date for issue of our opinion of 31 July 2019.
	2. The volume, size and pervasiveness of corrections required in relation to both current and prior period information reported in the statement of accounts originally authorised for issue in May 2019, in particular correction to or prolonged uncertainty over the amount of usable reserves available to meet future spending requirements and therefore strategic objectives (or timing in recognition of these resources) (see the appendix to this document for a summary of the changes made). Of particular note are:
	• In the original accounts a reversal of a creditor was recorded in the general fund and not the collection fund. The correction of the error, together with the correction of an error in the estimate for appeals to business rates, resulted in a reduction in council revenue resources of £20m.
	• The earlier recognition of capital resources of £30m in respect of contributions from leaseholders to major works and £20m due from developers in respect of community infrastructure levy and other government grants of £7m.
	• The restatement of prior period accounts, including the restatement of PPE by £440m.
	• The Council commissioned an independent report into the accounts closure process which identified weaknesses in the accounts closure process, including weaknesses in the leadership of that process.
	• These and other weaknesses in related accounting and business processes, including the following resulted in material misstatement of the accounts and delays in the accounts and audit process:
	  • Inadequate controls in areas of significant risk of material misstatement which resulted in material misstatement including controls over journals, controls over the valuation of properties and controls over the calculation of estimates.
	  • Inadequate control reconciliation processes, in particular in relation to the reconciliation of the schools disbursement account resulting in prolonged uncertainty over the amount of schools cash balances.
	  • Inadequate VAT accounting processes resulting in the under claim for input tax of £4m.
	  • Inadequate training of staff resulting in incorrect application of the Council's accounting policies, in particular in relation to the recognition of income.
	
	We note that this has also been identified as a significant control deficiency in the council's annual governance statement. However, the wording requires updating to reflect the final position and we recommend that this is done.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Risk title	System of risk management and internal control
Risk description	• There is a risk that there is a material weakness in arrangements to manage risks effectively and maintain a sound system of internal control. This is because: ○ Whilst in respect of 2018/19, the Head of Internal Audit was able to provide reasonable assurance that the council had adequate systems of governance, risk management and internal control, the scope of that opinion was limited as the internal audit programme had not addressed IT risks or the system of risk management, pending the establishment of arrangements for the independent review of these areas. ○ There were 11 (37%) internal audit reviews where the arrangements under review were given a rating of limited assurance. ○ In 2019/20, the Head of Internal Audit was able to provide only limited assurance that the council had adequate systems of governance, risk management and internal control. The 2019/20 opinion took into account: the results of work which fell outside the scope of the opinion given in 2019/20 (including audit of IT risks and the system of risk management); audits relating to field work carried out in 2018/19 but where the report had not been finalised by the time of the Head of Internal Audit opinion in July 2019; audits selected for review in 2019/20 as part of the cyclical audit programme; and other matters which have subsequently came to light from other review or management processes, including in relation to financial reporting and pensions administration. It is likely that some or all of the weaknesses which resulted in the limited assurance opinion in 2019/20 were also present in 2018/19. ○ The annual governance statement reports on nine "significant governance issues".
Procedures performed	We have evaluated: • The significance of the subject matter and findings reported for individual audits given a limited assurance rating by internal audit (both in the 2018/19 and, where relevant, the 2019/20 internal audit programmes) • The significance of governance issues reported in the annual governance statement • Considered other matters, including progress on past recommendations and the resourcing and scope of the internal audit programme.
Conclusion on risk	We conclude that our VFM conclusion should be qualified in respect of this matter. This is because: • whilst the council has designed and implemented risk management arrangements these are not operating effectively; and • the internal audit programme and annual governance statement process has identified a significant number of governance issues and internal control deficiencies in areas which are significant either quantitatively or where the council is exposed to material reputational damage. Some aspects of governance arrangements were not included in the scope of the internal audit programme due to resource constraints.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Risk title	Best value improvement plan
Risk description	During 2017/18, the Council was subject to Directions issued by the Secretary of State which required the Council to set up a Best Value Improvement Board; submit quarterly progress reports on the Best Value Improvement Plan to the Secretary of State; and set up an independent review of the achievement of the Best Value Improvement Plan with a report to be provided to the Secretary of State by 1 August 2018. Our predecessor noted that not all actions were confirmed as completed or on track and anticipated that the impact of the work would not yet be embedded and concluded that these circumstances provided evidence of weaknesses in proper arrangements. There is a risk that the matters giving rise to the previous year's qualified conclusion are also relevant to the current year.
Procedures performed	During 2018/19, the Council completed the actions specified in Directions. On the basis of the peer challenge review submitted to the Secretary of State, the Directions were lifted. Our conclusion is given in respect of arrangements throughout the year and not just at the year end. We have reviewed the peer challenge review report and considered the scope and findings. We have also considered the significance of issues open at the start of the year and the timeline for their closure during the year.
Conclusion on risk	The areas of concern in the original PwC report do not involve individually significant areas of financial spend or key services but raised important questions about governance which are relevant to the sub criterion of "Acting in the public interest, through demonstrating and applying the principles and values of sound governance". These were developed further around this same theme within the Best Value Improvement Plan. It is apparent that in the specific areas covered by the original PwC investigation, and the Best Value Improvement Plan, that the Council has made significant progress in earlier years, resulting in the end of the intervention and the return in 2017/18 of the Council's functions (which had been carried out since 2015 by special commissioners). Whilst we recognise that a number of the actions were not complete at 1 April 2018, these were not individually significant to our conclusion or in aggregate. The LGA peer review (carried out in the first quarter of 2018/19) concluded satisfactorily on each of these areas and, of more significance, concluded there had been a significant improvement in the culture of the organisation. We have therefore concluded that these circumstances do not provide evidence that the Council does not have proper arrangements in 2018/19. The peer review identified other issues, which in part reflect the need to scale back the Council's "belt and braces" response to the original PwC investigation and subsequent intervention (including retention of decision making at a senior level to enable more agile decision-making), together with new issues raised by the Peer Challenge team, including development of IT. The Council has agreed an action plan to address the issues raised by the review (including a review of the scheme of delegation and wider constitution) which are being monitored by a member committee set up for this purpose and has earmarked reserves to support the IT development. Therefore we have not identified these matters as significant weaknesses in arrangements relevant to our conclusion.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Conclusion

We expect that our conclusion will be qualified on an "except for" (and not "adverse") basis in respect of three matters:

- As reported in our July 2019 report to the audit committee, our report will be qualified in respect of children's services as Ofsted's 2018 report and subsequent monitoring reports provide evidence (notwithstanding the improvement trajectory, subsequently confirmed in their re-inspection report) that proper arrangements to secure to secure economy, efficiency and effectiveness in the use of resources were not in place throughout the whole of the period covered by our conclusion.
- Financial reporting arrangements in view of the volume and size of changes required to the original version of the statement of accounts and time taken to resolve issues identified.
- Risk management and the system of internal control in view of weaknesses identified in the operating effectiveness of the system of risk management and the number and significance of issues identified in the system of internal control.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

The expected form of our conclusion is as follows:

Basis for qualified conclusion

The finalisation and publication of the council's statement of accounts for the year ended 31 March 2019 has been significantly delayed from the original target date of 31 July 2019. This is due to the time needed to investigate issues identified during the audit process and to prepare amended accounts. The Council's investigation of these matters resulted in a period of prolonged uncertainty over the amount and timing of recognition of usable reserves available to meet future spending requirements and the council's strategic objectives and a significant volume of corrections to the originally published draft statement of accounts which had the effect of increasing usable reserves at 31 March 2019 by £42m, unusable reserves by £58m, assets by £128m and liabilities by £28m.

These conditions provide evidence that the Council did not have proper arrangements in place for reliable and timely financial reporting that supports the delivery of strategic priorities to support informed decision making.

In the Annual Governance Statement, the Council has reported on significant governance issues identified from its annual review of effectiveness. The Annual Governance Statement reports that internal audit are under resourced and the Head of Internal Audit has reported there that he has limited the scope of his annual opinion on the system of internal control as he has not been able to consider IT risks. The Head of Internal Audit was not able to report on the Council's system of risk management in 2018/19 pending the establishment of independent review arrangements for this and in 2019/20 has reported he can provide only limited assurance on its operating effectiveness. The Head of Internal Audit was able to provide only limited assurance in relation to 37% of the areas included in the 2018/19 internal audit programme. In three cases these related to follow-up reports where recommendations from the original report had not been satisfactorily actioned.

These conditions provide evidence that the Council did not have proper arrangements in place to manage risks effectively and maintain a sound system of internal control.

An Ofsted inspection of the Council's services for children in need of help and protection, children looked after and care leavers undertaken in January and February 2017, which reported in April 2017, rated childrens services, overall, as inadequate. The inspection also reviewed the effectiveness of the Local Safeguarding Children Board ("LCSB") and rated this as inadequate. The Ofsted report raised concerns in relation to poor frontline practice and non-compliance with basic standards (including legal requirements) which in some cases left children at risk of harm. The report also highlighted that there was insufficient scrutiny by senior leaders and non-compliance was not sufficiently challenged. In addition, performance management and quality assurance systems were not underpinned by reliable management information due to social workers and managers not updating records on the electronic recording system. The LSCB in Tower Hamlets was judged to be inadequate, as it was not discharging all of its statutory functions. The report concluded that there was insufficient monitoring of the quality of frontline practice which meant that the board was not aware of the failings to protect children reported on in the review. The Annual Governance Statement describes improvements which the Council has made in response to these findings. These improvements were not in place over the full year.

These conditions provide evidence that the Council did not have proper arrangements in place throughout the year to understand and use appropriate and reliable performance information to support informed decision making and performance management; manage risks effectively and maintain a sound system of internal control; and work with third parties effectively to deliver strategic priorities.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Qualified conclusion
On the basis of our work, having regard to the guidance issued by the C&AG in November 2017, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, the London Borough of Tower Hamlets put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

6. Control observations

Control observations

During the course of our audit, we have identified a number of internal control findings. We have set out below the high priority findings which represent significant control deficiencies. In some instances, this repeats information previously reported but we have included here in order to give a complete picture in this report of our key findings from the audit.

Area	Observation and recommendation
Quality of draft financial statements	**Observation** The initial draft statement of accounts which were published for public inspection and presented for audit were not of the expected standard. Issues noted included: • Narrative report not compliant with Code guidance • Inconsistencies between primary statements and notes in the financial statements; • Inconsistencies between notes in the financial statements • Accounting policies not updated for the adoption of IFRS 9 and IFRS 15 • Accounts disclosures not updated for the adoption of IFRS 9 • Accounts disclosures not updated for the adoption of IFRS 15 • Accounts disclosures not updated for 2018/19 changes in the Code including in respect of the reconciliation of financial liabilities • Cash flow statement notes which were incomplete • Omission of disclosures required by the Code (a disclosure checklist was completed but did not identify all of the disclosure omissions). Together these indicate significant deficiencies in the financial reporting and close process. **Recommendation** We recommend the Council reviews the year-end reporting and close process, including: • preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Council; • documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts; • Line-by-line review of the completed CIPFA disclosure checklist by a second officer; • documented and reviewed internal checks of internal consistency; • completion of the CIPFA "pre-audit checks on draft year-end accounts" checklist; and • documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers.

Control observations (continued)

Area	Observation and recommendation
Preparation of accounting papers	**Observation** Accounting papers were not prepared to explain and support key judgements and estimates, including the ongoing pertinence of judgements made in previous years or were not sufficiently detailed to explain and support those judgements and estimates. It is good practice (and the expectation of the Financial Reporting Council) for organisations to prepare accounting papers in respect of key matters in the application of accounting standards, in particular for matters of judgement or of estimation complexity. Typically these would include consideration of the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts etc.), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures. The preparation of accounting papers both supports accurate financial reporting, including facilitating both internal and external review and challenge, and provides a resource to ensure institutional knowledge in the organisation. **Recommendation** We recommend the Council adopts an approach of preparing papers for any key accounting judgements or issues arising. We also recommend that accounting papers are presented to the same meeting of the audit committee at which the draft statement of accounts are approved (if not earlier) for scrutiny and to inform the audit committee's approval of the draft statement of accounts
Accounts closure resourcing and processes	**Observation** Very few of the requested documents were provided at the start of our original audit visit. We needed to request the finance team to follow-up on a number of items provided as breakdowns did not tie to the trial balance, were not in the level of detail requested, or it was not clear how the working papers provided related to the request. Subsequent requests for information have not been turned around on an acceptable timescale. The accounts closure plan allocated preparer and reviewer to each task, including control account reconciliations. In a number instances the same individual was allocated as both preparer and reviewer for a particular task. Errors, for example in the accounting for community infrastructure levy, the recognition of grant income an contributions from leaseholders to major works, the preparation of school bank reconciliations and cut-off of capital expenditure between periods provide evidence that officers did not have a full understanding of the tasks assigned to them. **Recommendation** We recommend that the Council considers the resourcing of the closure process, the assignment of tasks and the training needs of those involved in the process. We also recommend the Council considers whether there are year end processes which can be streamlined or pulled forward to earlier in the year.

Control observations (continued)

Area	Observation
New accounting standards – IFRS 9 and 15	**Observation** Whilst we understand that officers discussed the impact of adoption of the new standards during the closure process, they did not prepare accounting papers on the transition to IFRS 9 and 15. The initial draft accounts were not updated for changes in disclosure requirements from IFRS 9 and 15. The recognition of leaseholder contributions to major works was not in accordance with IFRS 15 and required adjustment. **Recommendation** We recommend that the Council prepares a clear project plan for the implementation of new or changed accounting guidance. We recommend that accounting papers are prepared to record officers' the rationale in areas of judgement and these are subject to a management review process.
Reconciliation of general ledger control accounts and segregation of duties	**Observation** General ledger control accounts were not reconciled in a number of instances and reconciling differences adequately resolved. This resulted in various misstatements. This included the control accounts for schools bank accounts; corporate bank accounts; utility costs; and grant control accounts. **Recommendation** We recommend: • Responsibility for each control account is assigned to a named preparer and reviewer (with those roles allocated to different officers) • The frequency and timescale for preparation and review of reconciliations is set down in written instructions to staff • A monitoring arrangement is designed to ensure reconciliations are carried out and reviewed in accordance with instructions and any exceptions reported to senior management for action.
Elimination of internal recharges	Internal recharges should be eliminated from the presentation of income and expenditure in the Comprehensive Income and Expenditure Statement. The process of doing this is complicated because the coding structure adopted does not enable the finance team to readily identify postings within income and expenditure. Our testing identified charges of £47m which had not been fully netted down. We recommend that the coding structure is amended to facilitate elimination of internal recharges in the Comprehensive Income and Expenditure Statement and to readily demonstrate that this has been done in full.

Control observations (continued)

Area	Observation
Valuation of properties	**Observation** The valuation of properties is dependent on officers' assumptions (or input from officers in forming assumptions) including the location and functional obsolescence of the existing properties and information provided by officers, including the number, type and condition of council dwellings and the floor space of schools. A paper was not prepared and reviewed setting out assumptions made (or information provided to the valuer to inform their formation of assumptions). There are also no formal controls operating to ensure the completeness and accuracy of other information provided to the valuer. We have not been provided with information about the Council's review of the reasonableness of the outcome of the valuation in 2018/19. **Recommendation** We recommend the Council prepares and maintains a schedule which sets out the information which is provided to the valuer (including management assumptions and information provided to the valuer to inform assumptions made by the valuer) and identifies the controls over each category of information. We recommend the Council design and document their review of the outcome of the valuation.
Classification of expenditure as capital	**Observation** We were not able to identify a documented internal control to prevent or detect the incorrect classification of revenue spend as capital. Whilst we did not identify any exceptions, the classification of expenditure between revenue and capital can involve the exercise of judgement. Projects which are of a capital nature can involve both revenue and capital elements which need to be accounted for differently. **Recommendation** We therefore recommend the Council implements such a control.

Control observations (continued)

Area	Observation
Journals	**Observation** Journals either pass through workflow approval process or are processed through a separate "bulk upload" process. The latter are principally posted to the general ledger system by officers in the Operations team based on requests submitted by other teams in finance. Checks are performed by the Operations team to confirm that journals have been accurately entered to the general ledger system in accordance with the submitted request, but the scope of these checks does not include confirming that the journal is for a valid business and accounting reason and that the values and proposed entries are accurate. The Operations team does not hold a list of individuals authorised to submit a journal request and are not required to see evidence that the journal has been approved by a second officer. Journals may therefore be posted by the Operations team which have not been subject to review and approval within the originating team. Individual teams may have established their own working practices relating to the approval of journals, but as the Council has not communicated common standards to be applied, arrangements for the approval of journals and controls to ensure compliance with those standards, if any, will not be consistent across teams. As standard documentation for journal requests is not required, a record of who has prepared and who has approved the journal request is not consistently maintained and in practice it has not been possible to determine in all cases whether the journal has been approved and who has prepared and who has approved the journal before submission to the Operations team. As a result it is not possible in all cases to determine whether, in practice, there has been appropriate segregation of duties or whether the journal has been approved by an officer who is authorised to do so. A small number of officers have been given access to raise this journal type within the Chief Accountant's team. There are no controls to prevent or detect the posting of journals by these individuals which have not been approved by a second officer who is authorised to do so. **Recommendation** Re-visit which journal types and amounts can be posted without approval by a second officer and implement controls which prevent or detect the posting of journals which have not been approved in accordance with those agreed arrangements.

Control observations (continued)

Area	Observation
Recognition of grants and contributions	**Observation** Errors were identified in the recognition of grants and contributions. The appropriate recognition of grants and contributions depends on the identification of conditions within the grant agreement. Correctly distinguishing between conditions and restrictions can involve judgement. **Recommendation** We recommend: • grant agreements are reviewed on notification of entitlement and a preliminary assessment made of whether there are conditions attached to the grant. This assessment is documented and subject to review by a second officer. • The decision is reflected in the type of general ledger code set-up to record the grant. • For grants or contributions involving conditions, a working paper is prepared showing the calculation of the amount to be recognised and which is subject to review by a second officer.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

7. Purpose of our report and responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes the results of our work on key audit judgements and other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Jonathan Gooding

for and on behalf of Deloitte LLP

St Albans

17 January 2022

Appendices

Appendix A: Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). We have shown in separate tables (A) those which management do not propose to correct in the final version and (B) those misstatements which management have agreed will be corrected in the final version of the statement of accounts

A. Misstatements which management do not propose to correct

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Debit/ (credit) OCI/Equity £m
Misstatements identified in current year					
Impact of McCloud/Sargeant rulings	[1]	1.6	(1.6)	-	-
Impact of stale prices in pension assets	[2]	(1.0)	1.0		
Major works provision in excess of requirement	[3]	(2.0)	2.0	-	-
NNDR appeals provision	[4]	6.4	(6.4)	-	-
Total		**5.0**	**(5.0)**	**-**	**-**

[1] As explained on page 30, the pension liability does not take into account the impact of the McCloud/Sargeant rulings

[2] Stale prices have been used by a custodian to value one of the pension scheme's assets

[3] The council has not provided evidence for the level of provision in the light of the leverage it has to refuse to approve assignment of leases and the absence of historical experience of bad debt expense at this level. We have proposed a judgemental adjustment to reduce the provision by £2m.

[4] As explained on page 29, the NNDR appeals provision does not take into account information received after the reporting date which is relevant to the circumstances at the reporting date.

Appendix A: Audit adjustments

Unadjusted misstatements (continued)

B. Misstatements which management have agreed will be corrected in the final version of the statement of accounts

We have shown these separately from the previous table as officers have confirmed these misstatements will be corrected in the final version of the statement of accounts unlike misstatements in the previous table which will remain uncorrected.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Debit/ (credit) OCI/Equity £m
Misstatements identified in current year					
Overdraft incorrectly set off against deposit amounts (£23.2m)	[1]	-	-	-	-
Investments incorrectly analysed between short and long term investments	[2]	-	-	-	-
Total		**-**	**-**	**-**	**-**

[1] The Council has set off a bank account in an overdraft position (£23.5m) against deposit amount where it does not have a legally enforceable right of set-off. There are similar presentational errors at 31 March 2018 (£26.2m) and 31 March 2017 (£28.0m). Further information on this is included in Appendix D.

[2] Investments are not analysed correctly between short and long term (i.e. current and non-current) investments. Further information is given in Appendix D. The adjustments required at respective reporting dates are:

At 1 April 2017 - £30m from short term to long term investments

At 31 March 2018 - £57m from short term to long term investments

At 31 March 2019 - £12m from long term to short term investments

Appendix A: Audit adjustments

Misstatements corrected in the 19 October 2021 version of the statement of accounts

In the version of the accounts published in draft on the council's website on 19 October 2021, officers have corrected for various misstatements identified over the course of the audit. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control. The analysis includes only the more significant reclassification adjustments and does not include prior period restatements.

	Debit/ (credit) in net assets £m	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) total comprehensive income £m	Reference to further information
Removal of Millennium Project asset	(22.6)	22.6	-	Page 28
Removal of other assets owned by KGVFT	(9.2)	9.2	-	Page 28
Recognise cottages previously omitted from fixed asset register	4.7	(4.7)	-	
Remove duplicated assets	(2.6)	2.6	-	April 2021 report
Correct schools valuations	117.9	(158.7)	40.8	Pages 10-11
Reverse charge and capitalisation of notional planning contribution regarding new Town Hall	(0.7)	-	0.7	
Revision of useful economic lives of infrastructure assets	(4.5)	-	4.5	April 2021 report
Correction of early cut-off error on capital expenditure	3.4	-	(3.4)	
Valuation of temporary accommodation held at cost in original version of accounts	(11.1)	-	11.1	Note 1
Reclassification of assets from other land and buildings to surplus assets change in valuation basis	12.2	(10.4)	(1.8)	April 2021 report
Other reclassifications between PPE categories including temporary accommodation of £24.5m from other land and buildings to assets under construction	-	-	-	April 2021 report
Correct recognition of leaseholder income	31.8	(26.2)	(5.6)	April 2021 report
Correct recognition of community infrastructure levy	19.8	(11.9)	(7.9)	April 2021 report
Reverse accrued income in respect of contribution from NHS entity and release related provision (£3.0m)	-	-	-	Page 13

Appendix A: Audit adjustments

Corrected misstatements (continued)

	Debit/ (credit) in net assets £m	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) total comprehensive income £m	Reference to further information
Write-off balances on utility accounts which had not been reconciled and cleared down	(1.1)	-	1.1	Note 2
Adjust housing benefit overpayments bad debt provision	4.2	-	(4.2)	Page 78
Correct entries relating to Council Tax collection costs	3.1	-	(3.1)	Note 3
Correct recognition of developer contributions	-	-		Note 4
Correct errors in grant control accounts and recognition	2.8	(4.8)	(2.0)	April 2021 report*
Correct omission of liability for past discretionary awards to teachers	(9.4)	9.4	-	April 2021 report*
Adjust developer contributions to agree to tracking schedule and remove interest accrual made in error	0.5	-	(0.5)	Note 5
Adjust plan assets in calculation of pension liability from estimate to actual	15.3	-	(15.3)	April 2021 report
Increase in NNDR appeals provision	(12.8)	-	12.8	Page 29
Recognise provision for reimbursement of water charges (included as a contingent liability in the original version of the accounts)	(9.0)	-	9.0	Note 6
Release provision where no present obligation	2.6	-	(2.6)	Note 7
Eliminate internal income and expenditure (£47m)	-	-	-	April 2021 report

* Where relevant, the amounts referred to in our April 2021 have been updated for changes made in finalising the adjustment.

[1] The Council purchased residential accommodation during 2018/19 for provision as temporary housing. The properties are required to be carried at current value after initial recognition but were not included in the list of properties given to the valuer for valuation. Some of the properties were not in a condition where they could be used without works to the properties which were ongoing at the reporting date. These properties have been reclassified from other land and buildings to assets under construction and did not require valuation under the accounting rules for that class.

[2] The Council maintains control accounts for utility bills which require allocation to relevant cost centres (and in a small number of cases, other entities which occupying Council premises). The control accounts had not been correctly maintained and as a result costs had not been expensed or had not been billed to third parties and had become irrecoverable.

[3] Council Tax collection costs receivable were not recognised on the balance sheet due to an oversight, but were included in the calculation of a bad debt provision against both Council Tax and collection cost arrears.

Appendix A: Audit adjustments

Corrected misstatements (continued)

[4] Our sample testing identified developer contributions which had been deferred but where the agreement did not contain conditions preventing recognition. Officers performed a review and identified similar amounts which had been deferred at both 31 March 2019 and earlier reporting dates and have adjusted all periods presented for this misstatement.

[5] This corrects (a) a difference between the control account and the subsidiary records by developer agreement (b) removes interest which had been accrued on outstanding balances as the agreements did not contain an obligation on the Council to maintain the value of the contribution in real terms.

[6] The original version of the accounts included a disclosure of a contingent liability relating to possible claims for re-imbursement of water charges. We challenged the Council on whether settlement was now probable following the outcome of a test case. Officers concluded that settlement was now probable and have recognised a provision. As the test case was not decided until after the approval of the 2017/18 financial statements, prior years have not been restated.

[7] This adjustment relates to a corporate provision for which no support could be provided (£0.7m) and a provision relating to the cost of restoring one of the Council's properties damaged within a fire (£1.9m) such that there is no obligation on the Council.

Appendix A: Audit adjustments

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). We have shown in separate tables (A) those which management do not propose to correct in the final version (B) those disclosure misstatements which management have agreed will be corrected in the final version of the statement of accounts.

A. Disclosure misstatements which management do not propose to correct

Disclosure
Dedicated schools grant comparatives The comparative information in the dedicated schools grant disclosure has apparent errors as it shows no grant and no expenditure allocated to central expenditure. The amount of grant for 2018/19 which has been allocated to central expenditure is £83.2m.
Calculation of Council Tax base (note 1 to the Collection Fund) The note wrongly describes the first column for each period as the number of dwellings and not the number of chargeable dwellings and there is not a footnote to explain that the comparative information has been restated to put on this different basis.
Conclusion on Annual Governance Statement The annual governance statement concludes "We are satisfied that the Council has adequate governance arrangements in place", albeit later in the paragraph concludes that there are areas for improvement. This is somewhat at odds with the number of governance issues which the council has described as significant in its statement and our expected qualified value for money conclusion. We propose the wording is amended, for example to say: "We are satisfied that the Council generally has adequate governance arrangements in place, but we acknowledge that there are areas where we must improve (as set out on pages 148 to 152), particularly in relation to the Council's statement of accounts and spending". The council is considering what changes if any to make and we will conclude on this point when this is done.
Inconsistencies between the Comprehensive Income and Expenditure Statement and Note 41, Income and Expenditure analysed by nature There are differences between income and expenditure on services per CIES and the amounts shown in Note 41, Income and Expenditure analysed by Nature. Gross income from services and gross expenditure on services using information extracted from the Note 41 is £2647k higher than the amount shown in the CIES. We are not able to determine whether the CIES or Note 41 requires correction.

Appendix A: Audit adjustments

Disclosures

Disclosure misstatements

Disclosure
Note 41, Income and Expenditure analysed by nature – comparative information Note 41, Income and Expenditure analysed by nature has been restated for the correction of errors which impact on income and expenditure (as discussed in section 4) and to put on a comparable basis to the analysis in the current year. There are differences between income and expenditure on services per the restated CIES and the amounts shown in the restated Note 41, Income and Expenditure analysed by Nature. Gross income from services and gross expenditure on services using information extracted from the Note 41 is £14355k higher than the amount shown in the CIES. We are not able to determine whether the CIES or Note 41 requires correction. We have not been provided with an audit trail between the restated information and accounting records. We have also not been able to obtain a full reconciliation between the originally stated amounts in Note 41 and the restated amounts. There are differences in a partial reconciliation performed as follows: Employee benefits expenses - £1m; Other service expenses - £16m; Depreciation, amortisation and impairment £32m; Fees, charges and other service income - £27m; Government grants and contributions - £12m. The amount shown in Note 41 in respect of Depreciation, amortisation and impairment is £57m different to the amount shown in Note 14, Property, Plant and Equipment. We are currently evaluating the significance of this point and request that officers investigate the internal inconsistency on Depreciation, amortisation and impairment further.

Appendix A: Audit adjustments

Disclosures

Disclosure misstatements

B. Misstatements which management have agreed will be corrected in the final version of the statement of accounts
We have shown these separately from the previous table as officers have confirmed these misstatements will be corrected in the final version of the statement of accounts unlike misstatements in the previous table which will remain uncorrected.

Disclosure
Narrative report The narrative report has not been updated for significant events subsequent to the year end and, in particular, makes no reference to the pandemic or to changes made to the council's medium term financial strategy in its latest iteration.
Components of cash and cash equivalents Note 19, Cash and cash equivalents discloses components of cash and cash equivalents. The line item "Short term deposits with banks and building societies" is not accurately described as it also includes money market funds and amounts on deposit with other local authorities. Also, within the note, overdrafts have been offset against deposits and as a result the note does not readily show how amounts tie through to the balance sheet where these amounts have not been offset.
Classification of rechargeable works deposits within short term creditors Amounts received on account from individuals and businesses for rechargeable works are classified in Short-term creditors - Other entities and individuals. These represent contract liabilities and should be classified in Short term creditors - receipts in advance. The balance at 31 March 2019 and 31 March 2018 were £12.5m and £10.9m, respectively.
Restatement of comparatives in respect of academy conversions Entries to the Note 2, Restated Accounting Statements have been misclassified between restatements relating to PPE valuations and restatements relating to academy conversions: a restatement to other comprehensive income of £12.6m in 2017/18 should be reclassified from the academy conversions column to the PPE revaluation column; a restatement to PPE and reserves (capital adjustment account and revaluation reserve) in the academy conversions column and an equal and opposite adjustment made to entries in the PPE valuation column. Linked to this, in the comparative information in the Comprehensive Income and Expenditure Statement, other operating expenditure (loss on disposal of non current assets) should be reduced by £3.7m with an equal and opposite adjustment to Gross expenditure on Childrens' Services, with corresponding adjustments made to the restatements in Note 2.
Auditors' remuneration The disclosure differs to our records. Further information is included in page 69.

Appendix A: Audit adjustments

Disclosures

Disclosure misstatements

Disclosure
The impact of accounting changes required by new standards that have been issued, but not yet adopted The council is required to disclose the impact of accounting changes required by new standards that have been issued, but not yet adopted. The council has provided the following commentary in relation to IFRS 16 Leases: "This standard will require the Council to recognise more leases where they are the lessor on balance sheet with the corresponding liability for lease payments". It is not clear what is meant by "recognising more leases" or why the council anticipates a change in this area as the requirements in IFRS 16 in relation to lessor accounting are similar to those in IAS 17. It is also not clear what is meant in the context of lessor accounting by the reference to a corresponding liability for lease payments.
Cash flow statement and associated notes The cash flow statement and associated notes contain various misstatements which are summarized on the next page.
Narrative report – consistency with the financial statements There are a small number of instances where information in the narrative report had not been updated for changes made to the financial statements or where descriptions in the narrative report were inconsistent with those used in the financial statements or were otherwise unclear. • The narrative report includes PIE charts showing an analysis of revenue by funding source and an analysis of gross revenue expenditure. The description of amounts in the PIE chart should be more precise as follows: the PIE chart on gross revenue expenditure appears to be only expenditure on services but this is not made clear; it is not clear what "housing rents" is intended to include. • Also, in these charts, the other grant funding amount shown in the PIE chart is not in agreement with information in Note 36, Grant Income which shows £208.1m. As a result, the total gross income shown in the PIE chart of £1,156.4m is not in agreement with the total income in Note 41, Income and Expenditure Analysed by Nature which shows £1,244.1m. • The narrative report describes plan assets as increasing by over £78 million over the last year. The increase in plan assets shown in Note 40, Pension scheme, is £68m. • The narrative report includes the following commentary on the housing revenue account: "The HRA account previously showed a surplus of £6.2 million, but this has been amended by creating provisions of £9.2m for water rates charging and housing disrepairs claims, giving a deficit of 3.0m". The reference back to earlier versions of the draft financial statements is likely to be confusing for users of the accounts.

Appendix A: Audit adjustments

Disclosures

Disclosure misstatements – cash flow statement and related notes

	As currently stated	Proposed adjustment	Revised amount
	£000	£000	£000
CHANGES TO THE CASH FLOW STATEMENT:			
Cash flows from operating activities	2,705	(8,263)	(5,558)
Cash flows from investing activities	(40,603)	31,115	(9,488)
Cash flows from financing activities	1,436	(22,852)	(21,416)
CHANGES TO THE NOTES TO THE CASH FLOW STATEMENT:			
The cash flows for operating activities include the following items:			
Interest received	4,259	1,098	5,357
Interest paid	(27,917)	17,920	(9,997)
The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:			
Increase/Decrease in Creditors	2,517	(2,255)	262
Increase/Decrease in Debtors	(36,734)	7,449	(29,285)
Other non-cash items charged to the net surplus or deficit on the provision of services	16,103	(173)	15,930
The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:			
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	35,684	(35,684)	-
Any other items for which the cash effects are investing or financing cash flows	(59,215)	22,400	(36,815)
Cash flows - investing activities			
Purchase of property, plant and equipment, investment property and intangible assets	(117,509)	3,849	(113,660)
Purchase of short-term and long-term investments	(429,949)	137,949	(292,000)
Other payments for investing activities	(705)	73	(632)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	19,047	4,382	23,429
Proceeds from short-term and long-term investments	422,693	(101,693)	321,000
Other receipts from investing activities	65,820	(13,445)	52,375
Cash flows - financing activities			50,000
Cash receipts of short- and long-term borrowing	55,403	(5,403)	9,522
Billing Authorities - Council Tax and NNDR adjustments	14,824	(5,302)	(2,417)
Repayments of short- and long-term borrowing	(66,374)	(12,147)	(78,521)

Appendix A: Audit adjustments

Disclosures

Other disclosure recommendations

Although the omission of the following disclosures does not materially impact the financial statements, we are drawing the omitted disclosures to your attention because we believe it would improve the financial statements to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

Disclosure
Expenditure and funding analysis The Council is required to provide a reconciliation of the adjustments between the Council's financial performance under the funding position and the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement, with a note that describes all material reconciling items. [Code 3.4.2.100]. The Council has included adjustments to net cost of services of £91.1m and other income and expenditure of £95.5m which has not been disaggregated further.
Movements on Property, Plant and Equipment Properties acquired in the year for the provision of temporary accommodation have been included in additions to other land and buildings. Where properties were not ready to bring into use, these have been reclassified to assets under construction, shown on a separate reclassification line. The value of properties which were no ready for use should have been included in additions to assets under construction and not other land and buildings and a transfer to from assets under construction to other land and buildings recorded, once the properties were ready for use.
Movements on provisions The analysis of movements on provisions should distinguish between amounts used and unused amounts reversed in the year. The disclosure does not distinguish between these amounts and discloses instead the aggregate of these two amounts [Code: 8.2.4.2].
Disclosures relating to the transition to IFRS 9 The Council has disclosed for each class of financial assets and financial liabilities the original measurement category and carrying amount determined in accordance with the Code's adoption of IAS 39 as at 1 April 2018, but has not disclosed the new measurement category and carrying amount determined in accordance with the Code's adoption of IFRS 9 [Code: 7.4.3.16].

Appendix A: Audit adjustments

Disclosures

Other disclosure recommendations

Disclosure
Expenditure and funding analysis The Council is required to provide a reconciliation of the adjustments between the Council's financial performance under the funding position and the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement, with a note that describes all material reconciling items. [Code 3.4.2.100]. The Council has included adjustments to net cost of services of £91.1m and other income and expenditure of £95.5m which has not been disaggregated further.
Movements on Property, Plant and Equipment Properties acquired in the year for the provision of temporary accommodation have been included in additions to other land and buildings. Where properties were not ready to bring into use, these have been reclassified to assets under construction, shown on a separate reclassification line. The value of properties which were no ready for use should have been included in additions to assets under construction and not other land and buildings and a transfer to from assets under construction to other land and buildings recorded, once the properties were ready for use.
Movements on provisions The analysis of movements on provisions should distinguish between amounts used and unused amounts reversed in the year. The disclosure does not distinguish between these amounts and discloses instead the aggregate of these two amounts [Code: 8.2.4.2].
Disclosures relating to the transition to IFRS 9 The Council has disclosed for each class of financial assets and financial liabilities the original measurement category and carrying amount determined in accordance with the Code's adoption of IAS 39 as at 1 April 2018, but has not disclosed the new measurement category and carrying amount determined in accordance with the Code's adoption of IFRS 9 [Code: 7.4.3.16].
Revenue from contracts with service recipients Revenue recognised from contracts with service recipients has not been disclosed separately from its other sources of revenue [Code: 2.7.4.5] and the amount has not been disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors [Code 2.7.4.6]. Impairment losses recognised on receivables arising from contracts with service recipients have similarly not been disclosed separately from impairment losses from other contracts [Code: 2.7.4.5] The opening and closing balances on receivables, contract assets and contract liabilities from contracts with service recipients has not been separately disclosed, together with disclosures related to these account balances [Code: 2.7.4.8]. The Council has not made any disclosures about the transition to IFRS 15 Revenue from Contracts with Customers [Code: 2.7.4.20].

Appendix A: Audit adjustments

Disclosures

Other disclosure deficiencies

We also report to you the following further disclosure omissions which management have agreed will be included in the final version of the statement of accounts. We have shown these separately from the previous table as officers have confirmed these misstatements will be corrected in the final version of the statement of accounts unlike misstatements in the previous table which will remain uncorrected.

Disclosure
Disclosures on critical accounting judgements The disclosure on key sources of estimation uncertainty provides a generic explanation, but does not provide further detail, for example, the sensitivity of the valuation of schools land to the assumption on land prices and how the Council has changed its estimate for this in 2018/19 [Code 3.4.2.91 and Code 3.3.4].
Prior period errors Where a material prior period error is corrected, the Code requires disclosure of the nature of the error. This has not been done in relation to corrections made to disclosures including those relating to the remuneration of higher paid officers and the maturity analysis for liabilities [Code 3.3.4.5].
Disclosure of comparative information Comparative information in respect of the preceding period is required to be disclosed for all amounts reported in the financial statements, except when the Code permits or requires otherwise [Code 3.4.2.30]. This has not been given for the following disclosures where the Code does not permit or require otherwise: Material items of income and expenditure; capital commitments; fair value hierarchy table; related parties (amounts due to or from related parties at 31 March 2018); and disclosures in relation to PFI and similar contracts.
Reclassification and other changes to comparative amounts Where comparative amounts are reclassified, the nature of the reclassification, The amount of each item or class of items that is reclassified and the reason for the reclassification. The Council has made changes to the note lines in the short-term debtors and short-term creditors notes. Items have been reclassified to new note lines, between note lines and between short term debtors and short-term creditors. The council has also made changes to notes including the financial liability maturity note, officer remuneration and an adjustment in the PPE note to "zero" depreciation on revaluation of assets. No disclosure has been made around these changes [Code 3.4.2.31].
Governance issues The Code requires issues around governance arrangements during the year have been highlighted in the Narrative Report. This may be done by cross reference to the Annual Governance Statement to avoid duplication [Code: 3.1.1.7].

Appendix A: Audit adjustments

Disclosures

Disclosure
Events after the reporting period The statement of accounts must give the date the financial statements were authorised for issue and who gave that authorisation. This has not been done. This wording and the date is typically entered at the foot of the balance sheet. The accounts should also disclose whether the statements were amended following audit. This has also not been done. [Code: 23.8.4.1]
Fair value measurements The Council is required to disclose for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised. The Council is required to do the same for assets and liabilities not measured at fair value in the balance sheet but for which fair value is disclosed. The Council has taken an exemption from the requirement to determine fair values for certain assets where officers have assessed that the carrying amount is a reasonable approximation of fair value (e.g. short term debtors). These assets have been included in the table on fair values of financial assets and financial liabilities as if fair values had been determined. The Council has also incorrectly included in the fair value hierarchy table (and classified within the fair value hierarchy) assets and liabilities such assets and liabilities. The Council has not included pooled investment in the table which are measured at fair value. The table is incorrectly limited to disclosures on financial assets and liabilities and does not therefore include information on surplus assets as these are non-financial assets. The table classifies assets and liabilities in the fair value hierarchy but does not provide a description of the valuation technique and the inputs used in the fair value measurement. [Code: 2.10.4.1].
Disclosure of material items The Code requires that when items of income or expense are material, an authority shall disclose their nature and amount separately. Examples include: a) disposals of items of property, plant and equipment b) disposals of investments, and c) other reversals of provisions [Code 3.4.2.52]. In Note 6, Material items of income and expenditure, the Council has disclosed an early termination premium of £17.9m, but has not disclosed there larger items including gains and losses on non-current assets included in net cost of services. Comparative information has not been disclosed.

Appendix A: Audit adjustments

Disclosures

Disclosure
Valuation arrangements for council dwellings Where items of property, plant and equipment are stated at revalued amounts, the Council is required to disclose the effective date of the revaluation and whether an in-house or external valuer was involved. The accounts do not disclose the effective date for the valuation council dwellings or disclose that the valuation these assets was updated by in-house staff using information on market changes advised by the Council's valuer [Code: 4.1.4.3, 4.6.4.3].
PFI and similar contracts The Code requires disclosure of rights and obligations for each arrangement or class of arrangement [Code: 4.3.4.4]. This has not been done.
Past due or impaired assets Disclosures by class of debtor for past due or impaired assets are required to be made in relation to non-financial assets (e.g. council tax and non-domestic rate debtors) [Code: 5.2.4.2]. This has not been done.
Disclosures relating to defined benefit plans The Code requires the risks associated with the Council's defined benefit plans (such as longevity assumptions, statutory changes to the scheme and structural changes to the scheme) and a description of the regulatory framework in which the plan operates to be disclosed [Code: 6.4.3.42]. This has not been done. In relation to the effect of defined benefit plan on the Council's cash flows, the accounts disclose an estimate of the contributions expected to be paid in the following year but do not explain more broadly how its defined benefit plans may affect the amount, timing and uncertainty of the authority's future cash flows or give a description of any funding arrangements and funding policy that affect future contributions [Code: 6.4.3.42] A sensitivity analysis for each significant actuarial assumption has been disclosed but the methods and assumptions used in preparing the sensitivity analyses required, the limitations of those methods, comparative information and changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes, if any, have not been disclosed [Code: 6.4.3.42]. Information about the maturity profile of the defined benefit obligation has not been disclosed [Code 6.4.3.42].

Appendix A: Audit adjustments

Disclosures

Disclosure
Disclosures relating to multi employer schemes A description of the extent to which the Council can be liable to the plan for other entities' obligations under the terms and conditions of the teacher's pension scheme has not been given (the Council is not liable) [Code 6.4.3.42]. The actual contributions for the year have been disclosed but not the expected contributions to the plan for the next annual reporting period [Code 6.4.3.42]. An indication of the level of participation of the authority in the plan compared with other participating entities has not been disclosed [Code 6.4.3.42].
Disclosures relating to credit risk on financial assets The Council has made both quantitative and qualitative disclosures in relation to credit risk. The disclosures do not deal with credit risk in relation to amounts due from service recipients and similar contacts [Code: 7.3.3.7].

Appendix A: Audit adjustments

Disclosures

Disclosure
Community infrastructure levy The Code recommends considering separate disclosure of material CIL income and expenditure, and material balances on the Capital Grants Unapplied Account. CIL is a material balance within the Capital Grants Unapplied Account but has not been separately disclosed.
Disclosures in relation to trust funds The council is the sole trustee for the King George V Fields Trust. In this circumstance the council is required to disclose details of the nature and amount of trust funds [Code 3.4.4.1].
Transfers to/from the major repairs reserve The Council is required to present an analysis of amounts in the movement on the Housing Revenue Account statement which includes transfers to/from the major repairs reserve [Code 3.5.3.3]. This has not been disclosed as the amount has been net off against an equal and opposite transfer from the capital adjustment account.
Contingent liability The council has disclosed a contingent liability relating to the possibility that the council may be required to compensate lenders if certain registered social landlords are unable to repay loans taken out by the landlords to finance the transfer of properties from the council to the landlord. Following further consideration, officers have concluded that the possibility that guarantees will be called is remote and therefore will remove the disclosure.

Appendix B: Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the council and and our objectivity is not compromised.
Fees	Details of proposed fees for audit and non-audit services performed for the period have been presented separately in this appendix. The fees for the audit set out on the next page relate to the scale fee and variations to the original scale fee which have so far been agreed with the council and with Public Sector Audit Appointments Limited. Billing to date takes account of time spent in the period to 31 January 2021. Since then, a substantial amount of time has been incurred to bring the 2018/19 audit, as well as the 2019/20 audits, to its current state and we will be seeking to agree a further fee variation in relation to this.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. We have carried out assurance work on two grants/returns made by the council in respect of 2018/19. We regard the threats to independence presented by these services to be insignificant and not to require safeguards. During 2018/19 we also provided property related advice which commenced prior to our appointment. Details of the fees earned during 2018/19 are given on the next page. Fees earned from the start of our appointment to completion of the contract were £23k. The service relates to a transaction involving compensation for the transfer of part of a park which is owned by Council. The compensation was expected to be less than £0.5m. The engagement was ongoing at the time of our appointment and involved advising on the amount of the compensation. This involves both valuation services and negotiation with the government agency who will pay the compensation. The service did not involve taking a management role and the outcome of that service has not been used in the preparation of the financial statements. The work has been carried out by partners and staff from a different office and service line to the audit engagement partner.
Relationships	We are not aware of any relationships (other than the provision of non-audit services which are covered above) we have with the council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

Appendix B: Independence and fees

The professional fees expected to be charged by Deloitte for the period from 1 April 2018 to 31 March 2019 are as follows:

	Current year £'000
Audit of the council	260
Total audit	
Certification of grants and returns (Housing benefit subsidy and teacher pension return)	29
Total assurance services	
Other non-audit services not covered above (Property related service – see previous page)	7
Total other non-audit services	7
Total non-audit services	36
Total fees	
London Borough of Tower Hamlets pension scheme audit	17

As set out on the previous page, the fees for the audit set out on the next page relate to the scale fee and variations to the original scale fee which have so far been agreed with the council and with Public Sector Audit Appointments Limited. Billing to date takes account of time spent in the period to 31 January 2021. Since then, a substantial amount of time has been incurred to bring the 2018/19 audit, as well as the 2019/20 audits, to its current state and we will be seeking to agree a further fee variation in relation to this.

Appendix C: Our other responsibilities explained

Fraud responsibilities and representations

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified the risk that operating expenses had been inappropriately capitalised and management override of controls as key audit risks.

During course of our audit, we have made enquiries of management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

We will explain in our audit report (for all entities subject to audit) how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Concerns:

We have brought to the attention of audit committee members on page 13 a transaction which did not appear to have any economic substance.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
A lump sum payment contribution in 2017/18 of £43.4m. The council had taken legal advice which had the following conclusions: • The Council had a statutory duty under Regulation 62(1) to "contribute" the amount set out in certificate. • The regulations are highly prescriptive and require payment to be according to the timetable set out in the certificate. • It was not lawful for the Council to pre-pay the amount on its certificate. • The amount of the overpayment is due back from the LGPS fund to the Council and in principle the Council may charge interest on this. • In the subsequent two years, the Council may set-off its liability under the certificate to pay annual contributions of £15m against the initial overpayment.	The council has obtained a second piece of legal advice which concludes that the payment of the lump sum in 2017/18 was lawful. As a result, the council has revised its analysis of the accounting as follows: • As the payment in 2017/18 was a lawful contribution, it was appropriate for the pension scheme to credit the contribution in full to the pension scheme income and expenditure account. • Again as the payment in 2017/18 was a lawful contribution, in the council's accounts, the contribution was correctly deducted in arriving at the net pension liability. • In the movement in reserve statement the council is required to make a transfer from revenue accounts to the pension reserve which has the effect of reversing entries made in the comprehensive income and expenditure statement, replacing with the contribution payable in respect of the financial year and taking the difference to the pension reserve. As the amount paid in 2017/18 is higher than the amount payable in respect of 2017/18, this results in a difference between the pension liability and the pension reserve which unwinds over the following two years. We have consulted with the National Audit Office on the legal position and expect to be able to provide an oral update at the meeting. Subject to this, on the basis of the revised legal position, we are content with the proposed accounting.
Officers provided a paper analysing the accounting of various income streams under IFRS 15. The analysis in the paper was not adequate and in particular did not recognise that the requirement for the leaseholder to contribute to the cost of major works represents a service arrangement within the Council's lease agreements such that contributions should be accounted for under IFRS 15. As a result, the paper did not contain an analysis of the accounting treatment under the new standard. The form of the analysis of other income streams did not reflect the steps set out in IFRS 15.	We have now performed an analysis and concluded that there are no further risks arising from the transition to IFRS 15. Adjustments relating to recognition of income from leaseholders have been incorporated into the current version of the accounts. We have reported disclosure deficiencies in relation to the transition in Appendix A, Audit Adjustments.
Losses of £0.5m in 2018/19 on pooled investments should be reclassified from the other comprehensive income section of the CIES to Financing and Investment Income and Expenditure within the surplus on provision of services.	This adjustment has been reflected in the version of the accounts published in draft on the council's website on 19 October 2021.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
Within the Statement of Movement on Reserves, losses have been transferred to the Financial Instruments Revaluation Reserve. Instead, the loss should be charged to a different unusable reserve (CIPFA suggest this is called the pooled investment funds adjustment account).	This adjustment has been reflected in the version of the accounts published in draft on the council's website on 19 October 2021.
The disclosure on the categorisation of financial instruments should be updated to reclassify pooled investments from FVOCI to FVTPL.	This adjustment has been reflected in the version of the accounts published in draft on the council's website on 19 October 2021.
Whilst we have received information on the terms of various financial instruments, we have not received officers' assessment of their classification. As a result we have not concluded on this area.	The Council has analysed the balance sheet classification of investments and cash and cash equivalents and extended this exercise to cover prior periods. The analysis identified fixed terms deposits with maturity dates falling after 12 months of the relevant reporting date which had been classified within short term (i.e. current) investments. As these are not held for trading and were not, given their remaining period to maturity, expected to be realised within twelve months of the reporting date, these should be reclassified to long term (i.e. non current) investments. In addition, a proposed adjustment to reclassify an amount from long term to short term investments had not been made. As this exercise was not performed under after the publication of the October 2021 version of the draft statement of accounts, we have included these as proposed adjustments. The amounts involved at the respective reporting dates are: At 1 April 2017 - £30m from short term to long term investments At 31 March 2018 - £57m from short term to long term investments At 31 March 2019 - £12m from long term to short term investments

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
Further explanation and analysis is needed to pinpoint and support a more precise estimate for the NNDR appeals provision.	We have provided our conclusion on this in Section 4, Other areas of audit judgement.
Short term debtors and short term creditors at 31 March 2018 have been restated to correct errors in the mapping of individual general ledger codes, including bad debt provisions incorrectly mapped to short term creditors and components of amounts due to other preceptors for local taxation collected on their behalf not being appropriately grouped and reported in either short term debtors and short term creditors. Whilst the net change to the presentation of the balance sheet is insignificant, officers have concluded that it is appropriate to make these changes due to their impact on individual note lines. We have commented on instances where the mapping remains incorrect.	Remaining classification errors which were present at the time of our April 2021 report have been corrected in the version of the accounts published in draft on the council's website on 19 October 2021.
Provisions have been restated to classify provisions of £2.3m from non current to current at 1 April 2017. It is not clear why this has been done, in particular as the level of actual payments in 2017/18 is much closer to the originally stated position.	This restatement journal has been reversed in the version of the accounts published in draft on the council's website on 19 October 2021.
Short term debtors and short term creditors have been restated at 1 April 2017 to include internal loans of £2.2m between the Council and individual schools. This restatement is not correct as they are internal balances which should be eliminated on consolidation of the schools into the Council's accounts.	This restatement journal has been reversed in the version of the accounts published in draft on the council's website on 19 October 2021.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
The Council holds many bank accounts, some of which are in a debit (asset) position and some in a credit (liability) position. In the past the Council has presented the net position in cash and equivalents, offsetting credits against debits. Under the accounting rules, the Council can offset assets and liabilities only if it has a legally enforceable right to do so and intends to exercise the right of set-off (i.e. to settle net), or to settle simultaneously. In this case, the Council only has a legally enforceable right to offset certain of its accounts and not all and is also not able (because of the way the accounts are operated) to assert that it intends to settle net. The way in which the restatement has been calculated does not take into account this second condition.	A correction has been made in the version of the accounts published in draft on the council's website on 19 October 2021. However, as explained further on page 21, the adjustment made does not take into account three accounts which were not included in the trial balance presented to us for audit.
We are not able to quantify the adjustments needed in relation to the indemnity given to Tower Hamlets Homes Limited in respect of future pension costs as an exercise has not been performed to split the pension liability between amounts attributable pre and post transfer service and to re-measure the part attributable to post transfer service under IAS 37.	We have provided our conclusion on this in Section 4, Other areas of audit judgement.
At the time of writing we are waiting for information in relation to changes made to other account balances in relation to schools postings. In view of the uncertainty over the correct balance, we have not proposed an adjustment in relation to schools balances but will evaluate the impact of the uncertainty on the scope of our audit and on our opinion in aggregate with other issues identified.	We have provided our conclusion on this in Section 4, Other areas of audit judgement.
In relation to disclosures relating to higher paid employees, in view of the quantum of the change and the closer interest some users of the accounts have in this information, we agree with officers that the prior year error is material and the comparative information should therefore be restated. Where a material prior period error is corrected, the Code requires disclosure of the nature of the error. This has not been done.	The accounts have not been updated for this points. We have included this in Appendix A, Audit Adjustments.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
In relation to disclosures relating to higher paid employees, officers have prepared the revised disclosures based on payroll reports submitted by the schools using outsourced providers. For a number of schools there are large variances between the total of these reports and total staff costs in returns submitted by those schools and consolidated into the accounts. We have requested information on how officers have assurance over the completeness and accuracy of the payroll reports in the light of the unreconciled differences and will complete our testing once we have this.	We have provided our conclusion on this in Section 4, Other areas of audit judgement.
Schools building areas: The valuation of school buildings uses information on their gross internal area. That data is provided by the Council to the valuer. We requested information to support a sample of building areas. Officers have informed us that they: • Have identified discrepancies with site plan information for the sample items selected by us and in the light of this, extended their investigation to cover the building areas for all schools • Estimated the impact of all errors identified at 31 March 2020, 31 March 2019, 31 March 2018 and 1 April 2017 respectively. • Propose to adjust the accounts to correct for these errors. As the information on this further adjustment was provided at the time of preparing this report, we have not yet tested this information.	We have not yet received information for some of our sample items which we requested to enable us to verify building area information provided to the valuer. We will provide an oral update to the meeting.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
Properties not subject to valuation at the reporting date: The Code does not require properties to be revalued on an annual basis, but does require valuations to be carried out where there has been a material change. The Council assesses whether there has been a material change over the financial year through its review of the market review report commissioned from its valuer. On the basis of this review, officers have concluded that there has not been a material change in the value of non dwelling properties which were not subject to valuation at the year end. The Council has not determined the level of change it considers to be material or evaluated the possible cumulative change since the date of the last valuation of properties (noting that for some properties this is earlier than the start of the financial year). We have requested this assessment to be prepared before we finalise our conclusion.	We have provided our conclusion on this in Section 3, Significant audit risks.
Two assets were surplus, but were classified in other land and buildings within the Property, Plant and Equipment note. We have asked officers how they are assured that there are no other surplus assets included in operational categories, but have not yet seen information relating to this.	We have provided our conclusion on this in Section 3, Significant audit risks.
One property which was recorded twice on the fixed asset register (once in its current use and once in a previous use), resulting in the overstatement of other land and buildings by £2.4m. Again, this error impacts on earlier reporting dates. The accounts for both years have been updated for these changes, including restatement of comparative information. We have again asked officers to provide information on how they are assured that all properties are in operational existence.	Officers have completed an exercise to compare the fixed asset register to the council's asset management system. The exercise identified a further £1.1m of assets which were no longer in operational existence. These should therefore be removed from the register, but as the amount of the misstatement is clearly trivial, we have not proposed this as an adjustment to the 2018/19 accounts.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
An item of £276k was incorrectly coded to a school which had previously converted to an academy, rather than a school which remained under the control of the Council. This resulted in the amount being accounted for as REFCUS and expensed, rather than being capitalised. If the error rate in our sample was found in the remainder the population, this would give an error of £16m.	Officers have performed a review and concluded that there are no further errors of this nature. This is consistent with our expectation as the majority of this balance relates to expenditure on leaseholder shares of housing improvements as well as disabled facility grants.
Expenditure relating to refurbishments included expenditure on fixtures, fittings and equipment, but was classified in its entirety within other land and buildings. Our inspection of assets included within fixtures, fittings and equipment, which is substantially limited to previous purchases of refuse collection vehicles, suggests that this practice is common and has operated for a number of years. In addition to the impact on disclosure information, the practical consequence of coding expenditure on fixtures, fittings and equipment in this way is that the expenditure will be written out of the Property, Plant and Equipment balance when next subject to valuation where the type of expenditure falls outside the scope of what is considered by the valuer in their valuation. We have not yet received officers' assessment of this point.	The council performed an exercise to estimate the effect of this and concluded that this was not a material matter. The exercise involved interrogating the breakdown of capital expenditure in 2018/19 and 2019/20 for the words "fixtures", "fittings" and "equipment". We do not expect that this technique is likely to identify the full extent of any issue. We had recommended to officers that as a starting point officers discuss with the valuer what types of work are included or excluded from his valuation and comparing to the council's internal practices in relation to the classification of expenditure between fixed asset categories. We will provide an oral update to the meeting.
The Council has recorded the incorrect amount of "business rate related grant" in 2019/20 because an entry of £2.4m to true-up the initial 2017/18 allocation to bring income into line with the final calculated entitlement amount was not accrued at 31 March 2018 or 31 March 2019. This resulted in an understatement of short term creditors at 31 March 2018 and 31 March 2019 and an understatement of income in 2019/20.	We will provide an oral update to the meeting.
Amounts of £2.1m carried in short term debtors at 31 March 2018 in relation to the PFI grant. As all amount are paid in year, we would not expect there to be a remaining balance on this account and therefore proposed an adjustment to write-out this amount.	This adjustment has been reflected in the version of the accounts published in draft on the council's website on 19 October 2021.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
The Council has principally estimated bad debt provisions by applying percentages to categories based on age. We have requested information on how percentages selected have been derived and/or how they compare to past experience. We have received information in respect of Council Tax and Business Rates but the data is not at a level of detail which allows us to test whether it is accurate. We have not received information for other types of receivables. With one minor exception the Council has not modified its approach or assumptions in the light of the pandemic or explained why this is not required. IFRS 9 as adopted by the Code requires substantial disclosures to measure both quantitative and qualitative information about amounts arising from expected credit losses and credit risk exposure. We consider further information should be provided in relation to the Council's investments.	The council is now provided an analysis for business rates and council tax arrears which compares the amount provided against a calculation based on historical collection experience. This provides both support for the amount of the original provision. As a result of a similar analysis for housing benefit overpayments repayable, the bad debt provision at 31 March 2019 has been reduced by £4.2m. The council has not provided a similar analysis for accounts receivable, but the comparatively small provision is consistent with the low level of past write offs and the ageing of the debt at the reporting date. Similarly an analysis has not been provided for amounts outstanding from tenants or in respect of parking penalty charge notices. However, these debtors have been substantially provided against which is consistent with the profile of the debt, including its ageing. Officers have re-looked at the provision against amounts outstanding from leaseholders in respect of major works. The original provision was calculated by applying percentages to categories based on age. Officers have concluded that this is not consistent with the approach taken in practise to collection including agreement of payment plans. Officers also concluded that it was not consistent with the leverage which the council has by virtue of its ability to decline to approve the transfer of the leasehold while there are amounts outstanding on the leaseholder's account with the council. Officers have reversed a provision made against accrued income of £2.4m and we have proposed a further adjustment to release a further £2.0m against billed amounts.

Deloitte.

This page is intentionally left blank

Deloitte.

TOWER HAMLETS

Page 99

Agenda Item 3.2

London Borough of Tower Hamlets

Report to the Audit Committee on the audit for the year ended 31 March 2020

Issued on 17 January 2022 for the meeting on 27 January 2022

Contents

Final report

Appendices

1. Key messages

Introduction
The key messages in this report

We have pleasure in presenting our report to the audit committee of the London Borough of Tower Hamlets (the Council) on our work on the audit of the financial statements for the year ended 31 March 2020.

Status of our work	Completion of the audit has been delayed well beyond the original deadline of 30 November due to the time to the impact of a delay to the audit of the council's 2018/19 statement of accounts, the time taken to investigate issues affecting both 2018/19 and 2019/20 accounts and the pace at which officers have responded to audit requests. We previously issued progress reports in November 2020 and April 2021 which described challenges encountered in the audit process for the 2019/20 audit and attended other meetings to give oral updates. Audit committee members have also received updates from officers. Whilst our audit is nearing completion, there are a number of procedures which remain outstanding, including: • Review of updated statement of accounts • Receipt of documentation for sample items and responses to other audit requests • Other matters as noted throughout this report • Other concluding procedures including review for subsequent events and receipt of management representation letter. In addition, we have not yet finalized our audit for 2018/19. Our final report on that audit is circulated alongside this report.
Key areas of audit judgement	The key judgements in the audit process related to: • The appropriateness of expenditure capitalised in the year • The valuation of properties • The valuation of a provision for the cost of settling appeals against rateable values made by business ratepayers • The valuation of the council's pension liabilities • The accounting for an indemnity given to Tower Hamlets Homes Limited (THHL) in respect of pension contributions • The recognition basis for grants and other contributions, including contributions by leaseholders to major works • The decision on whether to prepare group accounts. We report our conclusions on these areas in sections 3 and 4. This repeats some of the information previously communicated but we have reported in this way, as a reminder for audit committee members, due to the elapse of time and in order to provide a complete picture of our findings and areas of judgement.

Introduction

The key messages in this report

Findings and conclusion	We have identified a number of adjustments or disclosure deficiencies in the version of the statement of accounts published in draft on the council's website on 19 October 2021. We have included a summary of these items at Appendix A. We have highlighted there those misstatements and disclosure deficiencies which officers have informed us will be corrected in the final version of the statement of accounts and have assumed that where these are material to our opinion, this will be done. Where this is not the case, we expect these matters will be referred to in our audit report on the financial statements. As noted above, there are a number of items of information which we are yet to receive. We have assumed for the purpose of this report that the information will be provided and we will be able to conclude satisfactorily on it. We expect to include information on the pension liabilities in the final version of this report to be circulated to the audit committee. We expect our opinion will be qualified in respect of the following matters: • The council has not consolidated the financial statements of its subsidiaries, Tower Hamlets Homes Limited and King George V Fields Trust and other interests. Had these been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined. Our opinion on the Authority's financial statements is also qualified for this matter as the failure to consolidate all subsidiaries is a departure from the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. In addition , the strategic report and directors' report do not consider the effects of the failure to consolidate this subsidiary. In view of the significance to the accounts, we expect to give an adverse opinion. • Note 40 Pension Scheme discloses the plan assets and defined benefit obligations held by the Authority, both amounting £1,503m and £2,197m respectively at 31 March 2020. Within these figures are assets and liabilities of £110m in respect of individuals currently or previously employed by the Authority's subsidiary, Tower Hamlets Homes Limited. Contrary to the footnote within note 40, these amounts include amounts arising from employment periods both before and after the transfer dates. In our opinion, the under International Accounting Standard 19 Employee Benefits, the Authority should recognise and measure amounts relating to employment periods prior to the relevant individuals' transfer date, but not after. To the extent that the net pension obligation relates to retirement benefits accrued after individuals transferred to Tower Hamlets Homes Limited, the obligation to make meet the cost of contributions should be measured and disclosed in accordance with International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets. In these circumstances, we are unable to quantify the effect of the application of the incorrect accounting standard. The effect of this is also not disclosed in the narrative report. • The notes to the financial statements disclose the number of employees receiving remuneration of more than £50,000 in bands of £5,000. We were unable to confirm that all employees receiving remuneration of more that £50,000 have been represented in the note.
Other information included in the statement of accounts	We have reviewed the council's narrative report and annual governance statement to consider whether they are misleading or inconsistent with other information known to us from our audit work. We did not identify any inconsistencies which we consider to be material but did identify a small number of instances where information in the narrative report had not been updated for changes made to the financial statements or where descriptions in the narrative report were inconsistent with those used in the financial statements or were otherwise unclear. We recommend officers look to update for these matters which we have summarised in Appendix A.

Introduction

The key messages in this report

Duties as public auditor	We did not receive any questions or objections from local electors in respect of the 2019/20 statement of accounts. We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Use of resources	As reported in our April 2021 report, we expect our conclusion on the council's use of resource will be qualified in respect of financial reporting arrangements. This is, in particular, due to the volume and significance of changes required to the original draft statement of accounts and the long delay in finalising the accounts for publication We also expect our report to be qualified in respect of arrangements relating to managing risks effectively and ensuring a sound system of internal control.
Whole of government accounts (WGA)	HM Treasury have advised that any submission of returns for the purpose of WGA made after 17 December 2021 will not be included within the 2019-20 WGA. The National Audit Office have therefore advised that assurance statements need not be completed if not done so by that date. As a result, we will not be carrying out this work.

2. Our audit explained

Our audit explained

We tailor our audit to your organisation and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your operations and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks and our use of resources work, we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Determine materiality

When planning our audit we set our materiality at £24m based on an estimate of gross expenditure. We have reported in this paper all uncorrected misstatements above £500k.

The materiality threshold is slightly lower than previously reported to you (£25m advised in our audit planning report). This is because of the impact of audit adjustments on the benchmark used in estimating materiality.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit Committee's attention our conclusions on the significant audit risks and on other judgments included in the section on other areas of audit focus. In particular the Audit Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on the current status of our audit work, we envisage issuing an audit Report which is qualified in respect of the matters summarised in the key messages section of this report.

Deloitte Confidential: Government and Public Services

3. Significant audit risks

Significant audit risks

Valuation of properties

Risk and Deloitte challenge and response	Conclusions
Risk The Council is required to hold property assets within Property, Plant and Equipment at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value. **Deloitte challenge and response** We have tested the design and implementation of controls within the valuation process. With the assistance of our internal valuation specialist we have performed the following procedures: • Assessed the qualifications, experience, objectivity and independence of the valuer. • Tested factual inputs, such as building areas, to source documentation. • Assessed the appropriateness of the methods and assumptions used by the valuer. • Tested a sample of individual asset valuations. • Tested the posting of the valuation to the accounting records. • Assessed management's rationale for concluding that have there was no material change between the data valuation and the reporting date for those assets not revalued at the reporting date.	**Conclusion on the design and implementation of key controls** The valuation of properties has not been well controlled. Whilst the Council is taking steps to remediate the position, the following significant control deficiencies were present in the production of the 2019/20 draft statements of accounts: • The Council did not have controls to ensure that information provided to the valuer for the purpose of his valuation was complete and accurate and the design of controls over subjective inputs to the valuation is not clear. • We have not been able to obtain documentation to be clear on how changes in individual asset values have been scrutinised and followed up with the valuer. This would require formalising the criteria for selection of individual asset values for investigation, consistently applying these criteria and then documenting the conclusion on exceptions for review and approval. • The calculation and recording of entries relating to the valuation is performed in the fixed asset register. The fixed asset register is maintained on an excel spreadsheet. Typical spreadsheet controls we would expect to see over the design and maintenance of a spreadsheet used for the initiation and recording of significant financial transactions have not been adopted. • Officers process for assessing whether there had been a material change on assets not selected for revaluation at the reporting date was not adequate. Further information on this is given below. We have responded to these control deficiencies by increasing the seniority of staff involved in the audit of this area and our use of specialists. We also draw attention to the recommendations made in relation to the valuer's report in our April 2021 report. **Conclusion on our substantive audit procedures** Our testing and subsequent investigations carried out by officers has identified a number of issues. For assets valued on a depreciated replacement cost basis, land and building areas should reflect the size and layout of the building and ancillary land were it to be re-provided on a least cost basis, using a modern design and on an optimised site (the "modern equivalent asset"). However, it is common and acceptable to use the actual areas of the existing asset. The valuation of school buildings uses information on their gross internal area. That data is provided by the Council to the valuer. Officers identified discrepancies with site plan information for the sample items selected by us and in the light of this, extended their investigation to cover the building areas for all schools. A second updated valuation has been obtained for the schools affected. This, together with other issues relating to schools which had not been fully resolved prior to the preparation of the original version of the 2019/20 accounts, has resulted in an increase in the valuation of buildings of £44m.

Significant audit risks

Valuation of properties (continued)

Deloitte challenge and conclusion

- The valuation of land relating to assets valued on a depreciated replacement cost basis is at £11.1m per hectare for the vast majority of assets. The Modern Equivalent Asset principle involves estimating the cost of land where a replacement asset might be located on a least cost basis, which may not be at its existing location. The valuer has assumed that in view of the nature of the services provided, there are limited opportunities for locating a theoretical replacement away from existing higher cost residential locations and therefore has valued land on the assumption of residential land use. Our research indicates a wide range of values for larger residential developments with this value at the lower end of the range observed.
- Two assets were surplus, but were classified in other land and buildings within the Property, Plant and Equipment note. In addition to the disclosure misstatement, surplus assets are required to be valued on a different basis, which reflects the property's highest alternative use, rather than its existing (or previous) use. The Council has obtained new valuations for these properties on the correct valuation basis which has resulted in changes in their previously recorded values at 31 March 2020 of £14.3m (increase) and £1.8m (decrease). As the properties have been surplus for a number of years, the Council has also obtained revised valuation at earlier reporting dates. The accounts for both years have been updated for these changes, including restatement of comparative information. Officers performed a review and did not identify any further surplus assets included in operational categories.
- In valuing the York Hall Leisure Centre, the valuer has deferred both the net replacement cost and land values for three years at 7%, to reflect the fact there is a lease in place, with an unexpired term of three years, at a peppercorn (i.e. nil), rent. The lease is granted to an operator and is in substance a service agreement which we would expect to be disregarded for valuation purposes and vacant possession assumed. The impact is to undervalue the asset by £2.0m. We reviewed the remaining valuation calculations and identified further leisure assets where a similar approach had been taken. An adjustment has now been made to correct this resulting in an increase in value of £9m.
- The Code does not require properties to be revalued on an annual basis, but does require valuations to be carried out where there has been a material change. Assets measured at current value which were not included in the 2018/19 valuation programme totalled £232m. The Council assesses whether there has been a material change over the financial year through its review of the market review report commissioned from its valuer. We challenged the appropriateness of officers' approach as:
    - Officers had not evaluated the possible cumulative change since the date of the last valuation of properties (noting that for some properties this is earlier than the start of the financial year)
    - Officers had not quantified the possible effect of market changes in the market review report on property values.
- Officers have subsequently performed work to address both these points and have calculated an estimate of change since the last date of valuation for those assets not revalued at the reporting date which is significantly below our materiality threshold.
- Whilst we have not yet commenced our procedures in relation to the 2020/21 valuation programme, we note that within that programme which had not been revalued at 31 March 2019 showed a net increase of £9m which is not indicative of an earlier material change prior to 31 March 2019.
- As explained further in our report April 2021 report, we will include an emphasis of matter paragraph in our audit report to draw attention to the material uncertainty in relation to the valuation of properties caused by market volatility at the balance sheet date caused by the pandemic.

As set out in Appendix D we are waiting for information before finalising our work on the valuation.

Significant audit risks

Management override of controls

Risk and our response

Risk

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Deloitte response and challenge

We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts in evaluating the judgements made in the preparation of the financial statements.

Journals

- We have tested the design and implementation of controls in relation to journals.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

Significant transactions

- We did not identify any significant transactions outside the normal course of business or where the business rationale was not clear. In our report on the 2018/19 audit, we reported to you on a smaller transaction of £3m relating to a contribution paid by a local health body to the council. We explained there why we had concluded the transaction was not intended to have substance it was expected at the time of the original transaction that the amount to be repaid to the local health body in the next year - as in practice occurred. The original version of the accounts included expenditure relating to the repayment of the contribution. This has now been reversed. As a result, together with entries made in the 2018/19 accounts, which are still open, this series of transactions has no effect on income and expenditure in 2018/19 or 2019/20 or the balance sheet at 31 March 2019.

Accounting estimates

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest as summarised on page 4, including the NNDR appeals provision; the pension liability and debt provisions.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.
- We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Significant audit risks

Management override of controls (continued)

Conclusions

Conclusion on the design and implementation of key controls

Journals are raised through two routes. As explained more fully in section 6, Control observations, the "bulk upload" route does not require approval of journals before posting. This is a significant control deficiency.

There is no requirement to prepare management position papers to explain and support estimates and we have referred to various examples throughout this report where this has not been done or where the analysis is incomplete. The failure to prepare documentation which fully explains and supports key estimates with associated management review also represents a significant control deficiency.

Conclusion on our substantive audit procedures

Our overall conclusion on estimates is as follows:

- The council has made various changes to estimates in the original version of the accounts. We conclude that misstatements arose due to errors in factual inputs to estimate calculations or as a result of the initial analysis being inadequate, rather than intentional manipulation of financial information.
- Entries relating to the valuation of PPE and related depreciation charges and gains and losses on disposal and pension liabilities do not impact on the usable reserves of the council and we would generally expect that there is little or no incentive for the council to manipulate this information.
  - The property valuation as a whole is towards the prudent end of a reasonable range because the land value used for assets at depreciated replacement cost is at the lower end of the range we would expect. This assumption was similarly towards the prudent end of the range we consider reasonable at 31 March 2019. Pension liabilities are also towards the more prudent end of a reasonable range. This is because, the council's actuary, in their methodology for deriving inflation rate assumptions, did not make a common adjustment to allow for an assumed inflation rate premium within observed market data. The method used by the actuary has not changed from the prior year and therefore involved a similar level of prudence in the position at 31 March 2019.
  - Conversely, the remaining useful economic lives of council dwellings (an average of 54 years) has been set towards the upper end of the range we would regard as reasonable of 30 to 60 years, resulting in a comparatively low depreciation charge. The remaining useful economic life for non residential properties is assumed, on the advice of the council's valuer, to be 50 years, regardless of age or condition of the property. As this results in a depreciation charge of only £14m, we concluded that we did not expect this simplification to result in a material misstatement but are not able to quantify.
- Entries relating to judgements which do impact on the amount of usable reserves were generally centred and consistent with prior year (following revision where relevant) and did not show evidence of bias. Changes in the approach to the estimation of the appeals provision and housing benefit overpayment bad debt provision contributed to an increase and reduction in the amount of provision, respectively, in comparison to the prior year. We identified two estimates where we have proposed an adjustment – one to increase provisions (in this case the NNDR appeals provision) and one to reduce to a bad debt provision against amounts due from leaseholders in respect of contributions to major works (as summarised in Appendix A).

Significant audit risks

Capitalisation of expenditure

Risk and Deloitte challenge and response	Conclusions
Risk The Council has a substantial capital programme, including revenue expenditure which, for funding purposes, is treated in the same way as capital expenditure (REFCUS). Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards. The Council has greater flexibility over the use of revenue resource compared to capital resource. There is also, therefore, an incentive for officers to misclassify revenue expenditure as capital. **Deloitte response and challenge** We have tested the design and implementation of controls to ensure that only capital expenditure which meets the conditions for capitalisation is accounted for as such. We have tested a sample of items capitalised (including amounts in REFCUS) to ensure they are valid and meet the conditions for capitalisation.	**Conclusion on the design and implementation of key controls** As reported previously, we were not able to identify a documented internal control to prevent or detect the incorrect classification of revenue spend as capital. This represents a significant control deficiency. We have responded to this deficiency by increasing the seniority of staff involved in this work. **Conclusion on our substantive audit procedures** Our testing identified one item which had been inappropriately capitalised as it included demolition costs relating to an existing part of a school. This should have been expensed as we regard this as part of the cost of disposal of the existing structure, rather than the cost of the extension. We also found that the larger payment which had been capitalised was made in advance of part of the works being carried out. The total adjustment which has been made for this item reduced capital expenditure by £7.9m. Our testing identified instances where additions had not been correctly coded, including: • An item which had been expensed as "Revenue Funded from Capital under Statute" (REFCUS) but which related to one of the council's assets and which should have been capitalised within Property, Plant and Equipment • Expenditure on commercial premises in a housing estate which had been incorrectly classified within "Council dwellings" within Property, Plant and Equipment • Expenditure on fixtures and fitting incorrectly classified within other land and buildings. We provide further detail in Appendix C on some of these points through an update given there to matters originally reported in our April 2021 report. Whilst these matters did not result in material error, we recommend, in addition to implementing controls over the appropriate classification of expenditure as capital or revenue, that the council review and strengthen controls over the correct classification of amounts capitalised.

Significant audit risks

Recognition of grant income and other contributions

Risk and Deloitte challenge and response

Risk
Recognition of grant income and contributions is not inherently complex nor does it involve significant judgement. However, issues were identified in our initial testing in 2018/19 of grants and contributions.

The errors principally arose as a result of applying the wrong recognition basis. In particular in 2018/19 and in previous years:

- Contributions by leaseholders to major works were recognised in the comprehensive income and expenditure statement on a cash basis. Under IFRS 15 Revenue from contracts with customers, revenue is either recognised over time or at a point in time depending on an analysis of how performance obligations in the contract are satisfied. In this case, the obligation to carry out the works is satisfied over time and therefore contributions should have been recognised as spend on the capital project was incurred.
- Community infrastructure were recognised in the comprehensive income and expenditure statement when invoiced. Revenue should be recognised when payment is due under the relevant legislation, in this case on commencement of the development.

Since the issue of our audit planning report, officers have carried out an exercise for the purpose of both the 2018/19 and 2019/20 accounts to re-analyse both leaseholder contributions and community infrastructure levy across all periods presented in these statements.

There is a risk that leaseholder contributions and community infrastructure may not be recognised in the correct period as a result of errors in the execution of this exercise.

Errors were also identified in 2018/19 where grant income had been deferred, although there were no outstanding conditions preventing its recognition.

There is a risk that grant income is recognised in the wrong period as a result of the incorrect application of recognition principles.

We also identified errors in 2018/19 relating to incorrect amounts on grant control accounts due to inadequate control over their reconciliation and in our audit planning report identified this as a distinct part of the significant risk of material misstatement of grant and contributions income. As control account balances were not in practice material, we did not pinpoint a significant risk in this area.

Deloitte response and challenge
We have tested the design and implementation of controls to ensure that grant income and contributions are recognised in the correct period.

We carried out focused testing on the exercise carried out by officers to implement a change in recognition basis for major works across all periods presented in the 2018/19 and 2019/20 statements of accounts. Our procedures in respect of 2019/20 included:

- Re-calculating accrued income at 1 April 2019 and 31 March 2020 for a sample of leaseholders, agreeing inputs to that calculation to records of individual and block gross values and capital expenditure records and testing whether recognition principles have been correctly applied, based on the timing of the related capital expenditure.
- Testing the completeness of income recorded in 2019/20 by tracing from the items in the capital programme to income records for the relevant year.

Significant audit risks

Recognition of grant income and other contributions (continued)

Risk and Deloitte challenge and response

Similarly, we carried out focused testing on the exercise carried out by officers to implement the correct recognition basis for community infrastructure levy across all periods. Our procedures in respect of 2019/20 included:

- Re-calculating accrued income at 1 April 2019 and 31 March 2020 for a sample of leaseholders, agreeing inputs to that calculation to records of individual and block gross values and capital expenditure records and testing whether recognition principles have been correctly applied, based on the timing of the related capital expenditure.
- Testing the completeness of income recorded in 2019/20 by tracing from the items in the capital programme to income records for the relevant year.

We also carried out a focused exercise on community infrastructure levy, again to test the exercise carried out by officers. Our procedures included:

- Understanding the Council's process for capturing and recording the commencement of developments
- Testing accrued income at 1 April 2019 and 31 March 2020 to commencement notices, invoice and subsequent receipt of cash
- Testing income in 2019/20 to commencement notices, invoice and subsequent receipt of cash
- Tracing a sample of developments from the Exacon system (used to record information on projects which have commenced) to income records.

We also selected a sample of grants and contributions and tested whether they had been recognised in the correct period.

Significant audit risks

Recognition of grant income and other contributions

Conclusions

Conclusion on the design and implementation of key controls

The Council has prepared and shared with us process notes in relation to grant income and contributions. We are not clear from these what controls operate within this process to ensure that grant income and contributions are recognised in the correct period and in practice errors have been identified. This represents a significant control deficiency.

We have responded to this deficiency by increasing the seniority of staff involved in this work.

Conclusion on our substantive audit procedures

Officers had not finalised certain aspects of their exercise in relation to leaseholder income at the time of publishing the draft 2019/20 statement of accounts and therefore adjustments were required to that version of the accounts, including to opening balances. We completed our procedures on the completed exercise without exception.

Similarly officers identified developments which had commenced during 2019/20 where income had been omitted from the initial version of the accounts published in draft in August 2020. This resulted in an additional accrual of income at 31 March 2020 of £31.1m which was incorporated into the version of the working paper submitted to us for review. In relation to the 2019/20 accounts, our testing identified one further error where an incorrect accrual of income of £3.3m at 31 March 2020 had been made relating to levy collected on behalf of the Mayor of London which is therefore not income of the Council. These errors have been corrected in the updated version of the accounts published on 19 October 2021.

Agreements governing planning contributions received from developers typically contain stipulations on how and by when the contribution is to be applied by the council and with the requirement that any unspent amounts are returned to the developer on expiry of the agreement. This is likely to represent a condition which would prevent recognition of income until and to the extent that the contribution has been applied.

However, not all agreements are in this format and the guidance notes which accompany the Code make clear that the accounting for planning contributions needs to be assessed on an agreement by agreement basis. Previously, and in the draft 2019/20 statement of accounts, the council treated all planning contributions as containing such conditions, without an accounting assessment of individual agreements being made. Our sample testing identified agreements which, whilst they contained stipulations on how the amounts should be spent (i.e. "restrictions") did not require the amount to be spent by a particular date or contain a contractual mechanism for unspent amounts to be repaid to the developer. We concluded in these cases that there was no condition preventing recognition and income had been inappropriately deferred. Officers have carried out an exercise to quantify the effect and have made adjustments in the version of the accounts published on 19 October 2021 to release £12.9m and £17.1m at 1 April 2019 and 31 March 2020, respectively. As the 2018/19 statement of accounts has not yet been finalised, those accounts have also been amended to correct the error at 31 March 2019. We have carried out tests on this exercise and did not identify and exceptions.

Our testing also identified other, smaller errors relating to the recognition of other grants. These have also been corrected except for an error in relation to section 31 funding which we have included in the schedule of uncorrected misstatements in Appendix A.

We have concluded that after making these adjustments, grant income and contributions are not materially misstated.

4. Other areas of judgement

Other areas of judgement

Indemnity given to THHL in respect of future pension costs

Area of judgement and conclusion

Staff who transferred from the Council to Tower Hamlets Homes Limited (THHL) continued to be members of the Local Government Pension Scheme administered by the council.

At that time, the council entered into a management agreement with THHL in which it agreed to meet the cost of benefits accrued by transferring employees up to the date of their transfer.

On 31 March 2009, the then Corporate Director, Resources appears to have extended this obligation by writing to the Board of THHL and agreeing that the Council "indemnifies THHL in respect of all liabilities that have arisen or may arise from pension obligations".

On the basis of this letter, the Council has recorded a pension liability equal to the full amount of the liability relating to the THHL section of the London Borough of Tower Hamlets Pension Scheme (i.e. the liability recorded relates to the cost of settling benefits accrued from individuals' service both before and after their transfer to THHL). In turn, THHL has recorded both a liability and reimbursement asset of the same amount. Using statutory mitigation arrangements, the relevant revenue account (in this case the Housing Revenue Account) is being charged as contributions become payable, rather than as benefits are earned by individuals.

Pension benefits which have accrued relating to individuals' service with the Council prior to their transfer to THHL represent post-employment benefits and are accounted for in the same way as pension benefits provided to other Council staff.

Conversely, pension benefits which individuals have accrued in respect of service rendered after their transfer to THHL do not represent employee benefits from the perspective of the Council. This is because they do not arise from service rendered to the Council (or the individual's termination) – instead they arise from the commercial arrangements put in place between the Council and THHL.

As a result, benefits accruing after an individual's transfer date fall outside the scope of IAS 19 Employee Benefits and should instead be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The consequences of this analysis are, in relation to the part of the liability attributable to post transfer service, that:

- The liability should be classified within Provisions on the balance sheet and not under Liability related to defined benefit pension scheme.
- The liability should be quantified using the measurement rules of IAS 37 which are different to IAS 19.
- Entries to the Comprehensive Expenditure and Income Statement should be calculated and presented on a different basis to that currently reflected.
- Statutory mitigation arrangements do not apply. As a result, the full amount of the provision should be charged to the Housing Revenue Account and subsequent changes in the provision charged or credited to the Housing Revenue Account.

In the original version of the accounts, a pension asset of £5.6m was recognised as a deduction from the pension liability in relation to the main section of the scheme administered by the council. An adjustment has now been made to remove this asset as the council does not have any rights to this. At 31 March 2020, plan assets and liabilities included in respect of this section were £110m. The accounts state that "The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes". The basis on which this obligation is recognised is not explained and in practice the cost of benefits accrued after transfer are also included.

We are not able to quantify any further adjustments needed as an exercise has not been performed to split the pension liability between amounts attributable pre and post transfer service and to re-measure the part attributable to post transfer service under IAS 37. We therefore expect to qualify our conclusion in respect of this matter.

Other areas of judgement
Consolidation of schools balances

Area of judgement and conclusion

Officers identified errors in relation to the recording of cash and other transactions involving schools.

These issues arose because of:

- The complex system of entries used to record disbursements and other flows between the council and individual schools
- The use of only a single general ledger control account within the main council ledger to record the balances for some seventy different bank accounts, together with, we understand, a failure to perform a full reconciliation between the general ledger control account on the one hand and the total of the reconciled cash books for the individual schools on the other.

Officers have made changes to cash and cash equivalents and other balances in the original version of the accounts following an investigation.

Our procedures have focused on changes to cash balances and has included:

- Discussion of the nature of changes made between original and final versions of the accounts
- Requesting a full reconciliation between the general ledger control account and the individual reconciled cash book balances
- Performing procedures to test the completeness of cash book amounts included in that reconciliation
- Performing tests on the reconciled cash balances on a sample basis.

We found that:

- There are differences between the reconciled cash position and amended general ledger control account balance of £699k at 31 March 2020 (with a difference on the opening balance at 1 April 2019 of £934k). It was apparent from these unresolved differences that correcting journals posted to the general ledger control account were incomplete.
- The reconciled cash position at 31 March 2020 incorrectly included amounts due from HMRC of £1,246k. Similar amounts were present at previous year ends (£1,644k, £1,189k and £1,499k at 31 March 2019 and 31 March 2018, respectively). Officers have informed us that these amounts relate to input tax on schools expenditure for the final month or two months of each year which are to be reclaimed from HMRC. Officers' investigation also found that, as a result of an oversight, amounts relating to Feb/March 2020, Feb/March 2019 and Feb/March 2018 input tax had not been subsequently reclaimed and remain outstanding. The updated accounts include a journal to reclassify amounts from cash and cash equivalents to short term debtors to the extent that officers believe that amounts remain recoverable (£3.1m).
- Our sample of reconciling items in individual cash book reconciliations identified a high rate of error (approximately half at 31 March 2020), where payments were deducted from the cash balance before their release, resulting in the understatement of both cash and short term creditors or included invalid entries which should be released to income. Officers have not quantified the error. The amount of unpresented cheques and BACS at 31 March 2020 is £2,348k, representing the maximum amount of error at each reporting date.

As we are not able to quantify the precise amount of the error, we have not proposed an adjustment but draw audit committee members attention to the fact that there is uncertainty over the cash balance, the amount of the uncertainty is at a reduced level at 31 March 2020 compared to earlier reporting periods and is in the range of up to £2-3m. We will request in the management representation letter confirmation of officers' view that this amount, individually and in aggregate with other uncorrected misstatements (as summarised in Appendix A, Audit Adjustments), is immaterial.

Other areas of judgement

Preparation of group accounts

Area of judgement and conclusion

Authorities with interests in subsidiaries, associates and/or joint ventures are required to prepare group accounts in addition to their single entity financial statements unless their interest is considered not material.

The council has subsidiaries but has not prepared group accounts as officers have concluded that group accounts would not be materially different to the council's single entity accounts.

We have summarised information for the two principal subsidiaries to the right being THHL (a wholly owned subsidiary) and King George V Fields Trust (for which the council is corporate trustee) from their draft or published accounts. Other subsidiaries individually and in aggregate are clearly trivial. The analysis includes entries which would be made to eliminate transactions between group components in order to illustrate the extent to which group accounts would be different to the council's single entity accounts (being the amount in the total column).

£m	THHL	KGVFT	Eliminations	Total
Revenue	(33.2)	(1.1)	33.2	(1.1)
Expenditure	33.5	1.6	(33.2)	1.9
Deficit on provision of services	0.5	0.5	-	1.0
Total comprehensive income	(4.7)	0.5	-	(4.2)
Total assets	11.9	16.2	(1.4)	26.7
Total liabilities	(3.1)	(0.1)	1.4	(1.8)
Net assets	8.8	16.1	-	24.9

Officers identified an entry of £22.8m in the fixed asset register within community assets relating to expenditure on Mile End Park. The Park is owned by KGVFT and not by the council. Based on a review of changes to this record since 2007, officers have determined that the amount relates to a Millennium Commission funded project which encompassed the construction of the Green Bridge linking two parts of the park, the creation of "gardens" with associated pavilions and other works in the Park. Officers have also concluded that the entry substantially duplicates other entries relating to shop units and pavilions recorded at current value within the other land and buildings category. Officers formed this view on the basis of discussions with colleagues in the estates team to understand the likely disposition of expenditure. However, the information to corroborate this second assumption is limited and there is also contradictory evidence including that the entry in community assets has been accounted for in the past as land and not depreciated and an analysis of spend suggest that expenditure on the Green Bridge (which includes the spend on the shop units) and the creation of the gardens (which includes the spend on the pavilions) account for only half of the total expenditure on the Millennium project.

Officers have made an adjustment in the updated accounts to remove the entry relating to the Millennium project. Notwithstanding the question of whether assets have been duplicated, this is appropriate as the council does not own Mile End Park. However, to the extent that the expenditure relates to assets not already recorded on either the council's balance sheet or the balance sheet of KGVFT (such as expenditure on landscaping, the design of the park and the laying out of footpaths), these would need to be recorded on the group's balance sheet (in the event that one was to be prepared) under the council's accounting policy for community assets which requires such assets to be carried at depreciated historic cost.

Officers have prepared a management position paper which analyses both quantitative and qualitative considerations and concludes that the group accounts would not be materially different to the council only accounts. The paper does not consider the possibility that part or all of the spend on the parks might be brought on to the council's balance sheet. However, as the net assets of the subsidiaries are material it is reasonable to conclude that group accounts would be materially different to the council's single entity accounts. As group accounts have not been prepared, we expect to qualify our report in respect of this matter.

Other areas of judgement

NNDR appeals provision

Area of judgement and conclusion

The council has made a provision of £6.7m for the anticipated cost of appeals made by business ratepayers to their bills.

In our April 2021 report we reported that:

- The supporting calculation used information on lodged appeals and an assumption on the expected proportion of successful appeals and there were aspects of the methodology and data sources which were not clear.
- In reviewing the appropriate level of provision, officers had had regard to a comparison with other authorities made using 2018/19 data. The comparison showed that the opening provision was towards the bottom end of the range - but other points on that range might give a provision that was materially higher.

We did not receive responses to our enquiries about the original methodology, but officers have provided an updated analysis which estimates the provision required using historical information on the proportion of appeals which are successful and average refund amounts as a proportion of rateable value. The calculation suggests a provision which is £6.9m higher than the recorded amount. As the calculation provided an evidence based estimate, we focused our work on this.

Our procedures included making the following challenges:

- The calculation took into account appeals received up to 31 March 2020 and made no allowance for claims received or expected after this date. The council has formed the general view that it is unable to form a reliable estimate of the appeals which have not yet been made. This is because (i) ratings lists typically have different types and profile of issues relating to them (ii) the check and challenge process introduced for the 2017 ratings list is designed and expected to impact on ratepayer appetite to appeal against rateable values. As a result, there is insufficient information on which to model expected future appeals. Whilst we conclude that this view is reasonable, in this instance, due to the delay in the accounts and audit process, there is a longer period of post balance sheet information available.
- The calculation used historical information in relation to appeals determined prior to 31 March 2020 and not the full data set available to the council. As a consequence, data sets for some appeals types are very small and may be less accurate.
- The data includes apparent duplicates or instances where the same business ratepayer has appealed on multiple grounds and we may not expect the effect to be additive.

We have estimated the effect of adjusting for these matters would be to increase the provision by £19m, of which the council's share would be £8.8m. Whilst the council's provision falls within a range of possible outcomes (taking into account variability within the historical data), as the recorded amount (a) does not take account of the analysis which the council has performed (b) their analysis ignores information subsequent to the reporting date which should have been taken into account, we have proposed an adjustment.

Other areas of judgement

Pension liability relating to the Tower Hamlets Pension Fund

Background

The council participates in the fund it administers, as well as the Local Government Pension Scheme fund administered by the London Pension Fund Authority (LPFA). Our comments on this page deal with the much larger liability relating to the council's own pension fund and not to the liability relating to the LPFA fund. The council accounts for pension liabilities in relation to both its section of the Tower Hamlets scheme and the section relating to its subsidiary under the terms of an indemnity. The liability is reported on separately on page 19.

Deloitte response

Our procedures include:

- Obtaining a copy of the actuarial report for the Council Pension Fund produced by Hymans Robertson, the scheme actuary, and agreeing in the disclosures to notes in the accounts.
- Assessing the independence and expertise of the actuary supporting the basis of reliance upon their work.
- Reviewing and challenging the assumptions made by Hymans Robertson, including benchmarking as shown in the table opposite.
- Assessing the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
- Performing substantive analytical procedures on movements.
- Reviewing the disclosures within the accounts against the Code.

Some procedures are in progress and we will provide an update at the meeting if there any changes to our conclusions as a result of completing this work.

	Council	Reasonable range	Comments
Discount rate (% p.a.)	2.30%	2.15-2.60%	Centred
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.90%	1.80-2.30%	Slightly optimistic
Salary increase (% p.a.)	2.10%	Employer specific	See below

Deloitte commentary on findings to date

Overall, based on market conditions at 31 March 2020 and the benchmarking information collated by our internal actuarial specialists, the assumptions used are within a reasonable range and are centred within that range.

The real salary increase assumption of 0.20% p.a. above CPI inflation is relatively low (more optimistic) compared to that used by other public sector employers, but is not unreasonable. We have requested confirmation in the management representation letter that this is consistent with the council's long term view of salary future salary growth.

Assumptions on current and future improvements to mortality are reasonable. Whilst Covid-19 has resulted in a significant number of 'excess' deaths this year, these unusual figures and fluctuations are likely to be (at least partially) smoothed out in mortality models. The true impact on longevity will only be known when the long term impacts of COVID-19 are known, for which we are still a long way from both epidemiologically and economically. Therefore, it is not clear that the data is yet available to robustly support an adjustment to the mortality assumption for COVID-19.

As reported in our 2018/19 report, the council did not adjust the pension liability for the impact of the McCloud/Sargeant rulings, in view of the advice from its actuary that adjusting for this would not have a significant impact. As a result, a past liability has been recognised this year (and not in 2018/19) of £1.2m. MHCLG issued a consultation in July 2020, which clarifies that the ruling does not apply to members joining an LGPS after March 2012. We are not clear whether allowance has been made for the consultation in the calculation of the liability, but estimate the effect to be clearly trivial.

Although the council is aware of the Goodwin case, we understand that it has not allowed for any additional costs as a result of the ruling. In our view, it should be allowed for, as a past service cost. Based on general information that we have for LGPSs, we understand that the impact could be of the order of 0.2% of the defined benefit obligation, i.e. around c.£4m, and have recorded this as a judgemental, uncorrected misstatement in Appendix A, Audit Adjustments.

5. Use of resources

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources

Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report. We also set out two further risks which required further evaluation to determine if they were significant risks:

- A risk relating to council's administration of the London Borough of Tower Hamlets local government pension scheme in the light of reports which the council has needed to make to the Pensions Regulator. We have now completed that risk assessment work, including consideration of the further matters which we have recommended the council report to the Pensions Regulator and gained an understanding of the council's arrangements in relation to administration of the pension scheme. We concluded on the basis of this further risk assessment work that there was not a significant risk in respect of our value for money conclusion and therefore have not performed further work.
- We also determined that the volume and nature of misstatements identified during the audit process for the 2018/19 financial statements, as well as the time taken to investigate and resolve issues identified, represented a risk of weaknesses in financial reporting arrangements. We concluded this was a significant risk to our value for money conclusion.

We have now completed other risk assessment work, including reviewing the 2019/20 Annual Governance Statement and internal audit reports issued as part of the 2019/20 internal audit programme. On the basis of this further risk assessment work we have identified the following additional risk to our value for money conclusion:

- There is a risk that there is a material weakness in arrangements to manage risks effectively and maintain a sound system of internal control.

Our 2018/19 value for money conclusion will be qualified in relation to arrangements for childrens services. Ordinarily, when our report is qualified in the prior year, we would expect the subject matter of that qualification to represent a significant risk to our conclusion in the following year. However, in view of the improvement trajectory shown in Ofsted monitoring reports during 2018/19, confirmed by the results of a re-inspection in the first quarter of 2019/20 which rated the service as "Good", we do not consider this to be the case here.

We set out information on the significant risks and our response on the following pages.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Risk title	Financial reporting arrangements
Risk description	The Council's statement of accounts for 2018/19 has been significantly delayed and there has been a period of uncertainty over the true financial performance in 2018/19 and amount of resources available at 31 March 2019 while officers investigate and quantify potential or actual misstatements in the draft statement of accounts. This delay and uncertainty has caused similar delays and uncertainty around the 2019/20 process. The Council has recognised in its draft annual governance statement for 2019/20 that there significant deficiencies in controls over financial reporting. There is a risk that these matters indicate material weaknesses in financial reporting arrangements. Reliable and timely financial reporting that supports the delivery of strategic priorities is a key component of informed decision-making.
Procedures performed	We have evaluated: • the volume, size and significance of adjustments required to the original version of the statement of accounts and their cause. • the control observations made in the course of our work. • the report commissioned by the Council into the 2018/19 accounts closure and audit process.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Risk title	Financial reporting arrangements (continued)
Conclusion on risk	We conclude that our VFM conclusion should be qualified in respect of this matter. This is because of the following factors relating to the 2018/19 accounts and audit process: • The length of time taken to provide information and explanations to support transactions in the accounts; to investigate issues which have arisen; and prepare amended financial statements leading to an expected delay in excess of 18 months for the target date for issue of our opinion of 31 July 2019 (see reports to audit committee meetings in July 2019, December 2020 and April 2021 for information on the nature and cause of delays). • The volume, size and pervasiveness of corrections required in relation to both current and prior period information reported in the statement of accounts originally authorised for issue in May 2019, in particular correction to or prolonged uncertainty over the amount of usable reserves available to meet future spending requirements and therefore strategic objectives (or timing in recognition of these resources) (see the appendix to this document for a summary of the changes made). Matters of particular note are set out in out report in to the April 2021 meeting. Whilst relating to the 2018/19 accounts, these factors are relevant to our value for money conclusion as the council's financial reporting arrangements primarily operate annually and during 2019/20 primarily involved the closure of the 2018/19 financial statements. In addition, we note the following matters in relation to the 2019/20 accounts and audit process: • The 2019/20 statement of accounts has also been significantly delayed beyond the original target date for issue of the audit opinion of 30 November 2020 • The preparation and provision of supporting working papers was delayed significantly beyond the original start date as well as beyond the deadline for initial publication of the draft statement of accounts • The response time to requests for information has been very slow • The opening balances had not been confirmed at the start of the audit and was subject to change during the audit • Whilst the number of errors it was less than in relation to the 2018/19 statement of accounts it was still substantial • Changes have been agreed during the process which have had the effect of increasing usable reserves by £73m and increasing unusable reserves by £27m.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Risk title	System of risk management and internal control
Risk description	In his annual opinion for 2019/20, the Head of Internal Audit was able to provide only limited assurance that the council has adequate systems of governance, risk management and internal control and provided limited assurance opinions on approximately half the reviews in the 2019/20 internal audit programme, including in respect of risk management. Further, the annual governance statement reports twelve "significant governance issues" identified in 2019/20 and reports on progress on a further nine identified in 2018/19. The report concludes the draft annual governance statement as follows: "Despite these positive improvements there have been some significant challenges over the course of 2019/20, which has included ensuring we are financially sound whilst still meeting growing community needs, closing our financial accounts, administrating the pension scheme and consistently applying good risk management practices across the Council. We recognise the need to improve and are determined to do so". There is a risk that these circumstances represent a material weakness in arrangements to manage risks effectively and maintain a sound system of internal control.
Procedures performed	We have evaluated: • The significance of the subject matter and findings reported for individual audits given a limited assurance rating by internal audit • The significance of governance issues reported in the annual governance statement • Other matters in relation to the system of internal control, including the control observations made in the course of our work on the council's statement of accounts.
Conclusion on risk	We conclude that our VFM conclusion should be qualified in respect of this matter. This is because: • Whilst the council has designed and implemented risk management arrangements these are not operating effectively • The internal audit programme and annual governance statement process has identified a significant number of governance issues and internal controls deficiencies in areas which are significant either quantitatively or where the council is exposed to material reputational damage.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

Conclusion

We expect that our conclusion will be qualified on an "except for" (and not "adverse") basis in respect of two matters:

- Financial reporting arrangements in view of the volume and size of changes required to the original version of the 2018/19 statement of accounts, time taken to resolve issues identified and impact of these matters on the 2019/20 accounts and audit process.
- Risk management and the system of internal control in view of weaknesses identified in the operating effectiveness of the system of risk management and the number and significance of issues identified in the system of internal control.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources (continued)

The expected form of our conclusion is as follows:

"Basis for qualified conclusion
The finalisation and publication of the council's statement of accounts for the years ended 31 March 2019 and 31 March 2020 have been significantly delayed from their original target dates of 31 July 2019 and 30 November 2020, respectively. This is due to the time needed to investigate issues identified during the 2018/19 audit process and to prepare amended accounts and the consequent impact on the 2019/20 accounts and audit process. The Council's investigation of these matters resulted in a period of prolonged uncertainty over the amount and timing of recognition of usable reserves available to meet future spending requirements and the council's strategic objectives and a significant volume of corrections to the originally published draft statement of accounts which had the effect of increasing usable reserves by £42m, unusable reserves by £58m, assets by £128m and liabilities by £28m at 31 March 2019 and increasing usable reserves by £73m, unusable reserves by £27m, assets by £112m and liabilities by £15m at 31 March 2020.

These conditions provide evidence that the Council did not have proper arrangements in place for reliable and timely financial reporting that supports the delivery of strategic priorities to support informed decision making.

In the Annual Governance Statement, the Council has reported on significant governance issues identified from its annual review of effectiveness and concludes that the council has had "significant challenges over the course of 2019/20, which has included ensuring we are financially sound whilst still meeting growing community needs, closing our financial accounts, administrating the pension scheme and consistently applying good risk management practices across the Council". In his annual opinion for 2019/20, the Head of Internal Audit was able to provide only limited assurance that the council has adequate systems of governance, risk management and internal control and provided limited assurance opinions on approximately half the reviews in the 2019/20 internal audit programme, including in respect of risk management.

These conditions provide evidence that the Council did not have proper arrangements in place to manage risks effectively and maintain a sound system of internal control.

Qualified conclusion
On the basis of our work, having regard to the guidance issued by the C&AG in November 2017, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, the London Borough of Tower Hamlets put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019."

6. Control observations

Control observations

During the course of our audit, we have identified a number of internal control findings. We have set out below the high priority findings which represent significant control deficiencies. In some instances, this repeats information previously reported but we have included here in order to give a complete picture in this report of our key findings from the audit.

As the 2018/19 audit process was ongoing at the time of the 2019/20 accounts close and audit process, the control observations are substantially the same as in our 2018/19 final report, except that the quality of the first draft of the statement of accounts was of higher quality and did not contain internal consistency and similar errors.

Area	Observation and recommendation
Preparation of accounting papers	**Observation** Accounting papers were not prepared to explain and support key judgements and estimates, including the ongoing pertinence of judgements made in previous years or were not sufficiently detailed to explain and support those judgements and estimates. It is good practice (and the expectation of the Financial Reporting Council) for organisations to prepare accounting papers in respect of key matters in the application of accounting standards, in particular for matters of judgement or of estimation complexity. Typically these would include consideration of the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts etc.), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures. The preparation of accounting papers both supports accurate financial reporting, including facilitating both internal and external review and challenge, and provides a resource to ensure institutional knowledge in the organisation. **Recommendation** We recommend the Council adopts an approach of preparing papers for any key accounting judgements or issues arising. We also recommend that accounting papers are presented to the same meeting of the audit committee at which the draft statement of accounts are approved (if not earlier) for scrutiny and to inform the audit committee's approval of the draft statement of accounts
Accounts closure resourcing and quality assurance processes	**Observation** Very few of the requested documents were provided at the start of our original audit visit. Responses to audit requests were not made on a timely basis and/or were of poor quality. Errors, for example in the accounting for community infrastructure levy, the recognition of grant income and contributions, the preparation of school bank reconciliations and classification of financial instruments provide evidence that officers did not have a full understanding of the tasks assigned to them or that insufficient quality checks were performed on the supporting information. **Recommendation** We recommend that the Council considers the resourcing of the closure process, the assignment of tasks, the training needs of those involved in the process and the quality assurance processes that will apply. We also recommend the Council considers whether there are year end processes which can be streamlined or pulled forward to earlier in the year.

Control observations (continued)

Area	Observation
Reconciliation of general ledger control accounts and segregation of duties	**Observation** General ledger control accounts were not reconciled in a number of instances and reconciling differences adequately resolved. This resulted in various misstatements. This included the control accounts for schools bank accounts; corporate bank accounts; utility costs; and grant control accounts. **Recommendation** We recommend: • Responsibility for each control account is assigned to a named preparer and reviewer (with those roles allocated to different officers) • The frequency and timescale for preparation and review of reconciliations is set down in written instructions to staff • A monitoring arrangement is designed to ensure reconciliations are carried out and reviewed in accordance with instructions and any exceptions reported to senior management for action.
Completeness of disclosures	**Observation** The draft version of the accounts did not include all of the disclosures required by the Code. **Recommendation** We recommend a detailed review of the completed CIPFA disclosure checklist is carried out.

Control observations (continued)

Area	Observation
Valuation of properties	**Observation** The valuation of properties is dependent on officers' assumptions (or input from officers in forming assumptions) including the location and functional obsolescence of the existing properties and information provided by officers, including the number, type and condition of council dwellings and the floor space of schools. A paper was not prepared and reviewed setting out assumptions made (or information provided to the valuer to inform their formation of assumptions). There are also no formal controls operating to ensure the completeness and accuracy of other information provided to the valuer. We have not been provided with information about the Council's review of the reasonableness of the outcome of the valuation in 2019/20, including how changes in individual asset values have been scrutinised and followed up with the valuer. The calculation and recording of entries relating to the valuation is performed in the fixed asset register. The fixed asset register is maintained on an excel spreadsheet. Typical spreadsheet controls we would expect to see over the design and maintenance of a spreadsheet used for the initiation and recording of significant financial transactions have not been adopted. The process to support the assumption in the original version of the accounts that there had not been a material change in valuation of assets not selected for revaluation at the reporting date was not adequate. **Recommendation** We recommend the Council prepares and maintains a schedule which sets out the information which is provided to the valuer (including management assumptions and information provided to the valuer to inform assumptions made by the valuer) and identifies the controls over each category of information. We recommend the Council design and document their review of the outcome of the valuation. This would require formalising the criteria for selection of individual asset values for investigation, consistently applying these criteria and then documenting the conclusion on exceptions for review and approval. We recommend the council implement standard spreadsheet controls within the fixed asset register. This principle should be applied to any other spreadsheets used in the preparation of any other significant information in the statement of accounts. We recommend the Council prepare a paper to support the decision not to value particular assets prior to publishing its draft statement of accounts.

Control observations (continued)

Area	Observation
Journals	**Observation** Journals either pass through workflow approval process or are processed through a separate "bulk upload" process. The latter are principally posted to the general ledger system by officers in the Operations team based on requests submitted by other teams in finance. Checks are performed by the Operations team to confirm that journals have been accurately entered to the general ledger system in accordance with the submitted request, but the scope of these checks does not include confirming that the journal is for a valid business and accounting reason and that the values and proposed entries are accurate. The Operations team does not hold a list of individuals authorised to submit a journal request and are not required to see evidence that the journal has been approved by a second officer. Journals may therefore be posted by the Operations team which have not been subject to review and approval within the originating team. Individual teams may have established their own working practices relating to the approval of journals, but as the Council has not communicated common standards to be applied, arrangements for the approval of journals and controls to ensure compliance with those standards, if any, will not be consistent across teams. As standard documentation for journal requests is not required, a record of who has prepared and who has approved the journal request is not consistently maintained and in practice it has not been possible to determine in all cases whether the journal has been approved and who has prepared and who has approved the journal before submission to the Operations team. As a result it is not possible in all cases to determine whether, in practice, there has been appropriate segregation of duties or whether the journal has been approved by an officer who is authorised to do so. A small number of officers have been given access to raise this journal type within the Chief Accountant's team. There are no controls to prevent or detect the posting of journals by these individuals which have not been approved by a second officer who is authorised to do so. **Recommendation** Re-visit which journal types and amounts can be posted without approval by a second officer and implement controls which prevent or detect the posting of journals which have not been approved in accordance with those agreed arrangements.

Control observations (continued)

Area	Observation
Recognition of grants and contributions	**Observation** Errors were identified in the recognition of grants and contributions. The appropriate recognition of grants and contributions depends on the identification of conditions within the grant agreement. Correctly distinguishing between conditions and restrictions can involve judgement. **Recommendation** We recommend: • grant agreements are reviewed on notification of entitlement and a preliminary assessment made of whether there are conditions attached to the grant. This assessment is documented and subject to review by a second officer • The decision is reflected in the type of general ledger code set-up to record the grant • For grants or contributions involving conditions, a working paper is prepared showing the calculation of the amount to be recognised and which is subject to review by a second officer.
Classification of expenditure as capital	**Observation** We were not able to identify a documented internal control to prevent or detect the incorrect classification of revenue spend as capital. Whilst we did not identify any exceptions, the classification of expenditure between revenue and capital can involve the exercise of judgement. Projects which are of a capital nature can involve both revenue and capital elements which need to be accounted for differently. **Recommendation** We therefore recommend the Council implements such a control.

Control observations (continued)

Area	Observation
Other matters	We note the following additional observations: • Employment contracts held by the council for three sampled employees had not been signed by the employee. This may cause issues in enforcing particular contractual terms. • A payment was made to a local NHS body of £3m. Such payments should be subject to proper financial management practices which provide the council with assurance that the recipient will secure the most efficient and effective use of the payment. This was not done. As explained further on page 12, the payment was, in substance, a return of an advance made in the previous year. • The fixed asset register does not contain information on original cost for assets held at depreciated historic cost and therefore cannot be readily reconciled to cost and accumulated depreciation information and does not include date of acquisition which would enable this information to be re-constructed. • Assets in Vehicles, Plant and Equipment and infrastructure categories do not always contain detailed descriptions and in some cases have been aggregated by type and year of acquisition. As a result, it is not readily possible to determine whether assets remain in operational existence. Further comments on infrastructure assets was included in our April 2021 report. • The coding structure within the council's main accounting system has codes designated for recharge income and expenditure. These were not consistently used. This complicated the year end process for eliminating internal income and expenditure amounts and incomplete elimination of such income and expenditure in the initial version of the accounts. We understand the council proposes to discontinue or limit the system of recharges going forwards. We also identified instances where internal trading between the council and schools had not been correctly eliminated. • Bank reconciliations were not carried out for all corporate accounts and for others the analysis of reconciling items was presented in a way which readily showed which items represented true reconciling differences at the reporting date. The reconciliation of schools bank accounts was complicated by the use of a single general ledger control account and reconciling items included amounts which were not valid reconciling items, including amounts relating to input VAT to be reclaimed and outstanding creditors. • Sample items included land which was still registered in the name of the previous holder (the London Residuary Body and the Inner London Education Authority). We recommend the position is regularised.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

. Purpose of our report and responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Jonathan Gooding

for and on behalf of Deloitte LLP

St Albans

17 January 2022

Appendices

Appendix A: Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). We have shown in separate tables (A) those which management do not propose to correct in the final version and (B) those misstatements which management have agreed will be corrected in the final version of the statement of accounts.

A. Misstatements which management do not propose to correct

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Debit/ (credit) OCI/Equity £m
Misstatements identified in current year					
Provision for appeals against rateable values	[1]	8.8	(8.8)	-	-
Major works provision in excess of requirement	[2]	(2.0)	2.0	-	-
Cash entries not recorded	[3]	(0.5)	0.5	-	-
Error in recording audit journal	[4]	-	-	-	-
Demolition costs	[5]	0.7	(0.7)	-	-
Assets not in operational existence	[6]	1.1	(1.1)	-	-
Incorrect valuation of Bow school	[7]	(3.4)	4.6	-	(1.2)
Impact of Goodwin case	[8]	4.0	(4.0)	-	-
Misstatements identified in prior year					
Provision for appeals against rateable values	[1]	(6.4)	-	6.4	-
Major works provision in excess of requirement	[2]	2.0	-	(2.0)	-
Impact of McCloud/Sargeant rulings	[9]	(1.6)	-	1.6	-
Total		**2.7**	**(7.5)**	**6.0**	**(1.2)**

Appendix A: Audit adjustments

Unadjusted misstatements

[1] In estimating the provision for the cost of appeals by ratepayers against rateable values, the council has not taken into account information available on historical experience of such appeals or information which has become available after the reporting date about appeals lodged or determined. We have estimated the effect of taking these matters into account would be to increase the provision by £19m, of which the council's share would be £8.8m. For similar reasons (and as set out in more detail in our report to this meeting on the 2018/19 accounts) we proposed an adjustment to the equivalent provision at 31 March 2019.

[2] The council has not provided evidence for the level of provision in the light of the leverage it has to refuse to approve assignment of leases and the absence of historical experience of bad debt expense at this level. We have proposed a judgemental adjustment to reduce the provision by £2m at 31 March 2020 and 31 March 2019.

[3] Four bank accounts had not been reconciled. In one case, no entries had been made to the general ledger since January 2019. We estimate as a result of this control deficiency that cash is understated by £529k in relation to that account. It is possible that there is a further adjustment required in relation to 3 other accounts which might increase this misstatement by £223k. However, officers need to carry out further work to determine whether in one case funds are held on trust and for the remaining 2 accounts to reconcile them in full. Given this, and that the amount involved is clearly trival, we have not proposed an adjustment in relation to the 3 other accounts.

[4] An audit journal to correct an error relating to the omission of VAT from a sales invoice was incorrectly posted. The correcting journal is to increase Short term creditors - HM Revenue & Customs and reduce Short term creditors - HM Revenue & Customs by £585k.

[5] In our sample, costs of demolishing part of an existing building were incorrectly capitalised. As these are part of the disposal of the existing building, they should have been expensed.

[6] As explained in Appendix D, officers carried out a further review of the fixed asset asset register and identified assets with carrying value of £1.1m which were no longer in operational existence.

[7] An existing building was demolished prior to the year end with a replacement extension under construction at the year end. The valuer did not take into account in his valuation that part of the building had been demolished. Works on the new extension prior to the year end of £5.5m was incorrectly included in other land and buildings and not in assets under construction, and was as a result written out on comparison to the valuation performed. As a result, assets under construction is understated by £5.5m (i.e. the amount of the works on the extension carried out at the balance sheet date) and other land and buildings is overstated by £0.9m (i.e. the value of the part of the building demolished before the year end.

[8] A legal challenge has been made against the Government in respect of unequitable benefits for male dependants of female members (based on service after 1988) following the earlier Walker ruling. An Employment Tribunal on 30 June 2020 has upheld the claim. This should result in an additional liability being recognised in FY20 DBO, as the ruling gives raise to a post balance sheet adjusting event. In our view this should be treated as a post balance sheet adjusting event, and the estimated impact should be recognised as a past service cost in the 2019/20 Comprehensive Income and Expenditure Statement. Based on general information that we have for LGPS's, we understand that the impact could be of the order of 0.2% of the defined benefit obligation, i.e. around c.£4m.

[9] As explained in more detail in our report to this meeting on the 2018/19 statement of accounts, the pension liability at 31 March 2019 does not take into account the impact of the McCloud/Sargeant rulings.

Appendix A: Audit adjustments

Unadjusted misstatements

B. Misstatements which management have agreed will be corrected in the final version of the statement of accounts

We have shown these separately from the previous table as officers have confirmed these misstatements will be corrected in the final version of the statement of accounts unlike misstatements in the previous table which will remain uncorrected.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	Debit/ (credit) OCI/Equity £m
Misstatements identified in current year*					
Incorrect set-off of a bank overdraft set-off against deposit amounts	[1]	-	-	-	-
Total		**-**	**-**	**-**	-

[1] A bank overdraft of £25.2m has been set-off against deposit amounts where the council has no legal right of set-off and the amount should therefore be reclassified to bank overdrafts in current liabilities (see also page 59).

*Misstatements identified in prior years which officers have agreed will be corrected in the final version of the 2018/19 statement of accounts and in the comparative information in the 2019/20 accounts are shown in our separate report on the 2018/19 statement of accounts presented to this meeting.

Appendix A: Audit adjustments

Corrected misstatements

In the version of the accounts published in draft on the council's website on 19 October 2021, officers have corrected for various misstatements identified over the course of the audit. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

	Original version £m	Current version £m	Change £m	Principal recorded adjustments and reference to further information
Property, plant and equipment	2,657.3	2,689.9	32.6	• Removal of Millennium Project asset (-£22.6m) [See page 21] • Removal of other assets owned by KGVFT (-£10.5m) [See page 21] • Reclassify advance payment to short-term debtors (-£7.9m) [See page 14] • Removal of other duplicated assets (-£2.6m) [See April 2021 report] • Recognise cottages not previously in fixed asset register (+£4.7m) [See note 1] • Correct schools valuations (+£44.2m) [See pages 10-11] • Change basis of valuation for surplus assets (+£13.5m) [See April 2021 report] • Correct depreciation of infrastructure assets (+£6.1m) [See note 2] • Correction of error of principle in valuation of leisure assets (+£8.7m) [See pages 10-11] • Other non significant net adjustments to Property, plant and equipment (-£1.0m)
Heritage assets	18.8	18.8	-	
Intangible assets	0.7	0.7	-	
Long term investments	59.7	64.7	5.0	• Reclassify fixed term deposits from Short-term investments (£5.0m) [See note 3]
Long term debtors	1.6	1.6	-	
Short term investments	75.9	100.9	25.0	• Reclassify fixed term deposits to Long-term investments (-£5.0m) [See note 3] • Reclassify fixed term deposits from Cash and cash equivalents (+£30.0m) [See note 4]
Short term debtors	150.0	207.1	57.1	• Correct errors in the recognition of CIL (+£28.2m) [See page 17] • Adjustments involving schools cash balances (+£3.1m) [See page 20] • Reclassify advance payment from Property, plant and equipment (+£7.9m) [See page 14] • Adjustments involving leaseholder contributions (+£3.6m) [See page 17] • Adjustments to bad debt provisions (+£8.2m) [See note 5] • Correct error in accounting for Council Tax collection costs (+£3.1m) [See note 5] • Write-off errors on control accounts (-£1.1m) [See note 6] • Other non significant net adjustments to Short-term debtors (+£4.1m)

Appendix A: Audit adjustments

Corrected misstatements (continued)

	Original version £m	Current version £m	Change £m	Principal recorded adjustments and reference to further information
Cash and cash equivalents	169.0	161.5	(7.5)	• Reclassify fixed term deposits to short-term investments (-£30.0m) [See note 4] • Reclassify bank overdrafts to current liabilities (+£28.0m) [See page 59] • Adjustments involving schools cash balances (+£5.5m) [See page 20]
Bank overdrafts	-	(28.0)	(28.0)	• Reclassify bank overdrafts from current assets (+£28.0m) [See page 59]
Short term borrowings	(4.2)	(1.2)	3.0	• Reclassification of PFI/finance lease to short term creditors (+£3.0m) [See note 7]
Short term creditors	(180.8)	(179.7)	1.1	• Reclassification of PFI/finance lease from borrowings (-£3.0m) [See note 7] • Correct error in housing capital receipts payable (+£1.2m) [See note 8] • Correct error in recording of NNDR (+£1.9m) • Other non significant net adjustments to short-term creditors (+£1.0m)
Provisions (current)	(10.2)	(9.2)	1.0	• Other non significant net adjustments to provisions (+£1.0m)
Provisions (non current)	(3.0)	(13.4)	(10.4)	• Recognise additional provisions (-£10.0m) [See note 9] • Other non significant net adjustments to provisions (-£0.4m)
Long term borrowing	(71.5)	(71.5)	-	
Pension liabilities	(428.7)	(433.9)	(5.2)	• De-recognise asset relating to THH section of council scheme (-£5.2m) [See note 10]
Capital grants receipts in advance	(119.2)	(96.1)	23.1	• Correct errors in the recognition of grants and contributions (+£23.1m) [See page 17]
Deferred liabilities	(55.6)	(55.6)	-	
Deferred income – receipts in advance	(0.5)	-	0.5	• Other non significant net adjustments to Deferred income (+£0.5m)

Appendix A: Audit adjustments

Corrected misstatements (continued)

[1] The Council purchased residential accommodation during 2018/19 for provision as temporary housing. The properties are required to be carried at current value after initial recognition but were not included in the list of properties given to the valuer for valuation. Some of the properties were not in a condition where they could be used without works to the properties which were ongoing at the reporting date. These properties have been reclassified from other land and buildings to assets under construction and did not require valuation under the accounting rules for that class.

[2] As explained in the April 2021 report, we challenged the council on the useful economic lives (UELs) selected for infrastructure assets during our 2018/19 audit. The 2018/19 accounts were updated for this change but this was not done until after publication of the initial version of the draft 2019/20 statement of accounts. As a result an adjustment was required to the opening balances in the 2019/20. In addition, the new UELs were not correctly implemented in the fixed asset register and as a result an adjustment was also needed to the 2019/20 depreciation charge to correct this.

[3] A fixed term deposits with maturity dates falling after 12 months of the relevant reporting date had been classified within short term (i.e. current) investments. As this is not held for trading and was not, given its remaining period to maturity, expected to be realised within twelve months of the reporting date, this should have been classified within long term (i.e. non current) investments.

[4] The council's policy is to classify fixed term deposits within cash and cash equivalents which have a maturity date of three months or less on acquisition; where the period to maturity is greater than three months, the instrument is classified within investments. This adjustment corrected an error in the application of this policy.

[5] Council Tax collection costs receivable were not recognised on the balance sheet due to an oversight, but were included in the calculation of a bad debt provision against both Council Tax arrears and debtors relating to the recovery of collection costs from taxpayers.

[6] The Council maintains control accounts for utility bills which require allocation to relevant cost centres (and in a small number of cases, other entities which occupying Council premises). The control accounts had not been correctly maintained and as a result costs had not been expensed or had not been billed to third parties and had become irrecoverable.

[7] This is an adjustment officers chose to make to reclassify the current portion of PFI and finance lease obligations from short term borrowings to short term creditors.

[8] This corrects a discrepancy between the control account balance and the amount payable to the housing capital receipts pool based on the detailed return information.

[9] The original version of the accounts included a disclosure of a contingent liability relating to possible claims for re-imbursement of water charges. We challenged the Council on whether settlement was now probable following the outcome of a test case. Officers concluded that settlement was now probable and have recognised a provision (£9.0m). In addition, further provisions for other legal cases was made (£1.0m) following circularisation of the in house legal team.

[10] This removed a pension asset relating to the Tower Hamlets Homes section of the London Borough of Tower Hamlets scheme as the council does not have rights to this asset. Further background to the accounting is set out at page 19.

Appendix A: Audit adjustments

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). We have shown in separate tables (A) those which management do not propose to correct in the final version (B) those disclosure misstatements which management have agreed will be corrected in the final version of the statement of accounts.

A. Disclosure misstatements which management do not propose to correct

Disclosure
Inconsistencies between the Comprehensive Income and Expenditure Statement and Note 13, Income and Expenditure analysed by Nature There are differences between income and expenditure on services per CIES and the amounts shown in Note 13, Income and Expenditure analysed by Nature. Gross income from services using information extracted from the Note 13 is £3539k higher than the amount shown in the CIES and gross expenditure (£3358k) and capital grants (£181k) is also higher by the same amount. We are not able to determine whether the CIES or Note 13 requires correction.

B. Misstatements which management have agreed will be corrected in the final version of the statement of accounts

We have shown these separately from the previous table as officers have confirmed these misstatements will be corrected in the final version of the statement of accounts unlike misstatements in the previous table which will remain uncorrected.

Disclosure
Components of cash and cash equivalents Note 19, Cash and cash equivalents discloses components of cash and cash equivalents. The line item "Short term deposits with banks and building societies" is not accurately described as it also includes only amounts on deposit with other local authorities. Also, within the note, overdrafts have been offset against deposits and as a result the note does not readily show how amounts tie through to the balance sheet where these amounts have not been offset.
Classification of items within cash flow statement The adjustment to exclude capital creditors from the increase/decrease in creditors includes amounts due to the housing capital receipts pool. Payments to the housing capital receipts pool are presented within cash flows from operating activities. As a result, the amount should be included within and not excluded from the increase/decrease in creditors line. The effect of correcting the error would be to reduce inflows from investing activities and reduce outflows from operating activities. The amount of the error is £4,015k.

Appendix A: Audit adjustments

Disclosures

Disclosure misstatements

Disclosure
Classification of rechargeable works deposits within short term creditors Amounts received on account from individuals and businesses for rechargeable works (£12.1m) are classified in Short-term creditors - Other entities and individuals. These represent contract liabilities and should be classified in Short term creditors - receipts in advance
Auditors' remuneration The disclosure differs to our records. Further information is included in page 55.
Income and expenditure analysed by nature Employee benefits expenses are understated and Other service expenses are overstated by £14,462k as a result of the incorrect classification of a journal item.
Related parties note The note includes the disclosure of amount due to the council at 31 March 2020. The amounts are in agreement with the Accounts Receivable ledger tested as follows: East End Homes: Amount due per disclosure note: £388k; per Accounts Receivable ledger: £741k; and Mulberry School for Girls: Amount due per disclosure note: £11k; per Accounts Receivable ledger: £811k.
Narrative report – inconsistencies with financial statements The report includes a table setting out the Council's reserves at each of the last three reporting dates. The General Fund earmarked reserve reported there at 31 March 2020 is £7.8m lower than the amount shown in the financial statements.

Appendix A: Audit adjustments

Disclosures

Other disclosure recommendations

Although the omission of the following disclosures does not materially impact the financial statements, we are drawing the omitted disclosures to your attention because we believe it would improve the financial statements to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

Disclosure
Movements on provisions The analysis of movements on provisions should distinguish between amounts used and unused amounts reversed in the year. The disclosure does not distinguish between these amounts and instead presents the aggregate of these amounts [Code: 8.2.4.2].
Disclosures relating to credit risk on financial assets The Council has made both quantitative and qualitative disclosures in relation to credit risk. The disclosures do not deal with credit risk in relation to amounts due from service recipients and similar contracts [Code: 7.3.3.7].
Revenue from contracts with service recipients Revenue recognised from contracts with service recipients has not been disclosed separately from other sources of revenue [Code: 2.7.4.5] and the amount has not been disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors [Code 2.7.4.5]. Impairment losses recognised on receivables arising from contracts with service recipients have similarly not been disclosed separately from impairment losses from other contracts [Code: 2.7.4.5] The opening and closing balances on receivables, contract assets and contract liabilities from contracts with service recipients has not been separately disclosed, together with disclosures related to these account balances [Code: 2.7.4.8].

Appendix A: Audit adjustments

Disclosures

Other disclosure deficiencies

We also report to you the following further disclosure omissions which management have agreed will be included in the final version of the statement of accounts. We have shown these separately from the previous table as officers have confirmed these misstatements will be corrected in the final version of the statement of accounts unlike misstatements in the previous table which will remain uncorrected.

Disclosure
Disclosures on critical accounting judgements The disclosure on key sources of estimation uncertainty provides a generic explanation, but does not provide further detail, for example, the sensitivity of the valuation of schools land to the assumption [Code 3.4.2.91 and Code 3.3.4]. The disclosure refers to a material uncertainty in relation to the valuation of properties at 31 March 2020. This has not been fully explained or given suitable prominence.
Disclosure of comparative information Comparative information in respect of the preceding period is required to be disclosed for all amounts reported in the financial statements, except when the Code permits or requires otherwise [Code 3.4.2.30]. This has not been given for the following disclosures where the Code does not permit or require otherwise: Material items of income and expenditure; capital commitments; fair value hierarchy table; related parties (amounts due to or from related parties at 31 March 2019); and disclosures in relation to PFI and similar contracts.
Fair value measurements The Council is required to disclose for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised. The Council is required to do the same for assets and liabilities not measured at fair value in the balance sheet but for which fair value is disclosed. The Council has taken an exemption from the requirement to determine fair values for certain assets where officers have assessed that the carrying amount is a reasonable approximation of fair value (e.g. short term debtors). These assets have been included in the table on fair values of financial assets and financial liabilities as if fair values had been determined. The Council has also incorrectly included in the fair value hierarchy table (and classified within the fair value hierarchy) such assets and liabilities. The Council has not included financial assets measured at fair value within the fair value hierarchy table. The table is incorrectly limited to disclosures on financial assets and liabilities and does not therefore include information on surplus assets as these are non-financial assets. The table classifies assets and liabilities in the fair value hierarchy but does not provide a description of the valuation technique and the inputs used in the fair value measurement. [Code: 2.10.4.1].

Appendix A: Audit adjustments

Disclosures

Other disclosure deficiencies

Disclosure
Events after the reporting period The statement of accounts must give the date the financial statements were authorised for issue and who gave that authorisation. This has not been done. This wording and the date is typically entered at the foot of the balance sheet. The accounts should also disclose whether the statements were amended following audit. This has also not been done. [Code: 3.8.4.1]
Disclosures in relation to trust funds The council is the sole trustee for the King George V Fields Trust. In this circumstance the council is required to disclose details of the nature and amount of trust funds [Code 3.4.4.1].
Transfers to/from the major repairs reserve The Council is required to present an analysis of amounts in the movement on the Housing Revenue Account statement which includes transfers to/from the major repairs reserve [Code 3.5.3.3]. This has not been disclosed as the amount has been net off against an equal and opposite transfer from the capital adjustment account.
PFI and similar contracts The Code requires disclosure of rights and obligations for each arrangement or class of arrangement [Code: 4.3.4.4]. This has not been done
Disclosures relating to defined benefit plans The Code requires the risks associated with the Council's defined benefit plans (such as longevity assumptions, statutory changes to the scheme and structural changes to the scheme) and a description of the regulatory framework in which the plan operates to be disclosed [Code: 6.4.3.42]. This has not been done. In relation to the effect of defined benefit plan on the Council's cash flows, the accounts disclose an estimate of the contributions expected to be paid in the following year but do not explain more broadly how its defined benefit plans may affect the amount, timing and uncertainty of the authority's future cash flows or give a description of any funding arrangements and funding policy that affect future contributions [Code: 6.4.3.42] A sensitivity analysis for each significant actuarial assumption has been disclosed but the methods and assumptions used in preparing the sensitivity analyses required, the limitations of those methods, comparative information and changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes, if any, have not been disclosed [Code: 6.4.3.42]. Information about the maturity profile of the defined benefit obligation has not been disclosed [Code 6.4.3.42].

Appendix A: Audit adjustments

Disclosures

Disclosure
Disclosures relating to multi employer schemes A description of the extent to which the Council can be liable to the plan for other entities' obligations under the terms and conditions of the teacher's pension scheme has not been given (the Council is not liable) [Code 6.4.3.42]. The actual contributions for the year have been disclosed but not the expected contributions to the plan for the next annual reporting period [Code 6.4.3.42]. An indication of the level of participation of the authority in the plan compared with other participating entities has not been disclosed [Code 6.4.3.42].
Community infrastructure levy (CIL) The Code recommends that authorities consider separate disclosure of material CIL income and expenditure, and material balances on the capital grants unapplied account [Code 2.2.4.3]. As balances are material, we recommend the council consider separate disclosure.
Contingent liability The council has disclosed a contingent liability relating to the possibility that the council may be required to compensate lenders if certain registered social landlords are unable to repay loans taken out by the landlords to finance the transfer of properties from the council to the landlord. Following further consideration, officers have concluded that the possibility that guarantees will be called is remote and therefore will remove the disclosure.
Narrative report The Code requires issues around governance arrangements during the year have been highlighted in the Narrative Report. This may be done by cross reference to the Annual Governance Statement to avoid duplication [Code: 3.1.1.7]. The Code also requires a commentary on cash flows during the year and the factors that may affect future cash flows [Code 3.1.1.15].

Appendix B: Our other responsibilities explained

Fraud responsibilities and representations

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified the risk that operating expenses had been inappropriately capitalised and management override of controls as key audit risks.

During course of our audit, we have made enquiries of management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

We will explain in our audit report (for all entities subject to audit) how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Appendix C: Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the council and and our objectivity is not compromised.
Fees	Details of proposed fees for audit and non-audit services performed for the period have been presented separately in the appendix. The fees for the audit set out on the next page relate to the scale fee and variations to the original scale fee which have so far been agreed with the council and with Public Sector Audit Appointments Limited. Billing to date takes account of time spent in the period to 31 January 2021. Since then, a substantial amount of time has been incurred to bring the 2019/20 audit, as well as the 2018/19 audit, to its current state and we will be seeking to agree a further fee variation in relation to this.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. We have carried out assurance work on two grants/returns made by the council in respect of 2018/19. The fees relating to this work are reported in our final report on the 2018/19 audit. We did not carry out equivalent work on the 2019/20 grants/returns which has been performed by another reporting accountant. During 2019/20 we also provided property related services which commenced prior to our appointment. Details of the fees earned during 2019/20 are given on the next page. Fees earned from the start of our appointment to completion of the contract were £23k. The service relates to a transaction involving compensation for the transfer of part of a park which is owned by Council. The compensation was expected to be less than £0.5m. The engagement was ongoing at the time of our appointment and involved advising on the amount of the compensation. This involves both valuation services and negotiation with the government agency who will pay the compensation. The service did not involve taking a management role and the outcome of that service has not been used in the preparation of the financial statements. The work has been carried out by partners and staff from a different office and service line to the audit engagement partner.
Relationships	We are not aware of any relationships (other than the provision of non-audit services which are covered above) we have with the council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

Appendix C: Independence and fees

The professional fees expected to be charged by Deloitte for the period from 1 April 2019 to 31 March 2020 are as follows:

	Current year £'000
Audit of the council	227
Total audit	
Other non-audit services not covered above (Property related service – see previous page)	12
Total other non-audit services	12
Total non-audit services	12
Total fees	239
London Borough of Tower Hamlets pension scheme audit	17

As set out on the fees for the audit relate to the scale fee and variations to the original scale fee which have so far been agreed with the council and with Public Sector Audit Appointments Limited. Billing to date takes account of time spent in the period to 31 January 2021. Since then, a substantial amount of time has been incurred to bring the 2019/20 audit, as well as the 2018/19 audit, to its current state and we will be seeking to agree a further fee variation in relation to this.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
A lump sum payment contribution in 2017/18 of £43.4m. The council had taken legal advice which had the following conclusions: • The Council had a statutory duty under Regulation 62(1) to "contribute" the amount set out in certificate. • The regulations are highly prescriptive and require payment to be according to the timetable set out in the certificate. • It was not lawful for the Council to pre-pay the amount on its certificate. The amount of the overpayment is due back from the LGPS fund to the Council and in principle the Council may charge interest on this. In the subsequent two years, the Council may set-off its liability under the certificate to pay annual contributions of £15m against the initial overpayment.	The council has obtained a second piece of legal advice which concludes that the payment of the lump sum in 2017/18 was lawful. As a result, the council has revised its analysis of the accounting as follows: As the payment in 2017/18 was a lawful contribution, it was appropriate for the pension scheme to credit the contribution in full to the pension scheme income and expenditure account. Again as the payment in 2017/18 was a lawful contribution, in the council's accounts, the contribution was correctly deducted in arriving at the net pension liability. In the movement in reserve statement the council is required to make a transfer from revenue accounts to the pension reserve which has the effect of reversing entries made in the comprehensive income and expenditure statement, replacing with the contribution payable in respect of the financial year and taking the difference to the pension reserve. As the amount paid in 2017/18 is higher than the amount payable in respect of 2017/18, this results in a difference between the pension liability and the pension reserve which unwinds over the following two years. We have consulted with the National Audit Office on the legal position and expect to be able to provide an oral update at the meeting. Subject to this, on the basis of the revised legal position, we are content with the proposed accounting.
Losses of £5.8m in 2019/20 and £0.5m in 2018/19 should be reclassified from the other comprehensive income section of the CIES to Financing and Investment Income and Expenditure within the surplus on provision of services.	This adjustment has been reflected in the version of the accounts published in draft on the council's website on 19 October 2021.
Within the Statement of Movement on Reserves, losses have been transferred to the Financial Instruments Revaluation Reserve. Instead, the loss should be charged to a different unusable reserve (CIPFA suggest this is called the pooled investment funds adjustment account).	This adjustment has been reflected in the version of the accounts published in draft on the council's website on 19 October 2021.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
The disclosure on the categorisation of financial instruments should be updated to reclassify pooled investments from FVOCI to FVTPL.	This adjustment has been reflected in the version of the accounts published in draft on the council's website on 19 October 2021.
Whilst we have received information on the terms of various instruments, we have not received officers' assessment of their classification. As a result we have not concluded on this area.	Our work on this is complete. Adjustments have been made as set out in Appendix A, Audit Adjustments.
In relation to the valuation of properties, officers have added wording to the January 2021 version to refer to a material uncertainty due to the impact of the pandemic – although, as this is a key point, we recommend that this is explained in greater detail. The remainder of the narrative provides a generic explanation, but does not provide further detail, for example, the sensitivity of the valuation of schools and to the assumption on land prices.	The council has not updated the disclosure. We have included this as a disclosure deficiency in Appendix A, Audit Adjustments.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
Further explanation and analysis is needed to pinpoint and support a more precise estimate for the NNDR appeals provision.	We have provided our conclusion on this in Section 4, Other areas of audit judgement.
We have noted to officers that the disclosure on movements in the provision in 2019/20 accounts, which shows usage of the provision in 2019/20 of £34m, is inconsistent with information provided on payments made to ratepayers following a successful appeal in 2019/20.	The inconsistency related to errors in the disclosure of movements. The disclosure has been corrected in the version of the accounts published in draft on the council's website on 19 October 2021.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
The Council holds many bank accounts, some of which are in a debit (asset) position and some in a credit (liability) position. In the past the Council has presented the net position in cash and equivalents, offsetting credits against debits. Under the accounting rules, the Council can offset assets and liabilities only if it has a legally enforceable right to do so and intends to exercise the right of set-off (i.e. to settle net), or to settle simultaneously. In this case, the Council only has a legally enforceable right to offset certain of its accounts and not all and is also not able (because of the way the accounts are operated) to assert that it intends to settle net. The way in which the restatement has been calculated does not take into account this second condition.	A correction has been made in the version of the accounts published in draft on the council's website on 19 October 2021. However, the adjustment made does not take into account three accounts which were not included in the trial balance presented to us for audit. The accounts are involved in placing surplus schools cash on overnight markets. The Council's agreement with the bank does not give the Council a legally enforceable right of set-off and therefore the overdraft of £25.2m should not be set-off against the deposit on the balance sheet. We have included this in Appendix A, Audit Adjustments.
We are not able to quantify the adjustments needed in relation to the indemnity given to Tower Hamlets Homes Limited in respect of future pension costs as an exercise has not been performed to split the pension liability between amounts attributable pre and post transfer service and to re-measure the part attributable to post transfer service under IAS 37.	We have provided our conclusion on this in Section 4, Other areas of audit judgement.
At the time of writing we are waiting for information in relation to changes made to other account balances in relation to schools postings. In view of the uncertainty over the correct balance, we have not proposed an adjustment in relation to schools balances but will evaluate the impact of the uncertainty on the scope of our audit and on our opinion in aggregate with other issues identified.	We have provided our conclusion on this in Section 4, Other areas of audit judgement.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
Schools building areas: The valuation of school buildings uses information on their gross internal area. That data is provided by the Council to the valuer. We requested information to support a sample of building areas. Officers have informed us that they: • Have identified discrepancies with site plan information for the sample items selected by us and in the light of this, extended their investigation to cover the building areas for all schools • Estimated the impact of all errors identified at 31 March 2020, 31 March 2019, 31 March 2018 and 1 April 2017 respectively. • Propose to adjust the accounts to correct for these errors. As the information on this further adjustment was provided at the time of preparing this report, we have not yet tested this information.	We have not yet received information for some of our sample items which we requested to enable us to verify building areas provided to the valuer. We will provide an oral update to the meeting.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
Properties not subject to valuation at the reporting date: The Code does not require properties to be revalued on an annual basis, but does require valuations to be carried out where there has been a material change. The Council assesses whether there has been a material change over the financial year through its review of the market review report commissioned from its valuer. On the basis of this review, officers have concluded that there has not been a material change in the value of non dwelling properties which were not subject to valuation at the year end. The Council has not determined the level of change it considers to be material or evaluated the possible cumulative change since the date of the last valuation of properties (noting that for some properties this is earlier than the start of the financial year). We have requested this assessment to be prepared before we finalise our conclusion.	We have provided our conclusion on this in Section 3, Significant audit risks.
Two assets were surplus, but were classified in other land and buildings within the Property, Plant and Equipment note. We have asked officers how they are assured that there are no other surplus assets included in operational categories, but have not yet seen information relating to this.	We have provided our conclusion on this in Section 3, Significant audit risks.
One property which was recorded twice on the fixed asset register (once in its current use and once in a previous use), resulting in the overstatement of other land and buildings by £2.4m. Again, this error impacts on earlier reporting dates. The accounts for both years have been updated for these changes, including restatement of comparative information. We have again asked officers to provide information on how they are assured that all properties are in operational existence.	Officers have completed an exercise to compare the fixed asset register to the council's asset management system. The exercise identified a further £1.1m of assets which were no longer in operational existence. These should therefore be removed from the register and we have proposed this as an adjustment.
There are several non school assets where the valuation has increased as consequence of changes in floor area information which the Council had provided to the valuer. We have requested the Council verify that these changes reflect extensions or other changes to the occupied space since the last valuation, rather than the correction of an error in previous information.	The council have investigated whether changes in floor area information are consistent with works carried out in the period since the previous valuation. This identified several instances where there had been a change in floor area information but no apparent change to the underlying asset. Officers concluded that the previous information is likely to have correct, but do not propose to restate opening balances as the amount involved is immaterial (£3m).

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
In valuing the York Hall Leisure Centre, the valuer has deferred both the net replacement cost and land values for three years at 7%, to reflect the fact there is a lease in place, with an unexpired term of three years, at a peppercorn (i.e. nil), rent. The lease is granted to an operator and is in substance a service agreement which we would expect to be disregarded for valuation purposes and vacant possession assumed. We have requested the Council verify with the valuer whether there are similar circumstances where the same approach has been taken.	This error has been quantified and adjusted in the 19 October 2021 version of the accounts. See the corrected misstatements section of Appendix A, Audit Adjustments.
An item of £276k was incorrectly coded to a school which had previously converted to an academy, rather than a school which remained under the control of the Council. This resulted in the amount being accounted for as REFCUS and expensed, rather than being capitalised. If the error rate in our sample was found in the remainder the population, this would give an error of £16m.	Officers have performed a review and concluded that there are no further errors of this nature. This is consistent with our expectation as the majority of this balance relates to expenditure on leaseholder shares of housing improvements as well as disabled facility grants.
Expenditure relating to refurbishments included expenditure on fixtures, fittings and equipment, but was classified in its entirety within other land and buildings. Our inspection of assets included within fixtures, fittings and equipment, which is substantially limited to previous purchases of refuse collection vehicles, suggests that this practice is common and has operated for a number of years. In addition to the impact on disclosure information, the practical consequence of coding expenditure on fixtures, fittings and equipment in this way is that the expenditure will be written out of the Property, Plant and Equipment balance when next subject to valuation where the type of expenditure falls outside the scope of what is considered by the valuer in their valuation. We have not yet received officers' assessment of this point.	The council performed an exercise to estimate the effect of this and concluded that this was not a material matter. The exercise involved interrogating the breakdown of capital expenditure in 2018/19 and 2019/20 for the words "fixtures", "fittings" and "equipment". We do not expect that this technique is likely to identify the full extent of any issue. We had recommended to officers that as a starting point officers discuss with the valuer what types of work are included or excluded from his valuation and comparing to the council's internal practices in relation to the classification of expenditure between fixed asset categories. We will provide an oral update to the meeting.
The Council has recorded the incorrect amount of "business rate related grant" in 2019/20 because an entry of £2.4m to true-up the initial 2017/18 allocation to bring income into line with the final calculated entitlement amount was not accrued at 31 March 2018 or 31 March 2019. This resulted in an understatement of short term creditors at 31 March 2018 and 31 March 2019 and an understatement of income in 2019/20.	We will provide a oral update to the meeting.

Appendix D: Resolution of matters reported on in our April report which were open at that time

Open issue reported in our April 2021 report	Resolution
The Council has principally estimated bad debt provisions by applying percentages to categories based on age. We have requested information on how percentages selected have been derived and/or how they compare to past experience. We have received information in respect of Council Tax and Business Rates but the data is not at a level of detail which allows us to test whether it is accurate. We have not received information for other types of receivables. With one minor exception the Council has not modified its approach or assumptions in the light of the pandemic or explained why this is not required. IFRS 9 as adopted by the Code requires substantial disclosures to measure both quantitative and qualitative information about amounts arising from expected credit losses and credit risk exposure. We consider further information should be provided in relation to the Council's investments.	The council is now provided an analysis for business rates and council tax arrears which compares the amount provided against a calculation based on historical collection experience. This provides both support for the amount of the original provision. The council has not provided a similar analysis for accounts receivable, but the comparatively small provision is consistent with the low level of past write offs and the ageing of the debt at the reporting date. Similarly an analysis has not been provided for amounts outstanding from tenants or in respect of parking penalty charge notices. However, these debtors have been substantially provided against which is consistent with the profile of the debt, including its ageing. Officers have re-looked at the provision against amounts outstanding from leaseholders in respect of major works. The original provision was calculated by applying percentages to categories based on age. Officers have concluded that this is not consistent with the approach taken in practise to collection including agreement of payment plans. Officers also concluded that it was not consistent with the leverage which the council has by virtue of its ability to decline to approve the transfer of the leasehold while there are amounts outstanding on the leaseholder's account with the council. Officers have reversed a provision made against accrued income of £2.4m and we have proposed a further adjustment to release a further £2.0m against billed amounts.

Deloitte.

Deloitte.

TOWER HAMLETS

Page 163

Agenda Item 3.3

London Borough of Tower Hamlets Pension Fund

Final Report to the Audit Committee on the 2018/19 audit

Issued on 17th January 2022 for the meeting on 27th January 2022

Deloitte Confidential: Government and Public Services

Contents

1. Key messages

Introduction

The key messages in this report:

We have pleasure in presenting our Final Report to the Audit Committee for the 2018/19 audit of the London Borough of Tower Hamlets Pension Fund (the "Fund"). We would like to draw your attention to the key messages of this report:

Audit scope

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the financial statements of the Fund as included in the Statement of Accounts of the London Borough of Tower Hamlets, which are prepared under the Code of Practice on Local Authority Accounting 2018/19 ("the Code") issued by CIPFA;
- Form an opinion on the consistency of those financial statements of the Fund, included within the Authority's Statement of Accounts, with those included in the Pension Fund's Annual Report;
- Report to "those charged with governance" on certain additional matters, including any unadjusted errors over our reporting threshold ("RT"), our independence and any other issues we consider should be brought to their attention; and
- Report to the main authority audit team to in relation to their IAS 19 audit procedures.

Audit status and findings to date

The audit timetable as presented in our planning report has not been met as a result of delays experienced in receiving complete draft financial statements and supporting documentation as a result of staff pressures within the Fund administration team. This led to challenges in rescheduling the audit from a Deloitte staffing perspective. The audit process was further delayed by the impact of the Covid-19 pandemic on the staff at both the Council and Deloitte.

Our audit is nearing completion and the current list of open matters required to compete the audit are noted in Appendix 5. Subject to the satisfactory receipt and the completion of the items in Appendix 5, we expect to issue an unqualified audit opinion on the financial statements of the Fund.

Significant audit risk

Our significant audit risk is unchanged from that identified in our planning report which is management override of controls.

Please refer to page 8 for further details in respect of our testing of the significant risk.

Introduction

The key messages in this report (continued):

Audit Quality

We have committed to delivering a robust challenge of the key judgements taken in the preparation of the financial statements; to gain a strong understanding of your internal control environment; and to deliver a well-planned audit that raises findings early with those charged with governance.

We have supplemented our core pension audit team with the following specialists:

1. *Actuarial specialists*, who assessed the IAS 26 liability; and
2. *IT specialists* who documented our understanding of the IT environment and reviewed the general access and change management controls associated with the administration system. This work is still in progress and forms part of the list of outstanding items within Appendix 5.

Going concern

We are required to comment on the going concern basis of preparation of the financial statements in our audit report. As part of this process, details of the work we perform around the going concern assessment are detailed below:

- considered the statutory basis of the Fund;
- considered the results of the triennial valuation; and
- considered the value and liquidity of the investment assets within the fund and its ability to continue to meet benefit payments without further contributions.

We have concluded that there are no material uncertainties to report in respect of going concern.

Our conclusion

The current list of open matters required to compete the audit are noted in Appendix 5. Subject to the satisfactory receipt and the completion of the items in Appendix 5, we expect to issue an unqualified audit opinion on the financial statements of the Fund.

In reaching our conclusions we considered the results from our testing on pages 7 to 10. In addition, we noted that the significant accounting judgements and estimates appear reasonable.

Jonathan Gooding, Audit Partner

Materiality

Our approach to materiality

Basis of our materiality benchmark

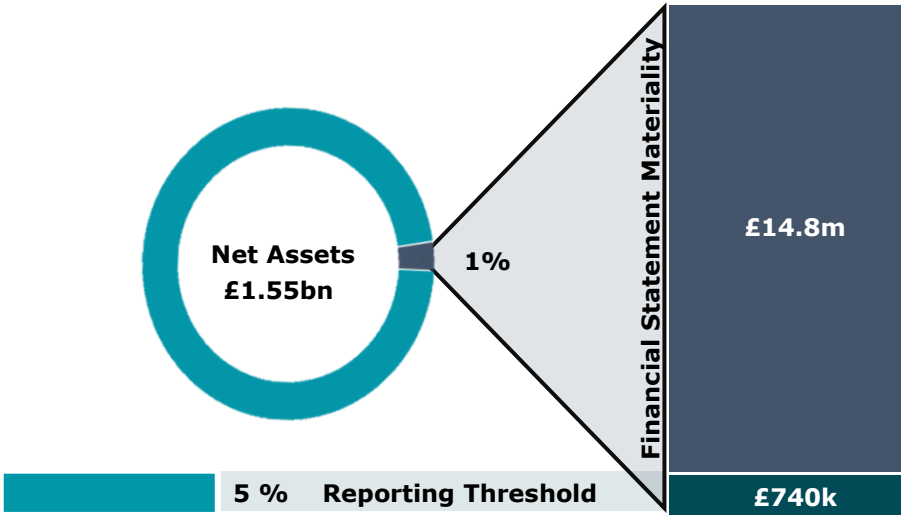
- We set materiality for our opinion on the financial statements at 1% of the net assets of the Fund.
- For the year ended 31 March 2019, we determined financial statement materiality to be £14.8m. This was determined using the first draft of the financial statements which reported a lower net assets figure than that in the current version. Following updates to the investment valuations to reflect stale prices the net assets increased. We elected to retain our original materiality figure, rather than recalculating using the updated net assets.

Reporting to those charged with governance

- We report to you all misstatements found in excess of 5% of financial statement materiality. We report to you misstatements below this threshold if we consider them to be material by nature.
- For the year ended 31 March 2019, we determined the reporting threshold for the financial statements to be £740k.
- Auditing standards also require us to highlight any corrected and uncorrected misstatements and disclosure deficiencies to enable the Audit Committee to evaluate the impact thereof.

Materiality calculation

Although materiality is the judgement of the audit partner, the Audit Committee must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



2. Significant Risks

Significant risk

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Response of those charged with governance

The Audit Committee does not have access to the Fund accounting system and does not process any journals in respect of the Fund.

The financial reporting process in place has an adequate level of segregation of duties.

Deloitte comment

During our walkthrough of the journal review process, we noted that one journal was reviewed 13 months after it was raised. We note that this was a result of the Head of Pensions and Treasury position being vacant during the reporting period, this post has subsequently been filled. No other matters noted.

Deloitte response to significant risk identified

In order to address this significant risk, our audit procedures consisted of the following:

- Used Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Reviewed related party transactions and balances to identify if any inappropriate transactions had taken place;
- Reviewed the accounting estimates for bias, such as the valuation of unlisted investments, that could result in material misstatement due to fraud;
- Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Assessed whether there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year; and
- Tested the design and implementation of controls around the journals process during the year.

3. Audit Focus Area

Audit focus area

Completeness, valuation and presentation of investments

Risk identified

The Fund holds a highly material portfolio of investments. Within the portfolio, there are a number of holdings in alternative investment funds. These funds do not have publicly available prices and are infrequently priced, increasing the risk of stale pricing.

Response of those charged with governance

The Fund appoints various investment managers and Northern Trust as custodian for these investments who have sufficient resources to value and safeguard the Fund's investment assets.

Deloitte comment

Our testing over the valuation of all investment assets was undertaken satisfactorily, with no issues noted.

All investment holdings were reconciled to both the year end custodian and investment manager independent confirmations, with a £1.18m overstatement noted in relation to the Bespoke Schroders Fund. As this is below our materiality, this has been included in our schedule of uncorrected misstatements per Appendix 1.

Deloitte response to focus area identified

In order to address this focus area, our audit procedures consisted of the following:

- Tested the design and implementation, and the operating effectiveness where applicable, of key controls over the completeness and valuation of investments by obtaining the investment manager internal control reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Agreed the year end valuations and sales and purchases totals in the accounts to the reports received directly from the investment managers and Northern Trust as custodian, and reconciled these to the individual confirmations received from the investment managers;
- Agreed holdings in unit linked insurance policies to confirmations from the policy providers;
- Performed independent valuation testing for a sample of year-end alternative investment holdings by rolling forward the valuation as per the latest audited accounts using cash flows and an appropriate index as a benchmark;
- Ensured appropriate stale price adjustments have been posted to the financial statements;
- On a sample basis, tested cash reconciliations for investments – including tracing the source of the cash;
- Performed a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year (i.e. purchases, sales, change in market value); and
- Reviewed the classifications of investments throughout the investment notes to ensure these were accurately presented.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and Fund risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the Fund accounts and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the Fund accounts.

We described the scope of our work in our proposed audit plan circulated to you.

The audit insights and other control findings of this report provide details of additional work we have performed alongside the audit of the Fund accounts.

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

Deloitte LLP

Deloitte LLP

Statutory Auditor

St Albans| 17 January 2022

We welcome the opportunity to discuss our report with you and receive your feedback.

4 Appendices

Appendix 1: Audit adjustments and observations

Current year and prior year audit adjustments

Detail	Debit/ (credit) Fund Account £'000	Debit/ (credit) Net Asset Statement £'000
Uncorrected misstatements identified in current year		
Investment Valuation - Stale prices have been used by the custodian to value the Schroder Bespoke Matching Plus fund held by the Fund, resulting in a total difference of £1.18m in the valuation of this asset.	**1,180**	**(1,180)**
In calculating the actuarial liability of the plan in accordance with IAS 26, the actuary has not allowed for the McCloud / Sargeant ruling. Incorporating this factor would result in an increase of c.£1.8m of the actuarial liability	**N/A – impacts disclosure in note 20**	**N/A – impacts disclosure in note 20**
Corrected misstatements identified in current year – none	-	-

Disclosure deficiencies

2017/18 Comparative Figures - The Fund Account 2017/18 comparative amounts for investment income and accrued investment income as an investment asset do not reconcile to our records and subsequent notes to the financial statements to the value of £0.8m. We recommend that a robust review of the draft financial statements is performed to avoid this recurring in the future.

Appendix 1: Audit adjustments and observations
Continued

Observations

We are required to communicate the matters below to the audit committee as per ISA 260:

- Funding – Based on the work of our in-house actuarial team the funding level has been reported as £1.8m lower than their estimates. This difference relates to an allowance for the McCloud/Sargeant ruling which has not been included in the valuation.
- Timeliness of Journal Review - During our walkthrough of the journal review process we noted that one journal was reviewed 13 months after it was raised. We note that this was a result of the Head of Pensions and Treasury position being vacant during the reporting period, this post has subsequently been filled.
- Use of Council bank account in relation to the pension fund - Whilst having a separate account for the Fund as per applicable regulations, the Fund has also used the bank account of the Council itself for transactions. This is not in line with regulations which require that only the Fund bank account is used. We note that this practice ceased in May 2019. We recommend that this breach of the regulations is reported to the Pension Regulator (TPR).
- Monthly Salary Exceptions Report – This control is operated by the council payroll team and utilises salary thresholds that have not been updated since they were first introduced, as a result they are not reflective of the current salaries in place. Due to this, similar employees are selected every time the exception report is run, while not representing actual exceptions. This has led to a basic "tick-off" exercise and could potentially distract from relevant issues.
- Delay in the production of the audited financial statements – Due to the matters discussed earlier in this report the audited financial statements of the Fund have been prepared outside of the timelines required by the regulations. We recommend that this breach of the regulations is reported to the Pension Regulator (TPR).

Appendix 2: ISA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Fund and management. It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

Auditor's Responsibility

An auditor conducting an audit in accordance with ISAs (UK) is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.

As part of our partner-led planning process, as an audit team we have considered the possible avenues of fraud within the Fund and have outlined our approach to each consideration below.

Consideration	Approach and result of our testing
Fraudulent posting of journal entries – the purposeful misstatement of the financial statements	We have outlined our approach to the mitigation of this risk on page 8.
Fraudulent valuation of investment assets - incentive to overstate asset values	We have outlined our approach to the mitigation of this risk on page 10.
Misappropriation of cash or Fund holdings from the investment portfolio	In response to this risk, we performed a unit reconciliation and a cash reconciliation for the Fund's investments.
Creation of fictional pensioner records and payments to non Fund members	In response to this risk, we assessed the design and implementation of controls around pensioner set up and amendments to existing Altair records to ensure there are appropriate controls and enforced segregation of duties.
Circumvention of the review process within Altair	In response to this risk, we assessed the design and implementation of controls around the processing of retirement and transfers out cases to ensure there is segregation of duties. We also evaluated the controls around user access level reviews to ensure there is appropriate segregation between those performing a process and those reviewing the process and ensured that the same process cannot be performed and reviewed by the same person.
Pensioner existence – payment of pensions to deceased members	In response to this risk, assessed the design and implementation of controls around the existence of pensioners to ensure the timely suspension of pensions to deceased members.

Appendix 3: Fraud responsibilities and representations

Responsibilities explained

Your responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the AC, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified management override of controls as a key audit risk for the Fund.

Fraud characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the AC:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 3: Fraud responsibilities and representations (continued)

Inquiries

We have made the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to the Audit Committee ('AC') regarding its processes for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the Fund, and to obtain its views about the risks of fraud.

The Audit Committee

- How the AC exercises oversight of management's processes for identifying and responding to the risks of fraud in the Fund and the internal control that management has established to mitigate these risks.
- Whether the AC has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- The views of the AC on the most significant fraud risk factors affecting the Fund.

Appendix 4: Independence and fees

Agreed fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that the audit engagement team and others in the firm (as appropriate), Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund.
Fees	The original 2018/19 scale fee set by PSAA was £16,170. The above fee excludes VAT. Due to the issues encountered during the course of the audit we anticipate charging additional fees. This will need to be approved by PSAA.
Non audit services	No non-audit fees have been charged by Deloitte in the period in respect of services to the Fund. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Appendix 5: Outstanding items

Items outstanding at the date of this report

Our final opinion is subject to completion of the items listed below.

- Receipt of final version of the full annual report and financial statements for our review;
- Completion of our reporting to the Council audit team regarding testing of the IAS 19 disclosures;
- Completion of our fraud enquiries as part of the Council audit;
- Finalisation of our internal quality control procedures;
- Partner and technical review clearance;
- Receipt of signed representation letter; and
- Satisfactory completion of our post year-end events review.

Deloitte.

Deloitte.

TOWER HAMLETS

Page 183

Agenda Item 3.4

London Borough of Tower Hamlets Pension Fund

Status Report to the Audit Committee on the 2019/20 audit

Issued on 17th January 2022 for the meeting on 27th January 2022

Contents

1. Key messages

Introduction

The key messages in this report:

We have pleasure in presenting our Status Report to the Audit Committee for the 2019/20 audit of the London Borough of Tower Hamlets Pension Fund (the "Fund"). We would like to draw your attention to the key messages of this report:

Audit scope

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the financial statements of the Fund as included in the Statement of Accounts of the London Borough of Tower Hamlets, which are prepared under the Code of Practice on Local Authority Accounting 2019/20 ("the Code") issued by CIPFA;
- Form an opinion on the consistency of those financial statements of the Fund, included within the Authority's Statement of Accounts, with those included in the Pension Fund's Annual Report;
- Report to "those charged with governance" on certain additional matters, including any unadjusted errors over our reporting threshold ("RT"), our independence and any other issues we consider should be brought to their attention; and
- Report to the main authority audit team to in relation to their IAS 19 audit procedures.

Audit status and findings to date

The audit timetable as presented in our planning report has not been met as a result of delays experienced in receiving complete draft financial statements and supporting documentation as a result of staff pressures within the Fund administration team. This led to challenges in rescheduling the audit from a Deloitte staffing perspective. The audit process was further delayed by the impact of the Covid-19 pandemic on the staff at both the Council and Deloitte.

Our audit is nearing completion and the current list of open matters required to compete the audit are noted in Appendix 4. Subject to the satisfactory receipt and the completion of the items in Appendix 4, we expect to issue an unqualified audit opinion on the financial statements of the Fund.

Significant audit risk

Our significant audit risk is unchanged from that identified in our planning report which is management override of controls.

Please refer to page 8 for further details in respect of our testing of the significant risk.

Introduction

The key messages in this report (continued):

Audit Quality

We have committed to delivering a robust challenge of the key judgements taken in the preparation of the financial statements; to gain a strong understanding of your internal control environment; and to deliver a well-planned audit that raises findings early with those charged with governance.

We have supplemented our core pension audit team with the following specialists:

1. *Actuarial specialists*, who assessed the IAS 26 liability;
2. *Real estate valuation specialists*, who assisted in assessing the valuation of the property funds within the investment portfolio; and
3. *IT specialists* who reviewed the general access and change management controls associated with the administration system. This work is still in progress and forms part of the list of outstanding items within Appendix 4.

COVID-19

We have considered the impact of COVID-19 throughout the audit, including the impact on operations, going concern, resourcing, and valuation of the investments. Other than the disclosure regarding the material valuation uncertainty clause relating to the property fund, as detailed in Appendix 1, we have noted no concerns regarding the impact of COVID-19 on the Fund.

Going concern

We are required to comment on the going concern basis of preparation of the financial statements in our audit report. As part of this process, details of the work we perform around the going concern assessment are detailed below:

- considered the statutory basis of the Fund;
- considered the results of the triennial valuation; and
- considered the value and liquidity of the investment assets within the fund and its ability to continue to meet benefit payments without further contributions.

We have concluded that there are no material uncertainties to report in respect of going concern.

Jonathan Gooding, Audit Partner

Materiality

Our approach to materiality

Basis of our materiality benchmark

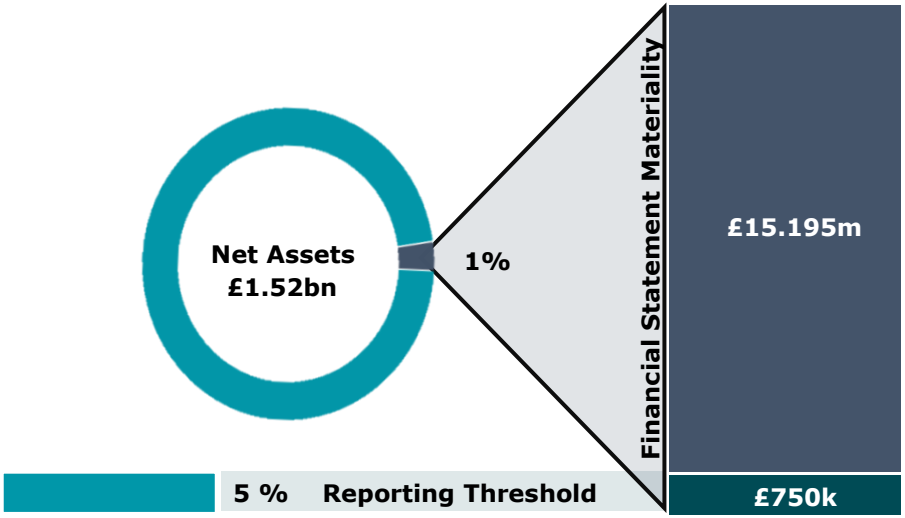
- We set materiality for our opinion on the financial statements at 1% of the net assets of the Fund.
- For the year ended 31 March 2020, we determined financial statement materiality to be £15.2m. This was determined using the first draft of the financial statements which reported a lower net assets figure than that in the current version. Following updates to the investment valuations to reflect stale prices the net assets increased. We elected to retain our original materiality figure, rather than recalculating using the updated net assets.

Reporting to those charged with governance

- We report to you all misstatements found in excess of 5% of financial statement materiality. We report to you misstatements below this threshold if we consider them to be material by nature.
- For the year ended 31 March 2020, we determined the reporting threshold for the financial statements to be £750k.
- Auditing standards also require us to highlight any corrected and uncorrected misstatements and disclosure deficiencies to enable the Audit Committee to evaluate the impact thereof. These items are included within Appendix 1 of this report.

Materiality calculation

Although materiality is the judgement of the audit partner, the Audit Committee must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



Impact of the prior year audit

We have incorporated our findings raised to date from the ongoing 2018/19 audit in our scoping and risk assessment process for this audit. As the prior year audit is ongoing we have kept our risk assessment under constant review to ensure that any relevant matters are captured and considered for the 2019/20 audit.

2. Significant Risks

Significant risk

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Response of those charged with governance

The Audit Committee does not have access to the Fund accounting system and does not process any journals in respect of the Fund.

The financial reporting process in place has an adequate level of segregation of duties.

Deloitte comment

We are finalising our testing of the journals identified by our analytics software, and await receipt of evidence of the implementation of the financial reporting controls before we can conclude on this matter.

Deloitte response to significant risk identified

In order to address this significant risk, our audit procedures consisted of the following:

- Used Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Reviewed the accounting estimates for bias, such as the valuation of unlisted investments, that could result in material misstatement due to fraud;
- Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Assessed whether there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year; and
- Tested the design and implementation of controls around the journals process during the year.

3. Audit Focus Area

Audit focus area

Completeness, valuation and presentation of investments

Risk identified

The Fund holds a highly material portfolio of investments. Within the portfolio, there are a number of holdings in alternative investment funds. These funds do not have publicly available prices and are infrequently priced, increasing the risk of stale pricing.

Response of those charged with governance

The Fund appoints various investment managers and Northern Trust as custodian for these investments who have sufficient resources to value and safeguard the Fund's investment assets.

Deloitte comment

Our testing over the valuation of all investment assets was undertaken satisfactorily, with no issues noted.

All investment holdings were reconciled to both the year end custodian and investment manager independent confirmations.

We are awaiting receipt of two investment manager confirmations in order to complete the unit reconciliations for those holdings.

Deloitte response to focus area identified

In order to address this focus area, our audit procedures consisted of the following:

- Tested the design and implementation, and the operating effectiveness where applicable, of key controls over the completeness and valuation of investments by obtaining the investment manager internal control reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Agreed the year end valuations in the accounts to the reports received directly from the investment managers and Northern Trust as custodian, and reconciled these to the individual confirmations received from the investment managers;
- Agreed holdings in unit linked insurance policies to confirmations from the policy providers;
- Performed independent valuation testing for a sample of year-end alternative investment holdings by rolling forward the valuation as per the latest audited accounts using cash flows and an appropriate index as a benchmark;
- On a sample basis, tested cash reconciliations for investments, including tracing the source of the cash;
- Performed a unit reconciliation in which the opening, purchases sales and closing investment balances and unit quantities to independent investment confirmations; and
- Reviewed the classifications of investments throughout the investment notes to ensure these were accurately presented.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and Fund risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the Fund accounts and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the Fund accounts.

We described the scope of our work in our proposed audit plan circulated to you.

The audit insights and other control findings of this report provide details of additional work we have performed alongside the audit of the Fund accounts.

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

Deloitte LLP

Deloitte LLP

Statutory Auditor

St Albans| 17 January 2022

We welcome the opportunity to discuss our report with you and receive your feedback.

4 Appendices

Page 194

Appendix 1: Audit adjustments and observations

Current year and prior year audit adjustments

Detail	Debit/ (credit) Fund Account £'000	Debit/ (credit) Net Asset Statement £'000
Uncorrected misstatements identified in current year		
In calculating the actuarial liability of the plan in accordance with IAS 26, the actuary has not allowed for the Goodwin ruling. Incorporating this factor would result in an increase of £4m (0.2%) of the actuarial liability.	**N/A – impacts disclosure in note 20**	**N/A – impacts disclosure in note 20**
Corrected misstatements identified in current year – none	-	-

Disclosure deficiencies

The material valuation uncertainty clause included within the valuation statement for the Nuveen Retail Warehouse Fund as at the year-end should be disclosed in the financial statements. The fund value at the year-end is c.£2.1m, which is not material.

Appendix 1: Audit adjustments and observations

Continued

Observations

We are required to communicate the matters below to the audit committee as per ISA 260:

- IAS 26 liability – Based on the work of our in-house actuarial team, when calculating the actuarial liability of the plan in accordance with IAS 26 the Fund actuary has not allowed for the Goodwin ruling. Incorporating this factor would result in an increase of £4m of the actuarial liability.

- Underpayment of contributions due to employer payroll system error – The automation of pension auto-enrolment within the council payroll system launched in June 2019 and caused any newly enrolled active members using that system to have their 3rd party deductions omitted from the BACS report on the first month upon their enrolment and therefore not paid into the bank for this month. This has caused an underpayment in the contributions for the year of £611k. We recommend that the contributions which have been deducted but that have not been paid across to the Fund are transferred to the Fund as soon as is practical. We further recommend that this breach of the regulations is reported to the Pension Regulator (TPR).

Appendix 2: ISA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Fund and management. It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

Auditor's Responsibility

An auditor conducting an audit in accordance with ISAs (UK) is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.

As part of our partner-led planning process, as an audit team we have considered the possible avenues of fraud within the Fund and have outlined our approach to each consideration below.

Consideration	Approach and result of our testing
Fraudulent posting of journal entries – the purposeful misstatement of the financial statements	We have outlined our approach to the mitigation of this risk on page 8.
Fraudulent valuation of investment assets - incentive to overstate asset values	We have outlined our approach to the mitigation of this risk on page 10.
Misappropriation of cash or Fund holdings from the investment portfolio	In response to this risk, we performed a unit reconciliation and a cash reconciliation for the Fund's investments.
Creation of fictional pensioner records and payments to non Fund members	In response to this risk, we assessed the design and implementation of controls around pensioner set up and amendments to existing Altair records to ensure there are appropriate controls and enforced segregation of duties.
Circumvention of the review process within Altair	In response to this risk, we assessed the design and implementation of controls around the processing of retirement and transfers out cases to ensure there is segregation of duties. We also evaluated the controls around user access level reviews to ensure there is appropriate segregation between those performing a process and those reviewing the process and ensured that the same process cannot be performed and reviewed by the same person.
Pensioner existence – payment of pensions to deceased members	In response to this risk, we assessed the design and implementation of controls around the existence of pensioners to ensure the timely suspension of pensions to deceased members.

Appendix 3: Fraud responsibilities and representations

Responsibilities explained

Your responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the AC, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risk section of this document, we have identified management override of controls as a key audit risk for the Fund.

Fraud characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the AC:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 3: Fraud responsibilities and representations (continued)

Inquiries

We have made the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to the Audit Committee ('AC') regarding its processes for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the Fund, and to obtain its views about the risks of fraud.

The Audit Committee

- How the AC exercises oversight of management's processes for identifying and responding to the risks of fraud in the Fund and the internal control that management has established to mitigate these risks.
- Whether the AC has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- The views of the AC on the most significant fraud risk factors affecting the Fund.

Appendix 4: Outstanding items

Items outstanding at the date of this report

Our final opinion is subject to completion of these items:

- Receipt of final version of the full annual report and financial statements for our review;
- Completion of our reporting to the Council audit team regarding testing of the IAS 19 disclosures;
- Completion of our fraud enquiries as part of the Council audit;
- Finalisation of our internal quality control procedures;
- Partner and technical review clearance;
- Receipt of signed representation letter; and
- Satisfactory completion of our post year-end events review.

Appendix 5: Independence and fees

Agreed fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that the audit engagement team and others in the firm (as appropriate), Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund.
Fees	The original 2019/20 scale fee set by PSAA was £16,170. The fee excludes VAT. Due to the issues encountered during the course of the audit we anticipate charging additional fees. This will need to be approved by PSAA.
Non audit services	No non-audit fees have been charged by Deloitte in the period in respect of services to the Fund. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Deloitte.

Non-Executive Report of the: **Audit Committee** 27 January, 2022	TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director - Resources (Section 151 Officer)	**Classification:** Unrestricted
Statements of Accounts for 2018-19, 2019-20 and 2020-21	

Originating Officer(s)	Tim Harlock, Interim Head of Strategic Finance – Chief Accountant
Wards affected	All wards

Executive Summary

This report provides an update on the audit of the 2018-19 and 2019-20 accounts and provides a response to the findings of the external auditor, Deloitte, as presented elsewhere on this agenda.
There is also a brief update regarding the 2020-21 accounts.

Recommendations:

The Audit Committee is recommended to:

1. In conjunction with reviewing the findings of the external auditor, Deloitte, presented separately on the agenda, to note the Council's response.

2. Specifically, to note that the Council will be updating the Statements of Accounts for 2018-19 and 2019-20 as detailed within this report.

3. To delegate authority to the Chair of Audit Committee and the s151 Officer to sign off the final versions of the Statements of Accounts upon completion of agreed amendments (with the only exception being if, subsequent to this meeting, significant and material matters arise).

1. REASONS FOR THE DECISIONS

1.1 Statutory requirement

2. ALTERNATIVE OPTIONS

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

3. DETAILS OF THE REPORT

Update on the audit of the 2018-19 and 2019-20 accounts

3.1 The external auditor, Deloitte, have performed extensive audit testing of both 2018-19 and 2019-20 Statements of Accounts and present their findings to Members separately on the agenda of this meeting. The audits for both years are nearing their conclusions, and, barring unforeseen significant matters arising, these two reports should be the final reports presented to this committee. Thereafter, the expectation is that there is a little more work to finally complete the audits, which will then allow officers to finalise adjustments to apply to the Statements of Accounts as presented in Appendices A and B.

3.2 The purpose of this officer report is to provide an overview of findings, and to inform Members of the continuing improvements underway in order to address the wider implications of audit findings. Members should appreciate that officers have taken a risk-based approach to addressing the problems laid out in those reports, and that in some areas further improvement is still necessary and ongoing.

3.3 In the Key Messages section of their reports, Deloitte advise where they will issue qualified opinions. At this stage, the Council is accepting these qualifications for 2018-19 and 2019-20, noting that the Council has addressed these issues in the financial year 2020-21.

3.4 In particular:

- The Council will consolidate the accounts of King George V Fields Trust and Tower Hamlets Homes Limited into group accounts (although this will be performed during the audit period, and will not be available for the first draft of the 2020-21 accounts).

- The gross pension asset and liability attributable to Tower Hamlets Homes Limited will be removed from the Council's accounts in its entirety as a result of a revised Management Agreement coming into force in the year 2020-21.

- The officers' remuneration note showing where employees receive more than £50,000 has undergone further review of source documentation in expectation of improving the evidential supporting file.

- In 2018-19 there was a fourth item mentioned, Note 8, which had already been addressed satisfactorily in the 2019-20 accounts.

- There is a possibility that a further qualification may arise in 2018-19, contingent on the progress made and resulting consideration of Deloitte, regarding the valuation movements on council dwellings from 31 March 2018 to 1 April 2018.

3.5 In the Significant Audit Risks sections, Deloitte advise of areas which have been highlighted for particular attention. The Council's comments and response are as follows:

- Valuation of Properties: officers have worked extensively to improve processes jointly with the Place Directorate, and this has been captured through the Finance Improvement Plan (FIP) under the oversight of the Finance Improvement Board (FIB) and the Corporate Leadership Team (CLT).

- Management Override of Controls: this is an ongoing area of work, since it includes the way that processes have been configured on the Agresso system. In particular, journal processes and policies have been reviewed through the oversight of the FIB, but it is unlikely that there will be significant implementation of improvements until 2022-23. Officers note the need to, and will continue to, improve the quality of working papers.

- Capitalisation of Expenditure: officers have improved the validation processes applied to expenditure captured under capital for 2020-21, and subsequently constituted an organisation-wide capitalisation guidance note to ensure the consistent and accurate treatment of qualifying expenditure; this has been discussed and the implications agreed at CLT

- Recognition of Grant Income and Expenditure: officers have made mistakes in this area as a result of (poor/inadequate) custom and practice of recent years, and also because Tower Hamlets actually has exceptional sums and complexity in some areas compared to other councils. Improvements implemented in 2020-21 include preparation of a comprehensive grants register, and embedding the learning obtained from the last two years with respect to developers' monies received (in the guise of both s106 contributions and Community Infrastructure Levy), and leaseholders' contributions to major works. There has been extensive engagement between the central finance team and the operational teams for administering developers' contributions so as to improve understanding of accounting requirements.

3.6 With regard to the Other Areas of Judgment section, this report will concentrate on 2019-20 issues, being the most relevant for current and future circumstances. The Council's comments are as follows:

- Indemnity given to Tower Hamlets Homes Limited in respect of future pension costs: the treatment adopted in the 2019-20 accounts has arisen as a legacy of previous custom and practice and is not technically correct from an accounting perspective. In the opinion of senior finance officers, this error does not represent a financial risk to the Council, and, for 2020-21 has been remedied at the root cause by amending the terms of the management agreement between the Council and THHL.

- Consolidation of Schools' Balances: it has been reported separately to the Audit Committee that this area has been incorrectly accounted for in previous years at the detailed level, and officers have put great effort into ensuring that significant balances are correct. In the opinion of senior finance officers, errors such as they are in the Accounts do not represent a significant financial risk to the Council. Going forwards, as part of the FIP, the process for paying schools has undergone fundamental review and revision but that change came into effect from April 2021, so will not impact until the 2021-22 Accounts. In addition, there has been a wider Schools Finance Improvement Plan, which has been implemented in almost all instances or is on track to be implemented soon.

- Preparation of Group Accounts: from a detailed technical analysis of requirements, group accounts are required, and officers will prepare these for the 2020-21 accounts. In the meantime, for previous years, the opinion of officers is that not having presented group accounts does not constitute any financial risk to the Council and, therefore, are not planning to revise the accounts for previous years.

- NNDR Appeals Provision: officers made judgements based on the information available at the time, and in the light of resource constraints. For 2020-21 accounts a fresh approach has been adopted that takes account of the new circumstances in which business premises have found themselves in the light of Covid restrictions. Furthermore, closer working with Revenues and Benefits with the support of an external 'expert' organisation, should significantly reduce the possibility of future errors, but more work needs to be undertaken to draw up processes and procedures, which is restarting as the work for the 2020-21 Accounts has now finished for this part of the Accounts.

3.7 At the same time as auditing our financial statements, the external auditor is required to present opinion on the Council's arrangements to secure economy, efficiency and effectiveness from its use of resources. For 2018-19 Deloitte are expecting to qualify this opinion in respect of three matters, falling

to two matters for the following year. The Council's comments regarding these two outstanding matters are as follows:

- Financial reporting arrangements have clearly been strained over the past two years. Although senior finance officers believe that significant improvements have been taking place, to the extent that no qualifications on the financial statements for 2020-21 is a realistic objective, it is difficult to envisage that the timing aspect has been improved sufficiently to avoid a qualification under this section.

- Risk management and internal controls have been within the work programme of the Finance Improvement Board, and significant progress has been made; however, it should be appreciated that some of the workstreams are still ongoing.

3.8 Deloitte have made observations on controls in section 6 of their reports. This section includes recommendations, and the Council's response to the outstanding items outlined in the 2019-20 report is as follows:

- Preparation of Accounting Papers: officers agree that further improvement is required in preparing papers, and will seek to embed a more comprehensive process that addresses this shortfall; however, officers do not accept that presenting detailed accounting papers to the audit committee is either necessary or helpful.

- Accounts closure resourcing and quality assurance processes: the experience of the last two years has led to many lessons learnt, and has had the engagement of CLT, and the wider organisation. The FIB was set up in order to address many of the underlying issues, though officers advise that we are still in a transitional phase of improvement.

- Reconciliation of general ledger accounts and segregation of duties: as mentioned previously, the FIB was set up to address underlying issues, and this is an area where some significant progress has been made.

- Completeness of disclosures: this is an area of ongoing improvement. Officers are responding to the findings set out in the Deloitte reports, and will continue to be alert to changing requirements in the future. Officers hope that once we achieve a wholesale re-set of the disclosures, this will then entail only keeping abreast of changing regulatory requirements (which happen each and every year "incrementally" usually), and where material changes in circumstances require further consideration and explanation within the accounts, for example when there is a pandemic.

- Valuation of properties: this is an area where the Council has made much progress already, within the work programme of the FIB. Officers will review the specific recommendations set out in the Deloitte report.

- Journals: this is within a wider piece of work being taken forward by the FIB; however it is unlikely to come to fruition before 2022-23.

- Recognition of grants and contributions: processes have already improved here to a large extent as a result of lessons learnt. Officers will review the specific recommendations set out in the Deloitte report.

- Classification of expenditure as capital: this has already been fully addressed, as set out in paragraph 3.4 (3rd bullet point).

- Other matters: these will be given due consideration by officers.

3.9 In the Deloitte reports the appendices set out lists of adjustments proposed. Officers have reviewed those proposals and have agreed with Deloitte to amend the final accounts for 2018-19 and 2019-20, with judgement of which adjustments to apply driven by the criterion of how quickly they can be applied. The objective of this approach is to find the optimum balance of maximum impact in a reasonably short turnaround (ie days, not weeks or months). However, as this report is being drafted, there are still audit queries being addressed by officers; these are not expected to give rise to significant matters, but it will be best to finalise these queries before finalising the accounts. Please refer to Appendix A of the Deloitte reports for the detailed listings.

3.10 To complete the consideration of the Accounts, Deloitte have also submitted their reports on the Pension Fund. Their draft reports have already been considered by the Pensions Committee, but we expect they will provide a brief summary to the Audit Committee too.

3.11 Finally, it should be noted that there is a dependency on the predecessor audit firm issuing their certificates for the 2016-17 and 2017-18 years before Deloitte can completely close off 2018-19 and 2019-20.

Update on 2020-21 accounts

3.12 The 2020-21 accounts are in the process of being finalised at the time of writing this report, and the draft version (ie unaudited) of those accounts will be with Deloitte by the time of this committee meeting. Officers are endeavouring to take account of suggested amendments to disclosures; nevertheless, officers must advise that the first draft of the 2020-21, despite being a further improvement on 2019-20, will require further work during the audit. The most notable absence will be group accounts.

4. EQUALITIES IMPLICATIONS

4.1 There are no equalities implications arising from this report.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment

5.2 Approval of the Accounts, once Members are satisfied, is a statutory responsibility that falls to Audit Committee.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 This whole report presents matters that are directly concerned with fulfilment of the role and responsibilities of the s151 officer.

7. COMMENTS OF LEGAL SERVICES

7.1 Regulation 10 of the Accounts and Audit Regulations 2015 requires a local authority to publish their statement of accounts not later than 31 July of the financial year immediately following the end of the financial year to which the statement relates, or, for the financial year starting in 2019, not later than 30 November. These dates have not been kept, as noted in the report.

7.2 Regulation 3 of the Accounts and Audit Regulations 2015 requires a local authority to have a sound system of internal control which ensures that the financial and operational management of the authority is effective.

7.3 Save as mentioned above, the matters set out in this report comply with the above legislation.

7.4 The Council's Constitution permits delegation of functions as proposed in this report.

Linked Reports, Appendices and Background Documents

Linked Report

- Various updates provided to this committee since July 2019 from both Deloitte and officers.

Appendices

- Appendix A: 2018-19 Statement of Accounts
- Appendix B: 2019-20 Statement of Accounts

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.

- NONE if none.

Officer contact details for documents:
N/A

LONDON BOROUGH OF TOWER HAMLETS

DRAFT

ANNUAL FINANCIAL REPORT 2018-19

(UNAUDITED)

DRAFT ANNUAL FINANCIAL REPORT 2018-19

CONTENTS

Narrative Report – 2018/19

Introduction

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2018/19, which reports our financial results for the year.

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

The Council's financial accounts have been compiled in accordance with International Financial Reporting Standards, the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and the Service Reporting Code of Practice. These constitute "proper accounting practice" with which councils must comply by statute.

Kevin Bartle
Interim Corporate Director of Resources (Section 151 Officer)

Introduction to Tower Hamlets

Tower Hamlets is a dynamic, exciting and rapidly changing borough. We are the fastest growing borough in the country, with our population estimated to increase by 25% by 2024. We have the fourth youngest population in the country, where the average age for the borough is 31. This trajectory is set to define Tower Hamlets as a young and growing borough, in contrast to the vast majority of Councils outside London, which presents the most significant challenges to the Council in meeting the associated demand for services.

In addition to a growing population, Tower Hamlets has seen a rapidly growing business and financial sector, centred around Canary Wharf. In total, Tower Hamlets has the third largest economic output in the country, which means the number of jobs in the borough far outweighs the number of residents. However, many residents still struggle to access the opportunities which arise from living in Tower Hamlets.

Deprivation continues to be a considerable factor in the borough. By some measures, Tower Hamlets is the most deprived borough in the country. Like many London boroughs, Tower Hamlets is becoming an increasingly unaffordable borough in which to live, but this issue is exacerbated by the particular changes taking place in Tower Hamlets. As we grow and develop economically, our attractiveness as an inner-London borough, with outstanding assets and first-class transport connections to central London, creates additional pressures on the availability and cost of housing.

One of our biggest strengths is our community and its diversity. There is a proud history in Tower Hamlets of welcoming new communities and ensuring different groups live in harmony. The majority of residents are from Black and Minority Ethnic backgrounds, nearly half of residents were born outside the UK and over ninety different languages are spoken in the borough. It is the Council's desire to reflect the different needs of its residents through its provision of services.

Organisational Context

In July 2018, the Council and its major partners adopted a five-year strategy for the borough: The Tower Hamlets Plan. The Plan provides the overarching strategy for Tower Hamlets and brings together the shared vision and outcomes we want to achieve with our partners.

At the same time, the Council adopted its Strategic Plan, which sets the corporate priorities and outcomes, including the high-level activities that will be undertaken to deliver the outcomes, as well as the measures that will help us determine whether we are achieving the best outcomes for our residents, our partners and the wider community. The Strategic Plan is a central part of the Council's Performance Management and Accountability Framework and is the main strategic business planning document of the Council.

The Strategic Plan identifies three priorities on which to focus over the next three years:

- Priority 1: People are aspirational, independent and have equal access to opportunities
- Priority 2: A borough that our residents are proud of and love to live in
- Priority 3: A dynamic, outcomes-based council using digital innovation and partnership working to respond to the changing needs of our borough

In April 2019, the Council published a refreshed Strategic Plan, which incorporates the administration's manifesto commitments. In line with the budget setting process, the Strategic Plan is a rolling three-year plan, which is updated annually so that it accurately reflects the Council's priorities.

In order to deliver the Strategic Plan, the Council's ambition is to become a dynamic, outcomes-based organisation using digital innovation and partnership working to respond to the changing needs of the borough. This approach is contained within the Council's Smarter Together programme, which drives corporate improvement across the organisation.

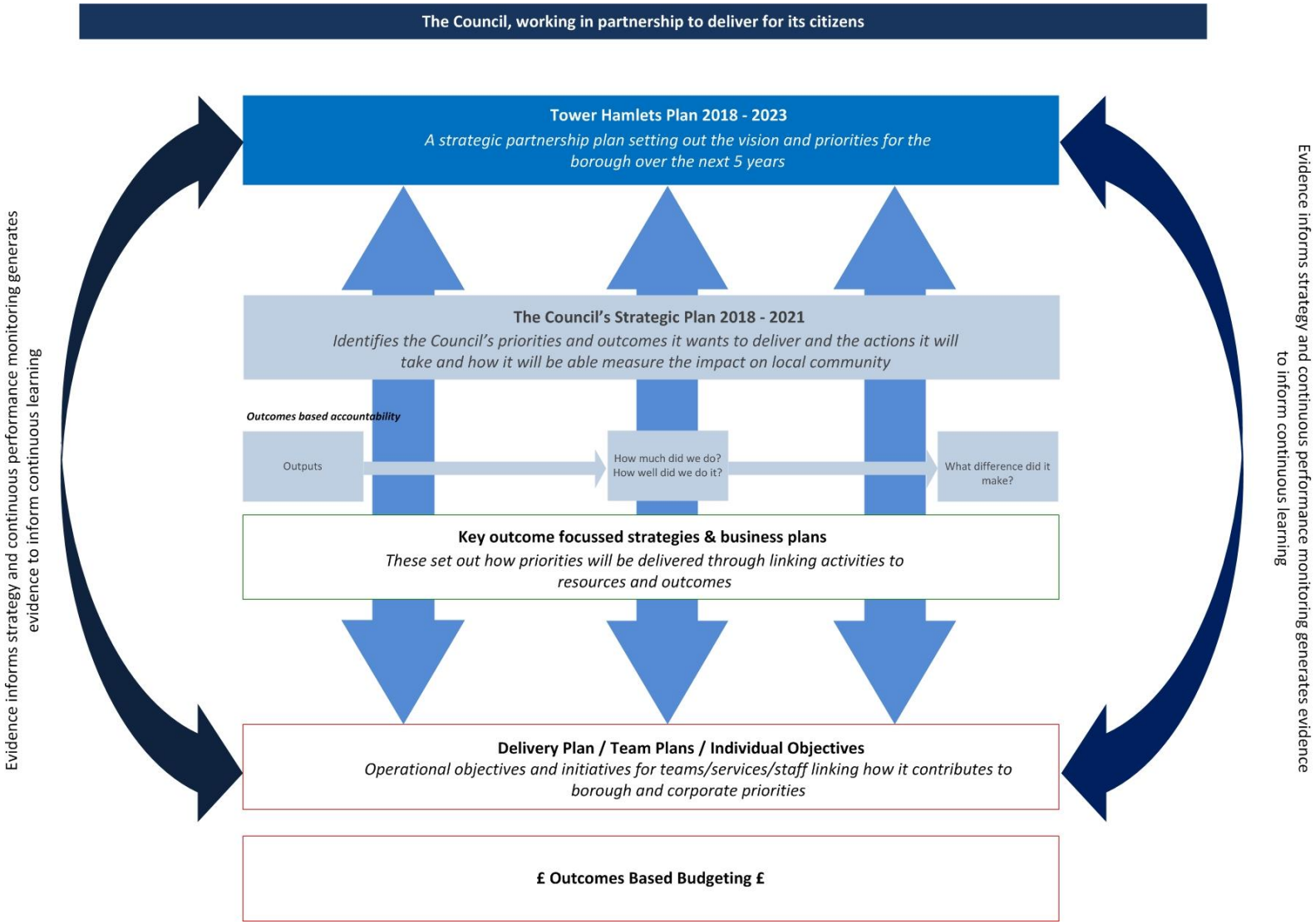
Operational Model

Over the last year we have focussed on how we operate and deliver services just as much as what we deliver. This means concentrating on outcomes, digital solutions and partnership working, so that we can respond to the changing needs of our borough.

Our Target Operating Model (TOM) sets the framework through which we deliver the outcomes of the Tower Hamlets Plan and the Strategic Plan. The TOM supports an evidence-based approach where data is used to inform continuous learning and delivery is reviewed regularly to ensure impact on outcomes. Flexibility and agility are key to delivery as it will enable us to make adjustments in response to evidence about impact and the changing needs of the community.

Diagram 1 illustrates the Council's Corporate Target Operating Model and the 'Golden Thread' from the Tower Hamlets Plan and the Strategic Plan through to Delivery Plans, Team Plans and Individual Objectives.

Diagram 1 – LB Tower Hamlets Corporate Target Operating Model:



Key Achievements

Throughout 2018/19 we have accelerated the pace of delivery and started to implement the Mayor's manifesto, which has been incorporated in our Strategic Plan.

In June 2018 we invited the Local Government Association (LGA) to conduct a Corporate Peer Challenge, designed to reflect on and inform our improvement journey. The outcome and recommendations arising from the LGA review informed part of the Government's decision to fully remove directions on the Council in September 2018. The Peer Challenge represented a significant milestone in our improvement journey.

We are making Tower Hamlets safer by working more closely in partnership with other agencies and our communities. Earlier in the year we successfully introduced a multi-agency exploitation team to better protect children and young people from harm and violence. We now have a violent crime officer and caseworker in post at the Royal London Hospital which enables us to have direct and timely contact with those young adults who have been admitted to hospital with violent crime related injuries. We piloted a new approach to dealing with crime and anti-social behaviour at neighbourhood level and are currently evaluating this before developing it further.

We are investing in additional police officers through the Partnership Taskforce; a team of police officers, which is tasked by the council jointly with the police, enabling us to focus on areas of concern for our residents. Since 2017, Operation Continuum (a joint Council and police operation cracking down on drug dealing to make neighbourhoods safer and cleaner) has made a total of 345 arrests, referred 119 arrested people into drug treatment, seized £0.331m under the Proceeds of Crime Act and executed 417 ASB warnings.

We are putting young people at the heart of what we do. Over the past year, we have continued our performance improvement journey in children's social care. We are working more closely with our partners in a multi-agency approach to provide a more holistic way of protecting children and young people from harm through our multi-agency safeguarding hub. In the winter we launched our new social work academy to ensure we make Tower Hamlets one of the best places in the country to be a social worker and attract the best staff to help us improve further. In October we launched our new early help offer, designed to support families at an earlier stage and to prevent issues from escalating.

We are improving our universal offer for children and young people. In the autumn, we held the Mayor's Early Years Summit to bring together families and professionals to make sure our offer to young children and their families addresses their needs. Our work in this area is showing results as is evidenced by the substantial increase in the reach of our children's centres.

Our improvement journey for Children's Services continued strongly during the year with positive progress being observed throughout 2018; this culminated in a final assessment of 'good' across all Children's Services functions which was formally announced in 2019 and with the achievement of moving from

‘inadequate’ to ‘good’ within a 2 year period being recognised as a remarkable feat.

We have taken key actions to clean up the borough’s streets and air. We have started to roll out traffic calming around primary schools in the borough to make it safer for children to get to school. We will be extending the programme to more schools across the borough over the coming year. We accelerated our capital investment programme to improve the borough’s parks and open spaces and started a major improvement project at Bartlett Park, which will continue into 2019/20. In February, we agreed our new Waste Strategy which will inform how we will deliver our new in-house waste and recycling collection and street cleansing services from April 2020. Bringing these important services in house will allow us to be more responsive and address resident concerns more effectively, as well as working towards meeting the Mayor’s ambition to improve our recycling levels significantly.

We are working with our partners and residents to reduce health and wellbeing inequalities. Over the past year we have significantly increased the number of carers’ assessments carried out and increased our support for carers, including outreach, direct payments, more assistive technology and the new Carers’ Academy. We recognise and value the huge contribution that carers play in supporting older and disabled people. We have launched our Shared Lives programme, which enables people with a learning disability to live in their own home with support.

Our public health investment, including the successful smoking cessation programme and health checks for those aged 40 to 74, is improving the health of our residents, reducing long term risks of premature deaths and helping the NHS save money through prevention and early intervention.

We have commenced work to address loneliness and social isolation in the borough, working with community and voluntary sector organisations. We want the borough to be a friendly place where people know their neighbours and feel connected to their community and the wonderful opportunities that exist within Tower Hamlets. Our Tenants’ Activity Pot is helping people living in sheltered housing live the life they want by funding activities that residents want to take part in within their housing scheme and local community. In the coming year we will be developing more opportunities for local people to design services to reduce the isolation some people experience and make local estates and communities feel more connected.

We are building an environment and culture that enables our staff to drive continuous improvement in the borough. Our new Town Hall, which opens in 2022, will foster greater collaboration with our partners, increase the Council’s transparency with the public and ensure everything we do is outwardly focussed.

Monitoring Performance

The plan on the following page summarises the number of activities and measures, which are rated green (meeting the target), amber (slipped or delayed), or red (not meeting the target).

At the end of 2018/19, 43 strategic activities have been completed while the completion of some aspects of 15 strategic activities will continue into 2019/20. These remaining aspects are expected to be completed in the first half of 2019/20 and approximately 95% of all planned activity was completed by the end of the fourth quarter in 2018/19.

At the same time, 17 performance indicators have met or are exceeding their target and 10 are exceeding the minimum expectation, while 9 are falling short. This is an improvement on the position at the end of the third quarter when fifteen performance indicators were falling short of the minimum expectation.

Through the Council's refreshed Strategic Plan and underpinning Performance Framework, we will be able to maintain a strong grip on performance, to ensure we remain on target and identify actions early where there are issues.

A detailed report regarding the Council's performance in 2018/19 was presented to the Mayor and the Cabinet at their May meeting. Diagram 2, extracted from the report, summarises the 2018/19 Year-End performance against the Strategic Plan.

Diagram 2: Tower Hamlets Strategic Plan – Year-End Performance

Tower Hamlets Strategic Plan 2018-2021

Working together with the community, for a fairer, cleaner and safer borough

TOWER HAMLETS

Priority 1

People are aspirational, independent and have equal access to opportunities

Outcome 1

People access a range of education, training and employment opportunities

Actions	2	0	3	0	
PIs	1	1	2	0	0

Outcome 2

Children and young people are protected so they can realise their potential

Actions	1	0	3	0	
PIs	1	4	3	0	0

Outcome 3

People access joined up services when they need them and feel healthier and more independent

Actions	3	0	4	0	
PIs	1	0	4	0	0

Outcome 4

Inequality is reduced and people feel that they fairly share the benefits from growth

Actions	0	0	5	0	
PIs	1	2	1	0	0

Priority 2

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

Outcome 5

People live in a borough that is clean and green

Actions	0	0	5	0	
PIs	0	2	0	0	1

Outcome 6

People live in good quality affordable homes and well-designed neighbourhoods

Actions	2	0	2	0	
PIs	1	0	2	0	2

Outcome 7

People feel safer in their neighbourhoods and anti-social behaviour is tackled

Actions	1	0	6	0	
PIs	1	0	3	0	1

Outcome 8

People feel they are part of a cohesive and vibrant community

Actions	2	0	5	0	
PIs	0	0	0	0	1

Priority 3

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

Outcome 9

People say we are open and transparent putting residents at the heart of everything we do

Actions	2	0	3	0	
PIs	1	1	1	0	3

Outcome 10

The council works collaboratively across boundaries in strong and effective partnerships to achieve the best outcomes for our residents

Actions	0	0	3	0	
PIs	0	0	0	0	9

Outcome 11

People say we continuously seek innovation and strive for excellent to embed a culture of sustainable improvement

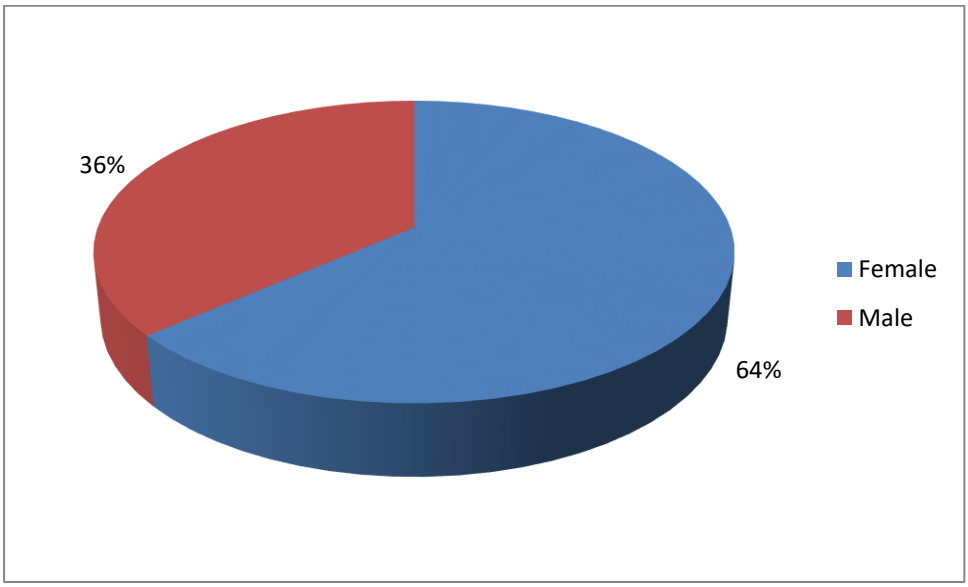
Actions	2	0	4	0	
PIs	2	0	1	0	1

Target met or exceeded | Near Target | Off Target | Information unavailable | Data only

Workforce

As at 1 April 2019, the Council employed 4,499 staff, down from 5,097 on 1 April 2018. Diagram 3 shows the Council's workforce broken down by gender.

Diagram 3: Employees by Gender



Key Strategic Risks

A full analysis of the potential risks posed to the Council can be found in the Annual Governance Statement (AGS).

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

The Council uses a corporate risk management system to identify all relevant corporate risks. Through this system, the Council has identified a number of significant governance issues. These include;

- The need to undertake a review of the current budget management process, with the aim of introducing a new protocol and revised process, which clearly identifies accountability. A new budget holder and finance business partner handbook will set out the Council's expectations for budget accountability and management;
- Issues associated with payments to care providers where reviews are under way to improve processes;

- Concerns around adult social care practice and quality, with the Improvement Board now replaced by a Quality Assurance Board and further actions planned;
- Significant issues with the 2018/19 accounts closure which has led to additional resources being employed including a finance improvement team;
- A significant overspend both on the General Fund and against the Dedicated Schools Budget, with the financial position being closely monitored by the Corporate Leadership Team;
- Vacancies in Pension Administration and Internal Audit which have resulted in a backlog of work for both areas. Recruitment to vacancies is being prioritised.

More details on all of these issues can be found in the Annual Governance Statement section within these accounts.

Financial Overview

Over the next three years the Council will continue to face significant financial challenges. The Medium Term Financial Strategy requires the Council to achieve further savings totalling £39 million by 2023. However, it is important that the Council sets a long-term sustainable strategy through which services can achieve savings and maintain a balanced budget.

During this period, a number of external challenges, including the government welfare reforms, local government funding and Brexit, will pose additional risks to the Council.

The Council has conducted extensive work to identify, map and prepare for the key potential challenges posed by Brexit in the borough. Through the work of the Brexit Commission and the Brexit Partner Action Group, it is evident the borough will face potential impacts in a number of areas. For example, supply chains could face shortages in relation to rising costs, new legislative arrangements for UK-EU trading, and a lack of continued delivery from suppliers. Finding new models of delivery in different sectors and restructuring supply chains will be crucial to the economic health of the borough.

Funding streams for key services in the borough will also likely be impacted, given the change in access to EU funding streams, and additional oversight will be required to ensure the more vulnerable and smaller agencies are protected (if necessary).

Other impacts include a high risk of skills shortages in certain sectors; a slow-down in delivery in the housing and construction sectors; and impacts on the local financial services sector.

The government is reviewing the mechanism for funding local government, looking at changing the funding distribution formula and reforming business rates retention arrangements. These changes have been delayed until 2021/22

and a one year 'roll-forward' settlement announced for 2020/21. Whilst the government has proposed a significant increase in local government Core Spending Power following the 2019 Spending Round, it is not known how this will be distributed and the government have indicated that there will be a full reset of business rate retention baselines in 2021/22. It is not yet known how this will impact on the Council. Further information on the government's review and its potential implications for councils in London can be found on the London Councils website.

In early 2017 an Ofsted inspection of Children's Services resulted in a rating of 'inadequate'. Significant work by the Council to turn the service around has resulted in Ofsted rating the service as 'good' following a follow up inspection in the spring of 2019. The Medium Term Financial Strategy for 2020-23 allows for additional budget provision for Children's Services in 2020/21, including £7.2 million in support for children with social care or special educational needs or disabilities. The investment in Children's Services supports the strengthening of frontline services and aims to ensure that the service can work within its overall budget in 2020/21 and beyond.

Borrowing

At the year end the Council had outstanding borrowings of £74.7 million (£85.3 million 2017/18). This was significantly reduced by repaying a £60m LOBO (Lenders Option Borrowers Option) loan during the year and replacing it with new loans of £50m from the Public Works Loans Board. A premium of £17.8 million was paid as part of the repayment of the LOBO loan, which has been charged to the Comprehensive Income and Expenditure Statement, but the impact on the General Fund will be spread over the life of the new loans through adjustments in the Movement in Reserves Statement.

Revenue Outturn for the year

General Fund

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

Ongoing reductions in mainstream government grant funding and a continuing upward trend in the demand for key front-line services in adult social care, children's services and for housing services, particularly homelessness, have collectively created a challenging financial environment for the Council.

Children's Services spend pressures have resulted in operational overspends in delivery of services. In addition, earmarked reserves have been applied mainly in support of the Council's Transformation programmes including Smarter Together and its investment in ICT infrastructure.

The Council's General Fund balance now stands at £17.5m at year-end, which is primarily due to the £11.7m write-off due to errors in schools' accounting

entries, albeit backdated to 2017/18. This has been replenished in 19/20 as part of the MTFS from other reserves.

Revenue Reserves

The table below presents the movement on reserves and free balances over the last three years:

	31 Mar 2017 £m	31 Mar 2018 £m	31 Mar 2019 £m
General Fund balances	(32.2)	(26.1)	(17.5)
HRA balances	(39.1)	(47.6)	(44.6)
Dedicated Schools Grant (surplus)/deficit	(1.7)	(0.2)	4.6
Schools balances	(26.3)	(25.5)	(25.6)
GF earmarked reserves (non-schools/DSG)	(135.9)	(122.2)	(131.1)

Housing Revenue Account

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

The HRA showed an in-year deficit of £3.0m, with significant impact coming from the need to create provisions of £9.2m for water rates charging and housing disrepairs claims.

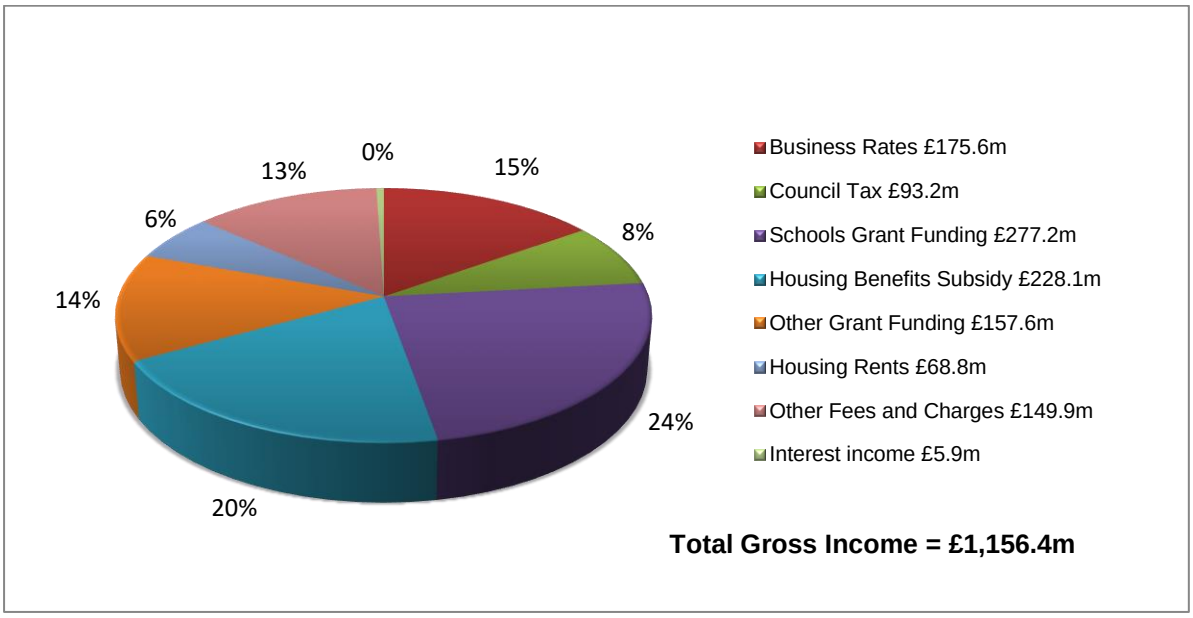
Revenue Income and Expenditure

Revenue Income

Net business rates and government grants and subsidies continue to be the main sources of revenue funding.

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

Diagram 4: Analysis of Revenue Funding Source

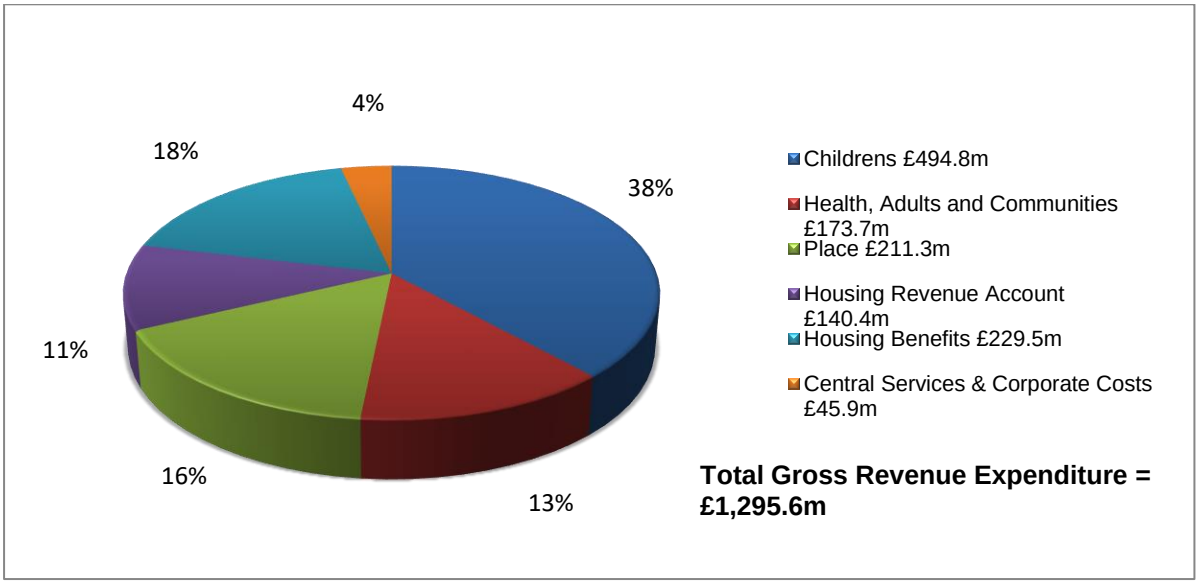


Revenue Expenditure

The Council's expenditure is reported in line with the Directorate structure in place as at the 31 March 2019.

The Council's gross expenditure on services was £1.3 billion (£1.2 billion in 2017/18). An analysis by directorate is shown in the following diagram.

Diagram 5: Analysis of Revenue Funding Source



Medium Term Financial Strategy

There was a savings target of £23.8 million for the General Fund budget in 2018/19, including a number of schemes that were originally planned to be delivered in the previous year. A total of £13.0 million was delivered, £8.4 million has been slipped into 2019/20 and £2.4 million cannot be achieved. The resultant gap in the budget was covered by one-off underspends and the use of reserves. Further issues have been identified in 2019/20 with a further £6.2 million of savings identified as not achievable. The Medium Term Financial Strategy for 2020-23 provides for the reversal of £3.6m unachievable historical savings and services are identifying underspends and alternative savings to reduce the potential call on reserves due to unachieved savings.

Capital Investment and Expenditure

Capital Investment

The Council has continued to make considerable capital investment in its capital assets. The following table sets out the broad categories of investment during the year with the main areas of spending being on council housing and temporary accommodation.

The Council has continued to invest in its infrastructure with over £136 million spent on its capital programme. The main area of investment was in housing, with £25.2 million of improvement works spent through the housing capital programme (this figure includes that element of investment which is still classified as Asset Under Construction, not just expenditure on Council Dwellings) and £57.5 million spent on temporary accommodation. £12 million was spent on the Whitechapel corporate site (included in Other Council assets).

The table below shows the sources of funding for the capital programme. The majority of this funding was from borrowing and capital grants and contributions. Purchase of properties to use as homeless accommodation were funded from borrowing to enable the use of retained receipts from right to buy sales.

Capital Expenditure

Investment shown as being in ‘non-Council assets’ includes £2 million of expenditure on schools not owned by the Council and £9 million of expenditure on leaseholder properties.

Pensions

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

Despite investment values increasing by over £78 million over the last year, at the end of 2018/19 the net liability increased from £572 million to £690.9 million in 2018/19.The increased deficit is mainly due to a reduction in the discount factor used to calculate the net present value of liabilities.

Although this sum has a significant impact on the net worth of the Council (as shown in its Balance Sheet) there are strategies in place to address the deficit in long-term through increased contributions to the scheme in future years. These contributions have been reflected in the Council's Medium Term Financial Strategy.

This is a snapshot valuation for accounting purposes and the revaluation for contributory purposes took place at 31 March 2016 reporting a much lower deficit of £235m.

THE ACCOUNTING STATEMENTS

These comprise:

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

The **Core Financial Statements**:

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

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

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

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

Notes to the Core Financial Statements

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

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

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

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

MOVEMENT IN RESERVES STATEMENT

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

	NOTES	USABLE RESERVES							UNUSABLE RESERVES								
		GENERAL FUND BALANCE £'000	EARMARKED GENERAL FUND RESERVES £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000	POOLED INVESTMENT FUNDS ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	TOTAL UNUSABLE RESERVES £'000	TOTAL AUTHORITY RESERVES £'000
Balance as at 31 March 2017 (Restated)		(32,154)	(163,843)	(39,079)	(9,459)	(156,848)	(124,825)	**(526,208)**	(905,917)	(1,499,445)	628,546	2,301	-	-	3,929	**(1,770,586)**	**(2,296,794)**
Movement in reserves during 2017/18 (Restated)																	
Surplus or (Deficit) on the Provision of Services		145,236	-	(14,181)	-	-	-	**131,055**	-	-	-	-	-	-	-	**-**	**131,055**
Other comprehensive expenditure and income		-	-	-	-	-	-	**-**	(113,512)	-	(54,234)	-	-	-	-	**(167,746)**	**(167,746)**
Total Comprehensive Expenditure and Income		**145,236**	**-**	**(14,181)**	**-**	**-**	**-**	**131,055**	**(113,512)**	**-**	**(54,234)**	**-**	**-**	**-**	**-**	**(167,746)**	**(36,691)**
Adjustments between accounting basis and funding basis under regulations		(123,189)	-	5,699	3,974	(37,706)	(16,841)	**(168,063)**	108,467	27,018	26,594	6,726	-	-	(742)	**168,063**	**-**
Net Increase or Decrease before Transfers to Earmarked Reserves		**22,047**	**-**	**(8,482)**	**3,974**	**(37,706)**	**(16,841)**	**(37,008)**	**(5,045)**	**27,018**	**(27,640)**	**6,726**	**-**	**-**	**(742)**	**317**	**(36,691)**
Transfers to or from earmarked reserves	10	(15,182)	15,182	-	-	-	-	**-**	-	-	-	-	-	-	-	**-**	**-**
Transfers to or from school reserves	10	(818)	818	-	-	-	-	**-**	-	-	-	-	-	-	-	**-**	**-**
Increase or (Decrease) in 2017/18		**6,047**	**16,000**	**(8,482)**	**3,974**	**(37,706)**	**(16,841)**	**(37,008)**	**(5,045)**	**27,018**	**(27,640)**	**6,726**	**-**	**-**	**(742)**	**317**	**(36,691)**
Balance as at 31 March 2018 carried forward (Restated)		**(26,107)**	**(147,843)**	**(47,561)**	**(5,485)**	**(194,554)**	**(141,666)**	**(563,216)**	**(910,962)**	**(1,472,427)**	**600,906**	**9,027**	**-**	**-**	**3,187**	**(1,770,269)**	**(2,333,485)**
Movement in reserves during 2018/19																	
Surplus or (Deficit) on the Provision of Services		83,478	-	45,435	-	-	-	**128,913**	-	-	-	-	-	-	-	**-**	**128,913**
Other comprehensive expenditure and income		-	-	-	-	-	-	**-**	306,278	-	75,532	-	-	-	-	**381,810**	**381,810**
Total Comprehensive Expenditure and Income		**83,478**	**-**	**45,435**	**-**	**-**	**-**	**128,913**	**306,278**	**-**	**75,532**	**-**	**-**	**-**	**-**	**381,810**	**510,723**
Adjustments between accounting basis and funding basis under regulations		(79,122)	-	(42,514)	5,485	3,854	(16,787)	**(129,084)**	8,324	71,890	28,962	2,171	17,417	538	(218)	**129,084**	**-**
Net Increase or Decrease before Transfers to Earmarked Reserves		**4,356**	**-**	**2,921**	**5,485**	**3,854**	**(16,787)**	**(171)**	**314,602**	**71,890**	**104,494**	**2,171**	**17,417**	**538**	**(218)**	**510,894**	**510,723**
Transfers to or from earmarked reserves	10	4,100	(4,100)	-	-	-	-	**-**	-	-	-	-	-	-	-	**-**	**-**
Transfers to or from school reserves	10	173	(173)	-	-	-	-	**-**	-	-	-	-	-	-	-	**-**	**-**
Increase or (Decrease) in Year		**8,629**	**(4,273)**	**2,921**	**5,485**	**3,854**	**(16,787)**	**(171)**	**314,602**	**71,890**	**104,494**	**2,171**	**17,417**	**538**	**(218)**	**510,894**	**510,723**
Balance as at 31 March 2019		**(17,478)**	**(152,116)**	**(44,640)**	**-**	**(190,700)**	**(158,453)**	**(563,387)**	**(596,360)**	**(1,400,537)**	**705,400**	**11,198**	**17,417**	**538**	**2,969**	**(1,259,375)**	**(1,822,762)**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2017/18 (Restated) Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Note	2018/19 Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			Continuing Operations				
474,490	(355,411)	119,079	Children´s Services		494,776	(361,019)	133,757
162,077	(66,068)	96,009	Health, Adults and Communities		173,745	(69,412)	104,333
154,392	(85,205)	69,187	Place		211,278	(86,219)	125,059
18,372	(2,641)	15,731	Governance		21,298	(3,107)	18,191
85,529	(91,030)	(5,501)	Local Authority Housing (Housing Revenue Account)		140,373	(88,541)	51,832
295,040	(264,435)	30,605	Resources		252,882	(227,737)	25,145
6,592	(8,262)	(1,670)	Corporate Cost and Central Items		1,159	(7,428)	(6,269)
1,196,492	**(873,052)**	**323,440**	**NET COST OF SERVICES**		**1,295,511**	**(843,463)**	**452,048**
		117,659	Other Operating Expenditure	11			(7,714)
		23,300	Financing and Investment Income and Expenditure	12			37,166
		(333,344)	Taxation and Non-Specific Grant Income	13			(352,587)
		131,055	**(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES**				**128,913**
			Other Comprehensive Income and Expenditure				
		(113,512)	(Surplus)/Deficit on revaluation of non-current assets				306,278
		(54,234)	Actuarial (gains) or losses on pension assets and liabilities				75,532
		(167,746)	**OTHER COMPREHENSIVE INCOME AND EXPENDITURE**				**381,810**
		(36,691)	**TOTAL COMPREHENSIVE INCOME AND EXPENDITURE**				**510,723**

BALANCE SHEET

This statement shows the Council's balances and reserves, its long term indebtedness and the non-current assets and net current assets employed in its operations as at 31st March 2019.

1 April 2017 (Restated) £'000	31 March 2018 (Restated) £'000		Notes	31 March 2019 £'000
		Long-term Assets		
2,690,267	2,691,354	Property, plant and equipment	14	2,348,953
9,311	18,835	Heritage Assets	17	18,835
-	-	Long-term investments	16	72,462
618	590	Long Term Debtors	15	1,208
2,700,196	**2,710,779**	**Total Long-term assets**		**2,441,458**
		Current Assets		
311,667	359,126	Short-term investments	16	257,698
3,850	-	Assets held for sale	20	160
104,470	109,308	Short-term debtors	18	150,154
228,695	145,641	Cash and cash equivalents	19	120,032
648,682	**614,075**	**Total Current Assets**		**528,044**
		Current liabilities		
(42,243)	(24,787)	Cash and cash equivalents	19	(35,640)
(1,311)	(2,010)	Short-term borrowing	16	(2,413)
(150,192)	(154,119)	Short-term creditors	21	(166,835)
(4,855)	(7,373)	Provisions	22	(8,605)
(198,601)	**(188,289)**	**Total Current liabilities**		**(213,493)**
		Long Term Liabilities		
(7,173)	(7,160)	Provisions	22	(21,493)
(84,966)	(83,293)	Long-term borrowing	16	(72,289)
(628,546)	(571,988)	Liability related to defined benefit pension schemes	40	(690,938)
(67,722)	(78,348)	Capital grants receipts in advance	36	(89,413)
(63,871)	(61,456)	Deferred liabilities	38,39	(58,650)
(1,205)	(835)	Deferred Income - Receipt in Advance		(464)
(853,483)	**(803,080)**	**Total Long-Term Liabilities**		**(933,247)**
2,296,794	**2,333,485**	**NET ASSETS**		**1,822,762**
		Reserves		
(526,208)	(563,216)	Usable Reserves	23	(563,387)
(1,770,586)	(1,770,269)	Unusable Reserves	24	(1,259,375)
(2,296,794)	**(2,333,485)**	**TOTAL RESERVES**		**(1,822,762)**

I certify that the statement of accounts presents a true and fair view of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year then ended.

Date

Kevin Bartle - Interim Corporate Director of Resources (Section 151 Officer)

CASH FLOW STATEMENT

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

2017/18 (Restated) £'000		Notes	2018/19 £'000
(131,055)	Net surplus or (deficit) on the provision of services		(128,913)
205,402	Adjustments to net surplus or deficit on the provision of services for non cash movements	25	178,578
(77,422)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	(46,960)
(3,075)	**Net cash flows from Operating Activities**		**2,705**
(58,832)	Other Investing Activities	26	(40,603)
(3,691)	Financing Activities	27	1,436
(65,598)	**Net increase/(decrease) in cash and cash equivalents**		**(36,462)**
186,452	Cash and cash equivalents at the beginning of the reporting period		120,854
120,854	**Cash and cash equivalents at the end of the reporting period**	19	**84,392**

NOTES TO THE ACCOUNTS

1. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31st March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003.

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

Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the going concern concept assumes that the Council will continue in operational existence for the foreseeable future.

2. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised as the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet if material.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- The Council operates a de minimis of £10,000 for revenue and £50,000 for capital below which items of income and expenditure are not required to be accrued.

- 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.

3. Cash and Cash Equivalents

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

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

4. Exceptional Items

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

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

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

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

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

8. Accounting for Council Tax and NDR

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

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

9. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

The Local Government scheme is a defined benefits scheme.

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

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (based on the constituents of the iBoxx AA corporate bond) as at 31st March 2019.

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

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

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

- past service cost – the increase in liabilities arising from a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services.
- net interest cost – the increase in the present value of net liabilities during the year as they move one year closer to being paid, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve.
- contributions paid to the pension funds – cash paid as employer's contributions to the pension funds.

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

The Council's wholly owned subsidiary, Tower Hamlets Homes Limited (THH), is a Local Government Pension Scheme Employer in accordance with the Local Government Pension Scheme (Amendment) Regulations 2002. The Council has incorporated its pension liabilities and assets that have arisen into its pension obligations into the net pension liability as presented on the balance sheet.

Discretionary Benefits

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

10. Financial Instruments

Financial Liabilities

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

estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

Early Loan Redemption

A LOBO loan was repaid prematurely in November 2018 and the cost of the premium to the Housing Revenue Account will be spread over the unexpired period of the loan through transfers to and from the FIAA.

Financial Assets

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

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

Financial Assets Measured at Amortised Costs

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently carried at their amortised cost. Annual credits to the Financing and Investment line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

Expected Credit Loss Model

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

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was

initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

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

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

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

Financial Assets Measured at Fair Value through Profit or Loss

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

11. Government Grants and Contributions

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

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

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

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

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

12. Heritage assets

The Council does not actively acquire or dispose of heritage assets as part of its normal day-to-day business and where the Council holds heritage assets, these have usually been donated.

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £18.8 million at 31 March 2019. This valuation is based on valuations for art and museum collections where the asset has a material value. Items without a material value are excluded from the balance sheet. Valuations are made by what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous. The Council has four heritage assets that have material values, one painting, two public sculptures and the civic regalia, these values are reviewed periodically. The real value of these items would only be established upon sale as valuations on assets of this nature are subjective.

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

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

13. Leases

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as a Lessee

Finance Leases

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

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

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

Operating Leases

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

The Council as a Lessor

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

Operating Leases

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

14. Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the Council's arrangements for accountability and financial performance. The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received.

15. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash

flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to long-term assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

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

(the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

16. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

There is also a third PFI contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. The assets of the CHP scheme are included on the council's balance sheet with a deferred income balance, both of which are written down over the term of the contract.

17. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in note 29 to the accounts.

Contingent Assets

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

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

18. Reserves

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

Certain reserves are kept to manage the accounting processes for long-term assets, financial instruments, retirement and employment benefits and do not represent usable resources for the Council. Collectively, these are presented as Unusable Reserves on the Balance Sheet.

19. Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

20. Fair value measurement

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

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

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

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

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

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

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

21. Value added Tax (VAT)

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

22. Community Infrastructure Levy

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

23. Schools

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

2 Restated Accounting Statements

The Council has made material adjustments to restate figures previous reported in 2017/18. In addition, corrections have been made to record balances correctly between creditors, debtors, provisions, pension liabilities and cash. Each of the material adjustments is explained below.

The impact on the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cashflow Statement and the Unusable Reserves note are outlined in the tables that follow the detailed explanations.

(a) Property Plant and Equipment Adjustments

It was identified that there were errors in the methodology used to produce the valuations for some properties. This required a revaluation of assets, primarily the maintained schools, resulting in a increase in values of £447.2 million at 31 March 2017 and £373.5 million at 31 March 2018.
At 1st April 2017, £9.7m was also removed from the balance sheet as the assets belong to the KIng George Field Trust, of which the Council is sole trustee. £22.6m of duplicated expenditure was also removed relating to Mile End Park, and £4.7m of assets were added to the Council's balance sheet for temporary accomodation not previously included.

(b) Leaseholder Contributions

It was identified that billing leaseholders for their share of the costs of major works on housing blocks had fallen behind. This was due in particular to the expanded programme of Decent Homes, and the need to obtain final completion information from contractors. A pro-active exercise of catch-up billing is now in place. However at 31 March 2018, £10.5 million of contributions should have been accrued for, and a further £15.7 million should have been recognised (rather than held as receipt in advance) and these are now adjusted for in the accounts.

(c) Grants Unapplied

A review of balances held as receipts in advance within creditors identified a number of grant receipts where there was no conditions attached to the grant and hence the income should have been recognised in the Comprehensive Income and Expenditure Statement in the year of receipt. It also identified some grants where debtors had been raised incorrectly. The restatement reduces creditors by £8.5 million, reduces debtors by £3.7 million and increases usable reserves by £4.8 million at 31 March 2018.

(d) Academy Conversions

During 2018/19 it was identified that four schools had transferred out of Council control to academy status during 2017/18.
It has been necessary to restate the 2017/18 figures only to remove the value of the schools assets from the balance sheet. The book value of the schools was £141.5 million at 31 March 2018.

(e) School Balances

A review identified that final balance sheet entries for school reserves and cash balances had not been processed at the end of 2017/18. There were also some missed entries from previous years that had not been identified and some errors regarding the accounting for Academy Schools. The amendments increase earmarked school reserves by £2.1 million, decrease debtor balances by £7.7 million, increase creditors by £3.8 million, increase cash balances by £5.8 million and decrease general balances by £7.8 million.

(f) Recharges

It was identified that recharges between business units had not been properly netted down, resulting in the overstatement of income and expenditure in the Comprehensive Income and Expenditure Statement. A total of £48.7 million has been adjusted for in 2017/18.

(g) Community Infrastructure Levy (CIL)

It was identified that final details in the planning process were causing delays in the raising of invoices for the Community Infrastructure Levy. Whilst some payments on account for initial instalments had been received, the full debt had not formally been raised in the accounts. The additional income has now been correctly recognised in the balance at the end of 2017/18, increasing debtors by £10.2million (£9.4 million in 16/17), reducing payments in advance by £1.6 million and increasing CIL Receipts in the Capital Grants Unapplied Reserve by £11.8 million (£9.4 million in 16/17).

(h) Enhanced Teachers Pensions

Historically the Council has agreed to early retirement for teachers and has granted them added years service to enhance their pension payments. The enhanced element of the pension is paid directly by the Council. Previously this unfunded pension has not been included in the Council's accounts. An additional Pension liability of £9.4 million has now been recognised at 31 March 2017.

(i) Bank Account Offset

The council has a number of bank accounts that make up the cash balance. Some of these have overdraft balances at year end. Previously, these balances have all been presented on the balance sheet as one net figure; however, to account for these in accordance with accounting standards, they have been restated as a gross current asset, and as a current liability (picking up the overdraft balances).

(j) Section 106 Contributions

A number of S106 contributions were identified as not meeting the technical definition of "with conditions". To ensure these had the correct accounting treatment these needed to be moved from Receipts in Advance to either Capital Grants Unapplied Reserve or, for a small amount of revenue amounts, Earmarked Reserves. The overall adjustment at 31 March 2018 was £13.0m

(k) Reclassification of Disabled Facilities Grant from Receipts in Advance

DFG has been identified as not meeting the technical definition of "with conditions", and has therefore been recognised through the CIES and held in Capital Grants Unapplied, rather than Capital Grants Receipts in Advance.

Effect on the Opening Balance Sheet

	31 March 2017 £'000	PPE Adjustments £'000	Leaseholder Contributions £'000	Grants Unapplied £'000	School Balances £'000	Infrastructure Levy £'000	Teachers Pensions £'000	Bank Offset £'000	S106 Unapplied £'000	DFG £'000	Other £'000	Restated 31 March 2017 £'000
Long-term Assets												
Property, plant and equipment	2,275,180	415,087										2,690,267
Total Long-term assets	**2,285,109**	**415,087**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,700,196**
Current Assets												
Short-term investments	311,667											311,667
Assets held for sale	3,850											3,850
Short-term debtors	80,487		17,984	(2,828)		9,413					(586)	104,470
Cash and cash equivalents	184,299				1,568			42,243			585	228,695
Total Current Assets	**580,303**	**-**	**17,984**	**(2,828)**	**1,568**	**9,413**	**-**	**42,243**	**-**	**-**	**(1)**	**648,682**
Current liabilities												
Cash and cash equivalents	-							(42,243)				(42,243)
Short Term Borrowing	(3,533)										2,222	(1,311)
Short-term creditors	(154,154)			6,568					(387)		(2,219)	(150,192)
Provisions	(4,855)											(4,855)
Total Current liabilities	**(162,542)**	**-**	**-**	**6,568**	**-**	**-**	**-**	**(42,243)**	**(387)**	**-**	**3**	**(198,601)**
Long-term Liabilities												
Liability related to defined benefit pension schemes	(619,122)						(9,424)					(628,546)
Capital grants receipts in advance	(83,120)		6,123						8,334	941		(67,722)
Total Long-Term Liabilities	**(859,457)**	**-**	**6,123**	**-**	**-**	**-**	**(9,424)**	**-**	**8,334**	**941**	**-**	**(853,483)**
NET ASSETS	**1,843,413**	**415,087**	**24,107**	**3,740**	**1,568**	**9,413**	**(9,424)**	**-**	**7,947**	**941**	**2**	**2,296,794**
Reserves												
Usable Reserves												
General Fund	(31,740)			(414)								(32,154)
Housing Revenue Account	(39,079)											(39,079)
Earmarked reserves	(134,619)			(1,671)					387		(3)	(135,906)
Schools reserves	(24,714)			(1,655)	(1,568)							(27,937)
Capital Grants Unapplied	(82,030)		(24,107)			(9,413)			(8,334)	(941)		(124,825)
Total Usable Reserves	**(478,489)**	**-**	**(24,107)**	**(3,740)**	**(1,568)**	**(9,413)**	**-**	**-**	**(7,947)**	**(941)**	**(3)**	**(526,208)**
Unusable Reserves												
Revaluation Reserve	(464,596)	(441,321)										(905,917)
Capital Adjustment Account	(1,525,680)	26,234									1	(1,499,445)
Pensions Reserve	619,122						9,424					628,546
Total Unusable Reserves	**(1,364,924)**	**(415,087)**	**-**	**-**	**-**	**-**	**9,424**	**-**	**-**	**-**	**1**	**(1,770,586)**
TOTAL RESERVES	**(1,843,413)**	**(415,087)**	**(24,107)**	**(3,740)**	**(1,568)**	**(9,413)**	**9,424**	**-**	**(7,947)**	**(941)**	**(2)**	**(2,296,794)**

Effect on the Comprehensive Income and Expenditure Statement 2017-18

	As previously stated 2017-18 £'000	PPE Revaluations £'000	Leaseholder Contributions £'000	Grants Unapplied £'000	Academy Conversions £'000	School Balances £'000	Recharges £'000	Community Infrastructure Levy £'000	S106 Unapplied £'000	DFG £'000	Other Corrections £'000	Restated 2017-18 £'000
Gross Expenditure												
Children's Services	538,699	(21,649)				252	(42,817)				5	474,490
Health, Adults and Communities	162,076										1	162,077
Place	154,392											154,392
Governance	18,372											18,372
Local Authority Housing (HRA)	83,387	(6)									2,148	85,529
Resources	296,760										(1,720)	295,040
Corporate Cost and Central Items	6,592											6,592
Total Gross Expenditure	1,260,278	(21,655)	-	-	-	252	(42,817)	-	-	-	434	1,196,492
Gross Income												
Children's Services	(406,776)			1,518		7,030	42,817					(355,411)
Health, Adults and Communities	(66,068)											(66,068)
Place	(82,636)			(2,569)								(85,205)
Governance	(2,641)											(2,641)
Local Authority Housing (HRA)	(91,030)											(91,030)
Resources	(266,133)			(22)							1,720	(264,435)
Corporate Cost and Central Items	(8,262)											(8,262)
Total Gross Income	(923,546)	-	-	(1,073)	-	7,030	42,817	-	-	-	1,720	(873,052)
NET COST OF SERVICES	336,732	(21,655)	-	(1,073)	-	7,282	-	-	-	-	2,154	323,440
Other Operating Expenditure	(11,268)				128,927							117,659
Financing and Investment Income and Expenditure	23,253										47	23,300
Taxation and Non-Specific Grant Income	(327,304)		(2,155)					(2,448)	(474)	(956)	(7)	(333,344)
(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES	**21,413**	**(21,655)**	**(2,155)**	**(1,073)**	**128,927**	**7,282**	**-**	**(2,448)**	**(474)**	**(956)**	**2,194**	**131,055**
Other Comprehensive Income and Expenditure												
(Surplus)/Deficit on revaluation of non-current assets	(216,962)	90,862			12,588							(113,512)
Actuarial (gains) or losses on pension assets and liabilities	(51,679)										(2,555)	(54,234)
OTHER COMPREHENSIVE INCOME AND EXPENDITURE	**(268,641)**	**90,862**	**-**	**-**	**12,588**	**-**	**-**	**-**	**-**	**-**	**(2,555)**	**(167,746)**
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE	**(247,228)**	**69,207**	**(2,155)**	**(1,073)**	**141,515**	**7,282**	**-**	**(2,448)**	**(474)**	**(956)**	**(361)**	**(36,691)**

Effect on the Movement in Reserves Statement - Usable Reserves

	As previously stated £'000	PPE Revaluations £'000	Leaseholder Contributions £'000	Grants Unapplied £'000	Academy Conversions £'000	School Balances £'000	Community Infrastructure Levy £'000	S106 Unapplied £'000	DFG £'000	Other Corrections £'000	Restated £'000
Balance at 31st March 2017	**(478,489)**	**-**	**(24,107)**	**(3,740)**	**-**	**(1,568)**	**(9,413)**	**(7,947)**	**(941)**	**(3)**	**(526,208)**
(Surplus) or Deficit on the Provision of Services	21,413	(21,655)	(2,155)	(1,073)	128,927	7,282	(2,448)	(474)	(956)	2,194	131,055
Reversal of items debited or credited to the Comprehensive I&E											
Charges for depreciation and impairment of non current assets	(37,992)	299			(273)						(37,966)
Revaluation losses on PPE	(19,985)	21,356			4,019						5,390
Capital grants and contributions applied	34,746										34,746
Revenue expenditure funded from capital under statute	(20,855)										(20,855)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(44,984)				(132,673)						(177,657)
Inclusion of items not debited or credited to the Comprehensive Income & Expenditure Statement											
Statutory provision for the financing of capital investment	7,932										7,932
Capital expenditure charged against the General Fund and HRA balances	10,573										10,573
All Other Adjustments	11,971									(2,197)	9,774
Total Adjustments between accounting basis and funding basis under regulations	**(58,594)**	**21,655**	**-**	**-**	**(128,927)**	**-**	**-**	**-**	**-**	**(2,197)**	**(168,063)**
(Increase) or Decrease for year	**(37,181)**	**-**	**(2,155)**	**(1,073)**	**-**	**7,282**	**(2,448)**	**(474)**	**(956)**	**(3)**	**(37,008)**
Balance as at 31 March 2018	**(515,670)**	**-**	**(26,262)**	**(4,813)**	**-**	**5,714**	**(11,861)**	**(8,421)**	**(1,897)**	**(6)**	**(563,216)**

Effect on the Capital Adjustment Account

	As previously stated £'000	PPE Revaluations £'000	Academy Conversions £'000	Other Corrections £'000	Restated 31 March 2018 £'000
Balance at 1 April	(1,525,680)	26,234	-	1	(1,499,445)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:					-
Charges for depreciation and impairment of non current assets	37,992	(299)	273		37,966
Revaluation losses and reversals on Property, Plant and Equipment	19,985	(21,356)	(4,019)		(5,390)
Revenue expenditure funded from capital under statute	20,855				20,855
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	44,984		132,673		177,657
	123,816	**(21,655)**	**128,927**		**231,088**
Adjusting amounts written out of the Revaluation Reserve	(16,324)	(830)	(91,314)	1	(108,467)
Net written out amount of the cost of non current assets consumed in the year	**107,492**	**(22,485)**	**37,613**	**1**	**122,621**
Capital financing applied in the year	**(95,604)**	**-**	**-**	**1**	**(95,603)**
Balance at 31 March	**(1,513,792)**	**3,749**	**37,613**	**3**	**(1,472,427)**

Effect on the Revaluation Reserve

	As previously stated £'000	PPE Revaluations £'000	Academy Conversions £'000	Other Corrections £'000	Restated 31 March 2018 £'000
Balance at 1 April	(464,595)	(441,321)	-	(1)	(905,917)
Upward revaluation of assets	(348,291)	161,401	12,588	-	(174,302)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	131,329	(70,539)	-	-	60,790
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**(216,962)**	**90,862**	**12,588**	**-**	**(113,512)**
Difference between current value depreciation and historical cost depreciation	5,288	312	250	-	5,850
Accumulated gains on assets sold or scrapped	11,036	518	91,064	(1)	102,617
Amount written off to the Capital Adjustment Account	**16,324**	**830**	**91,314**	**(1)**	**108,467**
Balance at 31 March	**(665,233)**	**(349,629)**	**103,902**	**(2)**	**(910,962)**

Effect on the Movement in Reserves Statement - Unusable Reserves

	As previously stated £'000	PPE Revaluations £'000	Academy Conversions £'000	Teachers Pensions £'000	Other Corrections £'000	Restated 31 March 2017 £'000
Balance at 31st March 2017	(1,364,921)	(415,087)	-	9,424	(2)	(1,770,586)
Other Comprehensive Income	(268,641)	90,862	12,588	-	(2,555)	(167,746)
Reversal of items debited or credited to the Comprehensive I&E						
Charges for depreciation and impairment of non current assets	37,992	(299)	273	-	-	37,966
Revaluation losses on PPE	19,985	(21,356)	(4,019)	-		(5,390)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	44,984	-	132,673	-	-	177,657
All Other Adjustments	(44,367)	-	-	-	2,197	(42,170)
Total Adjustments between accounting basis and funding basis under regulations	58,594	(21,655)	128,927	-	2,197	168,063
(Increase) or Decrease for year	(210,047)	69,207	141,515	(359)	1	317
Balance as at 31 March 2018	**(1,574,968)**	**(345,880)**	**141,515**	**9,065**	**(1)**	**(1,770,269)**

Effect on the Closing Balance Sheet of 2017/18

	31 March 2018 £'000	PPE Revaluations £'000	Leaseholder Contributions £'000	Grants Unapplied £'000	Academy Conversions £'000	School Balances £'000	Community Infrastructure Levy £'000	Teachers Pensions £'000	Bank Offset £'000	S106 Unapplied £'000	DFG £'000	Other Corrections £'000	Restated 31 March 2018 £'000
Long-term Assets													
Property, plant and equipment	2,486,991	345,880			(141,515)							(2)	2,691,354
Heritage Assets	18,835												18,835
Long Term Debtors	590												590
Total Long-term assets	**2,506,416**	**345,880**	**-**	**-**	**(141,515)**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**2,710,779**
Current Assets													
Short-term investments	359,126												359,126
Short-term debtors	100,800		10,543	(3,721)		(7,702)	10,263					(875)	109,308
Cash and cash equivalents	114,524					5,781			24,787			549	145,641
Total Current Assets	**574,450**	**-**	**10,543**	**(3,721)**	**-**	**(1,921)**	**10,263**	**-**	**24,787**	**-**	**-**	**(326)**	**614,075**
Current liabilities													
Cash and cash equivalents									(24,787)				(24,787)
Short-term borrowing	(4,426)											2,416	(2,010)
Short-term creditors	(157,986)			8,534		(3,793)	1,598			(387)		(2,085)	(154,119)
Provisions	(7,373)												(7,373)
Total Current liabilities	**(169,785)**	**-**	**-**	**8,534**	**-**	**(3,793)**	**1,598**	**-**	**(24,787)**	**(387)**	**-**	**331**	**(188,289)**
Long Term Liabilities													
Provisions	(7,160)											-	(7,160)
Long-term borrowing	(83,293)												(83,293)
Pensions Liability	(562,923)							(9,424)				359	(571,988)
Capital grants receipts in advance	(104,772)		15,719							8,808	1,897		(78,348)
Deferred liabilities	(61,455)											(1)	(61,456)
Deferred Income - Receipt in Advance	(835)												(835)
Total Long-Term Liabilities	**(820,438)**	**-**	**15,719**	**-**	**-**	**-**	**-**	**(9,424)**	**-**	**8,808**	**1,897**	**358**	**(803,080)**
NET ASSETS	**2,090,643**	**345,880**	**26,262**	**4,813**	**(141,515)**	**(5,714)**	**11,861**	**(9,424)**	**-**	**8,421**	**1,897**	**361**	**2,333,485**
Reserves													
Usable Reserves													
General Fund	(33,258)			(657)		7,807						1	(26,107)
Housing Revenue Account	(47,560)											(1)	(47,561)
Earmarked reserves	(118,605)			(3,970)						387		(3)	(122,191)
Schools reserves	(23,373)			(186)		(2,093)							(25,652)
Capital Receipts Reserve	(194,556)											2	(194,554)
Capital Grants Unapplied	(92,836)		(26,262)				(11,861)			(8,808)	(1,897)	(2)	(141,666)
Total Usable Reserves	**(515,673)**	**-**	**(26,262)**	**(4,813)**	**-**	**5,714**	**(11,861)**	**-**	**-**	**(8,421)**	**(1,897)**	**(3)**	**(563,216)**
Unusable Reserves													
Revaluation Reserve	(665,233)	(349,629)			103,902							(2)	(910,962)
Capital Adjustment Account	(1,513,792)	3,749			37,613							3	(1,472,427)
Pensions Reserve	591,841							9,424				(359)	600,906
Total Unusable Reserves	**(1,574,970)**	**(345,880)**	**-**	**-**	**141,515**	**-**	**-**	**9,424**	**-**	**-**	**-**	**(358)**	**(1,770,269)**
TOTAL RESERVES	**(2,090,643)**	**(345,880)**	**(26,262)**	**(4,813)**	**141,515**	**5,714**	**(11,861)**	**9,424**	**-**	**(8,421)**	**(1,897)**	**(361)**	**(2,333,485)**

Effect on the Cashflow and Notes

	As previously stated 2017-18 £'000	PPE Revaluations £'000	Leaseholder Contributions £'000	Grants Unapplied £'000	Academy Conversions £'000	School Balances £'000	Community Infrastructure Levy £'000	S106 Unapplied £'000	DFG £'000	Other Corrections £'000	Restated 2017-18 £'000
Net surplus or (deficit) on the provision of services	(21,413)	21,655	2,155	1,073	(128,927)	(7,282)	2,448	474	956	(2,194)	(131,055)
Adjustments to surplus or deficit on the provision of services for noncash movements											
Depreciation	37,992	(299)			273						37,966
Impairment and downward valuations	19,985	(21,356)			(4,019)						(5,390)
Increase/(decrease) in creditors	16,744		(9,596)	(1,966)		4,893	(1,598)			23,254	31,731
(Increase)/decrease in debtors	(33,395)		6,027	893		9,874	4,810	-		(25,414)	(37,205)
(Increase)/decrease in inventories											-
Movement in pension liability	(3,990)									2,198	(1,792)
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	44,984				132,673						177,657
Other non-cash items charged to the net surplus or deficit on the provision of services	2,505									(70)	2,435
Total Adjustments	**84,825**	**(21,655)**	**(3,569)**	**(1,073)**	**128,927**	**14,767**	**3,212**	**-**	**-**	**(32)**	**205,402**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities											
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(59,785)									1	(59,784)
Any other items for which the cash effects are investing or financing cash flows	(10,811)	(5,397)						(474)	(956)		(17,638)
Total Adjustments	(70,596)	(5,397)	-	-	-	-	-	(474)	(956)	1	(77,422)
Net Cash flows from operating activities	**(7,184)**	**(5,397)**	**(1,414)**	**-**	**-**	**7,485**	**5,660**	**-**	**-**	**(2,225)**	**(3,075)**
Net Cash flows from Investing Activities											
Purchase of property, plant and equipment, investment property and intangible assets	(103,696)									40	(103,656)
Purchase of short-term and long-term investments	(47,452)									(365,117)	(412,569)
Other payments for investing activities										25	25
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	56,944										56,944
Proceeds from short-term and long-term investments										365,120	365,120
Total Cash flows	**(58,900)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**68**	**(58,832)**
Net increase or (decrease) in cash and cash equivalents	**(69,775)**	**(5,397)**	**(1,414)**	**-**	**-**	**7,485**	**5,660**	**-**	**-**	**(2,157)**	**(65,598)**
Cash and cash equivalents at the beginning of the reporting period	184,299	-	-	-	-	1,568	-	-		585	186,452
Cash and cash equivalents at the end of the reporting period	114,524	(5,397)	(1,414)	-	-	9,053	5,660	-	-	(1,572)	120,854

Reconciliation of Movement in Net Worth

	31 March 2017 £'000	31 March 2018 £'000
Total Council Assets as previously reported	1,843,413	2,090,643
PPE Revaluations	415,087	345,880
Leaseholder Contributions	24,107	26,262
Grants Unapplied	3,740	4,813
Academy Conversions	-	(141,515)
School Balances	1,568	(5,714)
Community Infrastructure Levy	9,413	11,861
Teachers Pensions	(9,424)	(9,424)
S106 Unapplied	7,947	8,421
Disabled Facilities Grant	941	1,897
Other Corrections	2	361
Total Council Assets restated	2,296,794	2,333,485

The above tables only show the lines impacted and therefore the totals presented do not necessarily cast downwards.

3 Accounting Standards that have been issued but have not yet been adopted

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

• **Amendments to IAS 40** ***Investment Property: Transfers of Investment Property*** **–** this change restricts transfers between the investment property category and other asset categories to where is clear evidence of a change in use. The Council already follows this approach therefore the change in the standard will have no impact on the accounts;

• ***Annual Improvements to IFRS Standards 2014 – 2016 Cycle*** **–** none of the amendments are expected to impact on the Council's accounts. The improvements include changes to IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*;

• **IFRIC 22** ***Foreign Currency Transactions and Advance Consideration*** **–** this covers where payment, denominated in a foreign currency, is made in advance of receipt of goods and services. The Council does not have any material transactions that will be covered by this amendment;

• **IFRIC 23** ***Uncertainty over Income Tax Treatments*** **–** as the Council does not have tax liabilities this will have no impact;

• **Amendments to IFRS 9** ***Financial Instruments: Prepayment Features with Negative Compensation*** **–** this makes changes to IFRS 9 regarding the use of amortised cost where prepayments are lower than the principal and interest remaining unpaid. The Council has no instruments that this would apply to;

• **IFRS 16** ***Leases*** **–** This is effective for annual reporting periods beginning on or after 1 January 2019, but implementation by the UK public sector has been delayed until the 2022-23 financial year. This standard will require the Council to recognise more leases where they are the lessor on balance sheet with the corresponding liability for lease payments.

4 Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the authority has not had to make any critical judgements.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.
The items in the authority's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Council Dwellings and Other Land and Buildings (within Property, Plant and Equipment) – Assets at carrying value of £2,142m are valued in accordance with the professional standards set by the Royal Institution of Chartered Surveyors and valuations are prepared by the Council's external specialists.
As part of this process of valuation, property transactions are examined in the market at large. Nonetheless a large element of judgement is exercised by professional valuers since land valuations are dependent on a wide range of factors, and relevant property transactions outline a range from which the valuer then applies their professional judgement

Pensions Liability – Estimation of the net liability, of £690.9m, to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund investments. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.
The actuaries provide the following sensitivity analysis: a 0.5% decrease in the real discount rate would lead to an increase of approximately £198.3m in the scheme liabilities; a 0.5% increase in the rate of pension increase (taken as CPI) would lead to an increase of £175.8m; and a 0.5% increase in salaries would result in an increase of £20.0m

6 Material Items of Income and Expenditure

A material item is an item of expenditure or income that is unusual in scale and non-recurring. In 2018/19 material items of income and expenditure are disclosed in the relevant notes through the accounts, but the following significant item is highlighted here:

Lender Option Borrower Option (LOBO) loan repayment - A £60m LOBO loan was repaid in November 2018. An early termination premium of £17.852m was paid and the premium charged to the Comprehensive Income and Expenditure Statement. This was then transferred via the Movement in Reserves Statement to the Financial Instruments Adjustment Account and the cost will be charged to the General Fund over the remaining 42 years of the loan. New loans from the Public Works Loan Board were taken out to provide replacement funding.

Revaluation of Properties – An unrealised revaluation loss of £104.8m on the value of property (of which £44.2m relates to HRA dwellings) is included in the net cost of services within the Comprehensive Income and Expenditure Statement. The total change in the value of property due to revaluations during 2018/19 was a decrease of £411.1m, with the remaining £306.3m being charged to the Revaluation Reserve.

7 Events after the balance sheet date

The statement of accounts is adjusted to reflect events after the Balance Sheet date, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period, unless deemed insignificant to the true and fair view of the council's assets and liabilities. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

The UK government imposed coronavirus (covid-19) lockdown measures in England on 26 March 2020 and subsequently revised and extended them. As a result, many workers were furloughed and almost all schools, businesses, venues, facilities and amenities were closed. After this lockdown was lifted, various other restrictions were in place throughout 2020 and a second lockdown was implemented from the 5 November 2020. Although March 2020 saw the first few weeks of the covid-19 crisis, the full financial consequences will fall in 2020/21 and future years and therefore is considered as a non-adjusting event with conditions arising after the reporting date.

The financial impact on COVID-19 in 18/19 was not material on reserves, and the events after the reporting period do not indicate that the Council would be unable to continue as a going concern.

8 Expenditure and Funding Analysis

The expenditure and funding analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the comprehensive income and expenditure statement

2017/18 (Restated)				2018/19		
Expenditure Chargeable to GF and HRA balances £'000	Adjustments between funding and accounting basis £'000	Net Expenditure in the CIES £'000		Expenditure Chargeable to GF and HRA balances £'000	Adjustments between funding and accounting basis £'000	Net Expenditure in the CIES £'000
117,318	1,761	119,079	Children´s Services	115,452	18,305	133,757
139,144	(43,135)	96,009	Health, Adults and Communities	145,995	(41,662)	104,333
60,847	8,340	69,187	Place	64,862	60,197	125,059
13,392	2,339	15,731	Governance	14,309	3,882	18,191
(8,069)	2,568	(5,501)	Local Authority Housing (Housing Revenue Account)	2,921	48,911	51,832
27,024	3,581	30,605	Resources	14,201	10,944	25,145
(6,178)	4,508	(1,670)	Corporate Cost and Central Items	16,404	(22,673)	(6,269)
343,478	**(20,038)**	**323,440**	**NET COST OF SERVICES**	**374,144**	**77,904**	**452,048**
(345,913)	155,440	(192,385)	Other Income and Expenditure	(362,594)	39,459	(323,135)
(2,435)	**135,402**	**131,055**	**(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES**	**11,550**	**117,363**	**128,913**
(71,233)			**Opening General Fund and HRA balances**	(73,668)		
6,047			Movement on General Fund Balance in Year	8,629		
(8,482)			Movement on HRA Balance in Year	2,921		
(73,668)			**CLOSING GENERAL FUND AND HRA BALANCES**	**(62,118)**		

8a Note to the Expenditure and Funding Analysis

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

2017/18 (Restated)						2018/19				
Adjustments for Capital Purposes	Transfers to/from Earmarked Reserves	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments		Adjustments for Capital Purposes	Transfers to/from Earmarked Reserves	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
1,241	4,287	7,692	(11,459)	1,761	Children´s Services	17,151	4,585	9,297	(12,728)	18,305
-	(1,297)	4,116	(45,954)	(43,135)	Health, Adults and Communities	-	(420)	5,367	(46,609)	(41,662)
487	1,704	7,844	(1,695)	8,340	Place	51,327	(1,265)	9,434	701	60,197
-	-	2,234	105	2,339	Governance	-	-	2,077	1,805	3,882
7,391	-	(1,304)	(3,519)	2,568	Local Authority Housing (Housing Revenue Account)	53,393	-	(835)	(3,647)	48,911
(1,901)	11,662	5,937	(12,117)	3,581	Resources	(776)	14,210	6,972	(9,462)	10,944
13,225	4,499	(15,590)	2,374	4,508	Corporate Cost and Central Items	12,723	4,219	(18,409)	(21,206)	(22,673)
20,443	**20,855**	**10,929**	**(72,265)**	**(20,038)**	**NET COST OF SERVICES**	**133,818**	**21,329**	**13,903**	**(91,146)**	**77,904**
73,609	(4,855)	15,666	71,020	155,440	Other income and expenditure from the Expenditure and Funding Analysis	(45,512)	(25,602)	15,059	95,514	39,459
94,052	**16,000**	**26,595**	**(1,245)**	**135,402**	**DIFFERENCE BETWEEN SURPLUS OR DEFICIT AND THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES**	**88,306**	**(4,273)**	**28,962**	**4,368**	**117,363**

Adjustments for Capital Purposes

This column includes the following adjustments:

• Services – depreciation and impairment and revaluation gains and losses are added back in as these are not in the net chargeable amounts but are chargeable under generally accepted accounting practices. Capital expenditure financed by revenue and statutory charges for capital financing (Minimum Revenue Provision) are removed as these is not chargeable to the Comprehensive Income and Expenditure Statement

• Other income and expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets and also adjusts for the share of housing capital receipts paid to central government under a pooling arrangement. Capital grants are adjusted for income not chargeable under generally accepted accounting practices. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Transfers to/from Earmarked Reserves

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

Net Change for Pensions Adjustments

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

• Services - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs

• Other income and expenditure – the net interest on the defined benefit liability is charged to Financing and Investment Income and Expenditure.

Other Adjustments

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

• Services – adjustments in this column include the timing differences for premia and discounts; interest payable, interest receivable, levies and trading account surplus/deficit moved out of service expenditure to be recognised as part of Other Income and Expenditure within the Surplus or Deficit on the Provision of Services; recognising the accrual of employee annual leave in the Comprehensive Income and Expenditure Statement; also adjusting revenue grants to include those receivable without conditions or for which conditions were satisfied throughout the year.

• Other income and expenditure – this column represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

9 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2018/19	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account							
Reversal of items debited or credited to the Comprehensive I&E							
Charges for depreciation and impairment of non current assets	(22,044)	-	(16,864)	-	-	**(38,908)**	**38,908**
Revaluation losses on PPE (charged to SDPS)	(60,006)	(44,789)	-	-	-	**(104,795)**	**104,795**
Movements on the market value of investment assets	-	-	-	-	-	**-**	**-**
Amortisation of intangible assets	-	-	-	-	-	**-**	**-**
Capital grants and contributions applied	12,918	3,329	-	-	21,633	**37,880**	**(37,880)**
Movement in the donated assets account	-	-	-	-	-	**-**	**-**
Revenue expenditure funded from capital under statute	(8,942)	(9,013)	-	-	-	**(17,955)**	**17,955**
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(1,175)	(8,396)	-	-	-	**(9,571)**	**9,571**
Inclusion of items not debited or credited to the Comprehensive							
Statutory provision for the financing of capital investment	8,188	451	-	-	-	**8,639**	**(8,639)**
Capital expenditure charged against the General Fund and HRA balances	(810)	(42)	-	-	-	**(852)**	**852**
Adjustments involving the Capital Receipts Reserve							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	-	22,309	-	(22,309)	-	**-**	**-**
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	22,999	-	**22,999**	**(22,999)**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(4,284)	-	-	4,284	-	**-**	**-**
Unattached capital receipts	428	692	-	(1,120)	-	**-**	**-**
Adjustment involving the Major Repairs Reserve							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	22,349	-	-	**22,349**	**(22,349)**
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	(17,417)	-	-	-	**(17,417)**	**17,417**
						-	**-**
Adjustments involving the Pooled Investments Adjustment Account						**-**	**-**
charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	(538)					**(538)**	**538**
						-	**-**
Adjustment involving the Pensions Reserve						**-**	**-**
Reversal of items relating to retirement benefits debited or credited to the CIES	(69,823)	(4,435)	-	-	-	**(74,258)**	**74,258**
Employer's pensions contributions and direct payments to pensioners payable in the year	40,048	5,248	-	-	-	**45,296**	**(45,296)**
Adjustments involving the Collection Fund Adjustment Account							
Amount by which council tax and NNDR credited to the CIES is different from council tax and NNDR income calculated in accordance with statutory requirements	(2,171)	-	-	-	-	**(2,171)**	**2,171**
Other adjustments include							
Adjustments involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to CIES when receivable	28,871	9,549	-	-	(38,420)	**-**	**-**
Adjustments involving the Accumulated Absences Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	218	-	-	-	-	**218**	**(218)**
Total Adjustments	**(79,122)**	**(42,514)**	**5,485**	**3,854**	**(16,787)**	**(129,084)**	**129,084**

9 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2017/18 (Restated)	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account							
Reversal of items debited or credited to the Comprehensive I&E							
Charges for depreciation and impairment of non current assets	(19,928)	-	(18,038)	-	-	**(37,966)**	**37,966**
Revaluation losses on PPE (charged to SDPS)	5,390	-	-	-	-	**5,390**	**(5,390)**
Capital grants and contributions applied	9,092	1,720	-	-	23,934	**34,746**	**(34,746)**
Revenue expenditure funded from capital under statute	(10,808)	(10,047)	-	-	-	**(20,855)**	**20,855**
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(152,653)	(25,004)	-	-	-	**(177,657)**	**177,657**
Inclusion of items not debited or credited to the Comprehensive							
Statutory provision for the financing of capital investment	7,483	449	-	-	-	**7,932**	**(7,932)**
Capital expenditure charged against the General Fund and HRA balances	8,365	2,207	-	-	-	**10,572**	**(10,572)**
Adjustments involving the Capital Receipts Reserve							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	30,156	26,788	-	(56,944)	-	**-**	**-**
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	20,341	-	**20,341**	**(20,341)**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,737)	-	-	1,737	-	**-**	**-**
Unattached capital receipts	260	2,580	-	(2,840)	-	**-**	**-**
Adjustment involving the Major Repairs Reserve							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	22,012	-	-	**22,012**	**(22,012)**
Adjustment involving the Pensions Reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	(63,576)	(6,008)	-	-	-	**(69,584)**	**69,584**
Employer's pensions contributions and direct payments to pensioners payable in the year	36,138	6,852	-	-	-	**42,990**	**(42,990)**
Adjustments involving the Collection Fund Adjustment Account							
Amount by which council tax and NNDR credited to the CIES is different from council tax and NNDR income calculated in accordance with statutory requirements	(6,726)	-	-	-	-	**(6,726)**	**6,726**
Other adjustments include							
Adjustments involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to CIES when receivable	34,613	6,162	-	-	(40,775)	**-**	**-**
Adjustments involving the Accumulated Absences Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	742	-	-	-	-	**742**	**(742)**
Total Adjustments	**(123,189)**	**5,699**	**3,974**	**(37,706)**	**(16,841)**	**(168,063)**	**168,063**

10 Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

		BALANCE AT 31 MARCH 2017 (Restated) £'000	TRANSFERS OUT 2017/18 (Restated) £'000	TRANSFERS IN 2017/18 (Restated) £'000	BALANCE AT 31 MARCH 2018 (Restated) £'000	TRANSFERS OUT 2018/19 £'000	TRANSFERS IN 2018/19 £'000	BALANCE AT 31 MARCH 2019 £'000
1	Schools Balances	(26,283)	3,154	(2,336)	(25,465)	500	(673)	(25,638)
2	Dedicated Schools Grant (Surplus)/Deficit	(1,655)	1,469	-	(186)	4,758		4,572
3	Transformation	(25,000)	10,025	-	(14,975)	5,777	-	(9,198)
4	ICT / Finance Systems	(23,068)	2,100	-	(20,968)	4,865	-	(16,103)
5	Parking Control	(3,295)	-	-	(3,295)	-	-	(3,295)
6	Adults, Health & Wellbeing (including Public Health)	-	-	(1,297)	(1,297)	-	(420)	(1,717)
7	Insurance	(20,771)	-	(463)	(21,234)	3,568	-	(17,666)
8	New Civic Centre	(20,000)	2,753	-	(17,247)	-	-	(17,247)
9	New Homes Bonus	(7,258)	-	(4,855)	(12,113)	-	(16,826)	(28,939)
10	Mayor's Tackling Poverty Reserve	(5,000)	934	-	(4,066)	700	-	(3,366)
11	Free School Meals	(6,000)	2,000	-	(4,000)	-	-	(4,000)
12	Mayor's Investment Priorities	(10,000)	2,980	-	(7,020)	2,380	-	(4,640)
13	Risk Reserve	(10,500)	2,346	(600)	(8,754)	5,345	(1,126)	(4,535)
14	Collection Fund Smoothing Reserve	-	-	-	-	-	(6,515)	(6,515)
15	Revenue Grants	(3,316)	385	(2,784)	(5,715)	172	(3,927)	(9,470)
16	Services Reserve	(1,697)	365	(176)	(1,508)		(387)	(1,895)
17	Ringfenced developers' contributions	-	-	-	-	-	(2,464)	(2,464)
Earmarked Reserve Total		**(163,843)**	**28,511**	**(12,511)**	**(147,843)**	**28,065**	**(32,338)**	**(152,116)**

Corporate Reserves

1 Reserves held by schools under the scheme of delegation. This balance can only be used by the Schools and is not available to the Council for general use.

2 This is Dedicated Schools Grant, bringing forward the deficit. This is disclosed separately in accordance with the requirements of the Accounts and Audit Regulations 2015, as amended (Regulation 7 (4)). A plan to reduce the deficit position was agreed between the Council and the Department for Education in February 2020.

3 Reserve created to support the delivery of the Council's transformation programme.

4 Reserve to support the planned investment in Council's finance systems.

5 Parking control reserve.

6 Reserves held for Adults, Health and Wellbeing and Public Health services.

7 The Council is self insured for most liability and property risks below £1 million. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision.

8 Reserve to contribute towards funding of the new Civic Centre in Whitechapel.

9 Unspent element of the New Homes Bonus Grant which will to be used to fund housing schemes.

10 Contribution toward funding of welfare reform programme.

11 Reserve to fund free school meals programme.

12 Reserve to fund Mayor's Investment Priority schemes.

13 Risk Reserve to manage funding of risks arising.

14 Collection Fund Smoothing Reserve - used to manage fluctuations in Business Rates income

15 Unspent revenue grants without repayment conditions.

16 Includes Building Control, Land Charges, and Planning reserves.

17 This balance consists of developers' contributions which are ringfenced for specific purposes.

11 Other Operating Expenditure

2017/18 (Restated) £'000		Note	2018/19 £'000
1,795	Levies		1,860
1,737	Payments to Housing Capital Receipts Pool		4,284
116,968	Net (gain) / loss on disposal of non-current assets		(12,738)
(2,841)	Unattached capital receipts		(1,120)
117,659	**Total**		**(7,714)**

12 Financing and Investment Income and Expenditure

2017/18 (Restated) £'000			2018/19 £'000
10,800	Interest payable and similar charges		27,917
15,253	Net interest on the net defined benefit liability/(asset)		15,059
(2,950)	Interest receivable and similar income	16	(5,929)
-	Net (gains)/losses on financial assets at fair value through profit and loss	16	124
197	(Surplus) or deficit of trading operations	28	(5)
23,300	**Total**		**37,166**

13 Taxation and Non Specific Grant Income

2017/18 £'000			2018/19 £'000
(87,150)	Council Tax income		(93,185)
(118,562)	Non domestic rates		(175,608)
(83,872)	Non-ringfenced Government grants	36	(33,286)
(43,760)	Capital grants and contributions	36	(50,508)
(333,344)	**Total**		**(352,587)**

14 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2018/19	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRA-STRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
Cost or Valuation									
At 1 April 2018	**1,201,039**	**1,329,541**	**24,833**	**162,286**	**28,423**	**23,442**	**9,507**	**2,779,071**	**273,230**
Adjustment to opening balance between cost/valuation and accumulated depreciation	104	1,784	-	-	-	-	-	**1,888**	-
Adjusted cost/valuation at 1 April 2018	**1,201,143**	**1,331,325**	**24,833**	**162,286**	**28,423**	**23,442**	**9,507**	**2,780,959**	**273,230**
Additions	19,898	68,910	1,175	6,736	1,267	-	19,523	**117,509**	1,784
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(138,582)	(198,319)	-	-	-	1,850	-	**(335,051)**	(72,667)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(44,178)	(60,484)	-	-	-	(133)	-	**(104,795)**	(4,089)
Derecognition - Disposals	(8,519)	-	-	-	-	-	-	**(8,519)**	-
Derecognition - Other	-	(1,222)	-	-	-	-	-	**(1,222)**	-
Assets Reclassified (to)/from Held for Sale	-	(169)	-	-	-	-	-	**(169)**	-
Other Reclassification of Assets	992	(39,970)	-	1,728	(1,734)		37,946	**(1,038)**	-
At 31 March 2019	**1,030,754**	**1,100,071**	**26,008**	**170,750**	**27,956**	**25,159**	**66,976**	**2,447,674**	198,258
Accumulated Depreciation and Impairment									
At 1 April 2018	**(104)**	**11,763**	**22,296**	**53,753**	**6**	**3**	**-**	**87,717**	**2,835**
Adjustment to opening balance between cost/valuation and accumulated depreciation	104	1,784	-	-	-	-	-	**1,888**	-
Adjusted accumulated depreciation at 1 April 2018	**-**	**13,547**	**22,296**	**53,753**	**6**	**3**	**-**	**89,605**	**2,835**
Depreciation charge	15,912	13,899	591	8,426	-	80	-	**38,908**	2,420
Depreciation written out to the Revaluation Reserve	(15,828)	(12,869)	-	-	-	(76)	-	**(28,773)**	(2,220)
Derecognition - Disposals	(124)	-	-	-	-	-	-	**(124)**	-
Derecognition - Other	-	(51)	-	-	-	-	-	**(51)**	-
Assets reclassified (to)/from Held for Sale	-	(9)	-	-	-	-	-	**(9)**	-
Other Reclassification of Assets	40	(869)	-	-	(6)	-	-	**(835)**	-
At 31 March 2019	**-**	**13,648**	**22,887**	**62,179**	**-**	**7**	**-**	**98,721**	3,035
Net Book Value									
At 31 March 2019	**1,030,754**	**1,086,423**	**3,121**	**108,571**	**27,956**	**25,152**	**66,976**	**2,348,953**	**195,223**
At 31 March 2018	**1,201,143**	**1,317,778**	**2,537**	**108,533**	**28,417**	**23,439**	**9,507**	**2,691,354**	270,395

14 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPARATIVE MOVEMENTS IN 2017/18 (Restated)	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
Cost or Valuation									
At 1 April 2017	1,342,492	1,350,060	24,691	157,546	27,979	21,224	31,517	**2,955,509**	372,725
Adjustment to opening balance between cost/valuation and accumulated depreciation	(138,498)	(28,506)	(44)	(1)	1	426	-	**(166,622)**	5,212
Adjusted cost/valuation at 1 April 2018	1,203,994	1,321,554	24,647	157,545	27,980	21,650	31,517	**2,788,887**	377,937
Additions	19,853	74,288	186	4,741	443	75	4,071	**103,657**	5,862
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(23,954)	79,163	-	-	-	1,962	-	**57,171**	6,821
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	-	5,635	-	-	-	(245)	-	**5,390**	475
Derecognition - Disposals	(12,724)	(150,449)	-	-	-	-	-	**(163,173)**	(117,865)
Derecognition - Other	(12,211)	(650)	-	-	-	-	-	**(12,861)**	-
Other Reclassification of Assets	26,081	-	-	-	-	-	(26,081)	**-**	-
At 31 March 2018	**1,201,039**	**1,329,541**	**24,833**	**162,286**	**28,423**	**23,442**	**9,507**	**2,779,071**	**273,230**
Accumulated Depreciation and Impairment									
At 1 April 2017	151,745	42,191	21,787	49,940	5	(426)	-	**265,242**	(2,460)
Adjustment to opening balance between cost/valuation and accumulated depreciation	(138,498)	(28,506)	(44)	(1)	1	426	-	**(166,622)**	5,212
Adjusted accumulated depreciation at 1 April 2018	13,247	13,685	21,743	49,939	6	-	-	**98,620**	2,752
Depreciation charge	17,053	16,468	553	3,814	-	78	-	**37,966**	3,988
Depreciation written out to the Revaluation Reserve	(29,850)	(16,872)	-	-	-	(75)	-	**(46,797)**	(2,612)
Derecognition - Disposals	(188)	(1,646)	-	-	-	-	-	**(1,834)**	(1,293)
Derecognition - Other	(366)	128	-	-	-	-	-	**(238)**	-
At 31 March 2018	**(104)**	**11,763**	**22,296**	**53,753**	**6**	**3**	**-**	**87,717**	**2,835**
Net Book Value									
At 31 March 2018	**1,201,143**	**1,317,778**	**2,537**	**108,533**	**28,417**	**23,439**	**9,507**	**2,691,354**	**270,395**
At 31 March 2017	**1,190,747**	**1,307,869**	**2,904**	**107,606**	**27,974**	**21,650**	**31,517**	**2,690,267**	**375,185**

14 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:
- Council Dwellings – As advised by qualified valuer.
- Other Land and Buildings – As advised by qualified valuer
- Vehicles, Plant & Equipment - 5 years on a straight line basis, or as advised by the service
- Infrastructure assets - between 12-100 years

Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million at 31st March 2019 as below:

	Committed sum £'000	Costs to 31/3/2019 £'000	2019/20 onwards £'000
Bow Site - SEN Provision (Phoenix)	13,887	211	13,676
Bartlett Park Improvements	3,406	525	2,881
Whitechapel Civic Centre	109,500	12,146	97,354
Raine House (Wapping Community Hub)	1,263	86	1,177
Granby Community Hub	1,629	391	1,238
New Housing - Infill Sites - Baroness	28,500	8,338	20,162
Barnsley East - Phase 1: Community Centre	1,352	258	1,094
TOTAL	**159,537**	**21,955**	**137,582**

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are as at 1st April in the year of valuation. In 2018/19, school assets held at depreciated replacement cost (DRC) were also subject to a desktop valuation as at 31st March 2019. A summary of total valuation per asset category is shown below.

In 2018/19, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2016'.

ANALYSIS OF ROLLING REVALUATION PROGRAMME	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCT-URE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	-	775	3,121	108,571	27,956	-	66,976	207,399
Valued at current value in:								
2018/19	1,030,754	865,127	-	-	-	16,194	-	1,912,075
2017/18	-	117,489	-	-	-	-	-	117,489
2016/17	-	30,793	-	-	-	1,217	-	32,010
2015/16	-	47,636	-	-	-	7,741	-	55,377
2014/15	-	24,603	-	-	-	-	-	24,603
Value at 31 March 2019	**1,030,754**	**1,086,423**	**3,121**	**108,571**	**27,956**	**25,152**	**66,976**	**2,348,953**

Intangible Assets

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

Impairment Losses

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated above reconciling the movement over the year in the Property, Plant and Equipment balances. An impairment review was carried out by qualified valuers at 31st March 2019 and concluded that there was no significant impairment to report.

15 LONG TERM DEBTORS

	Balance at 31 March 2017 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31 March 2018 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31 March 2018 £'000
Mortgages on Right to Buy properties	26	-	-	26	1	-	27
Sundry Loans	592	86	(114)	564	1,117	(500)	1,181
	618	**86**	**(114)**	**590**	**1,118**	**(500)**	**1,208**

Sundry Loans - During 2018/19, loans totalling £420k were advanced to Seahorse Homes, a wholly owned company, £400k was repaid as not required for scheme financing during 2018/19. A working capital loan of £10k was also advanced to Mulberry Housing Society, a community benefit society. Loans of £600k were also advanced to Oxford House, a local charitable organisation. These loans were provided at market rates.

16 FINANCIAL INSTRUMENT NOTES

Implementation of IFRS 9 *Financial Instruments*

Local authorities are required to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy / LASAAC Joint Committee, for the 2018/19 financial year this includes the requirements of IFRS 9 *Financial Instruments.* This requires the disclosure of financial assets at either amortised cost, fair value through profit or loss or fair value through other comprehensive income (FVOCI).

Amortised Cost - Financial liabilities are initially measured at fair value and subsequently measured at amortised cost, for borrowing this means that the amount in the balance sheet is the remaining principal and the accrued interest. Financial assets are also valued at amortised cost where the amount of interest is fixed and the repayment dates are agreed in advance.

Fair Value - Some Financial Assets are required to be shown at fair value. Fair value is defined as the amount for which an asset could be exchanged. Where held as fair value through other comprehensive income, the changes in fair value are accounted for in a reserve account and recognised in the Comprehensive Income and Expenditure Statement when disposed of. Assets held at fair value through profit or loss are recognised in the Comprehensive Income and Expenditure Statement as they occur.

Categories of Financial Instruments

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

Financial Instrument Categories	Non-Current		Current		Total	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Financial Assets						
Loans and Receivables						
Investments	-	-	359,126	-	359,126	-
Trade Debtors	590	-	54,152	-	54,742	-
Cash and Cash Equivalents	-	-	145,641	-	145,641	-
Financial Assets - Fair Value through profit and loss						
Investments	-	55,462	-		-	55,462
Cash Equivalents				36,650	-	36,650
Financial Assets at Amortised Cost						
Investments	-	17,000	-	257,698	-	274,698
Trade Debtors	-	1,208	-	69,269	-	70,477
Cash and Cash Equivalents	-	-	-	83,382	-	83,382
Total Financial Assets	**590**	**73,670**	**558,919**	**446,999**	**559,509**	**520,669**
Financial Liabilities						
Financial Liabilities at Amortised Cost						
Cash and Cash Equivalents			(24,787)	(35,640)	(24,787)	(35,640)
Borrowing	(83,293)	(72,289)	(2,010)	(2,413)	(85,303)	(74,702)
Trade Creditors	-	-	(73,986)	(90,710)	(73,986)	(90,710)
Service Concessions and Finance Leases	(61,455)	(58,650)	(2,416)	(2,805)	(63,871)	(61,455)
Total Financial Liabilities	**(144,748)**	**(130,939)**	**(103,199)**	**(131,568)**	**(247,947)**	**(262,507)**

16 FINANCIAL INSTRUMENTS (continued)

Gains and Losses on Financial Instruments

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

	2017/18			2018/19		
	Financial Liabilities measured at amortised cost £'000	Financial Assets measured at amortised £'000	Financial Assets measured through P&L £'000	Financial Liabilities measured at amortised cost £'000	Financial Assets measured at amortised cost £'000	Financial Assets measured through P&L £'000
Interest expense	10,800	-	-	10,065	-	-
Loan repayment penalty	-	-	-	17,852	-	-
Interest income	-	(2,950)	-	-	(5,929)	
Money Market Funds (Cash Equivalents)	-	-	-	-	-	(414)
Pooled Funds	-	-	-	-	-	538
Net Gain/(Loss) for the year	**10,800**	**(2,950)**	**-**	**27,917**	**(5,929)**	**124**

Fair Values of Financial Assets and Financial Liabilities

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

Fair Value of Liabilities Carried at Amortised Cost	31 March 2018 Carrying amount £'000	31 March 2018 Fair value £'000	31 March 2019 Carrying amount £'000	31 March 2019 Fair value £'000
Cash and Cash Equivalents	(24,787)	(24,787)	(35,640)	(35,640)
Borrowing held at amortised cost				
Public Works Loans Board	(7,483)	(8,803)	(57,125)	(61,025)
Market Loans - Fixed Interest	(17,578)	(33,635)	(17,577)	(29,081)
Market Loans - Lender option, borrower option loans	(60,242)	(98,520)	-	-
Trade Creditors	(73,986)	(73,986)	(90,710)	(90,710)
Service Concessions and Finance Leases	(63,871)	(90,055)	(61,455)	(84,855)
Financial Liabilities	**(247,947)**	**(329,786)**	**(262,507)**	**(301,311)**

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

Fair Value of Assets Carried at Amortised Cost	31 March 2018 Carrying amount £'000	31 March 2018 Fair value £'000	31 March 2019 Carrying amount £'000	31 March 2019 Fair value £'000
Investments held at amortised cost	359,126	359,126	274,698	274,698
Trade Debtors	54,152	54,152	69,269	69,269
Long Term Debtors	590	590	1,208	1,208
Cash and Cash Equivalents	145,641	145,641	83,382	83,382
Financial Assets	**559,509**	**559,509**	**428,557**	**428,557**

The fair value is assumed to be the carrying value since for all the assets listed the true fair value is unlikely to be materially different from the carrying amount.

Fair value hierarchy of financial assets and financial liabilities that are not measured at fair value

Recurring fair value measurements using:	31 March 2019 Quoted prices in active markets for identical assets (Level 1) £000	31 March 2019 Other significant observable inputs (Level 2) £000	31 March 2019 Significant unobservable inputs (Level 3) £000	Total £000
Financial liabilities				
Cash and Cash Equivalents		(35,640)		(35,640)
Public Works Loans Board		(61,025)		(61,025)
Market Loans - Fixed Interest		(29,081)		(29,081)
Trade Creditors		(90,710)		(90,710)
Service Concessions and Finance Leases			(84,855)	(84,855)
Total	**-**	**(216,456)**	**(84,855)**	**(301,311)**
Financial assets				
Investments held at amortised cost		274,698		274,698
Trade Debtors		69,269		69,269
Long Term Debtors		1,208		1,208
Cash and Cash Equivalents		83,382		83,382
Total	**-**	**428,557**	**-**	**428,557**

Fair Value Hierarchies

Basis for recurring fair value measurements:

Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

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

Level 3 Inputs – unobservable inputs for the asset or liability.

16 FINANCIAL INSTRUMENTS (continued)

Nature and extent of risks arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- Credit risk - the possibility that other parties might fail to pay amounts due to the council
- liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments
- market risk - the possibility that financial loss may arise as a result of changes in such measures as interest rates

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

Credit Risk

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

Amounts arising from Expected Credit Losses

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

Financial Asset Class	Amounts at 31 March 2018 £'000	Historical experience of default %	Estimated maximum exposure to default £'000	Amounts at 31 March 2019 £'000	Historical experience of default %	Estimated maximum exposure to default £'000
Cash & cash equivalents deposits	145,641	-	-	83,382	-	-
Money Market Funds (cash equivalents)	12,836	-	-	36,650	-	-
Pooled Investment funds (fair value through P&L)	-	-	-	55,462	-	-
Fixed term deposits (banks and other financial institutions)	359,119	-	-	274,698	-	-
TOTAL	**517,596**	-	-	**450,192**	-	-

The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for customers; adequacy of loss allowances against debtors that meet the definition of a financial instrument can be assessed as follows:

	31 March 2018 £'000	31 March 2019 £'000
Financial instrument debtors older than 1 month, less than 12 months	25,125	20,155
Financial instrument debtors older than 12 months	44,170	44,133
Loss allowance	(43,977)	(41,296)

16 FINANCIAL INSTRUMENTS (continued)

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council has ready access to a facility to borrow from the Public Works Loans Board. As a result there is no significant risk that the Council will be unable to raise finance to meets 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 at nominal value including projected interest cashflows is as follows :

Loans outstanding	31 March 2018 £'000	31 March 2019 £'000
Public Works Loans Board	73,010	120,847
Market debt	62,281	61,522
PFI / Finance Leases	96,713	89,327
TOTAL	**232,004**	**271,696**
Less than 1 year	10,306	11,836
Between 1 and 2 years	32,450	31,740
Between 2 and 5 years	45,832	38,476
Between 5 and 10 years	17,597	16,766
More than 10 years	125,819	172,878
TOTAL	**232,004**	**271,696**

The Council uses money market funds to provide liquidity.

Market Risk

Interest rate risk

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

- borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall
- investments at variable rates - the interst income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates - the fair value of the assets will fall

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

16 FINANCIAL INSTRUMENTS (continued)

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

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

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

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

According to this assessment, at 31st March 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2017/18 £'000	2018/19 £'000
Increase in interest payable on variable rate borrowings	600	-
Increase in interest receivable on variable rate investments	(3,900)	(883)
Impact on Income and Expenditure Account	**(3,300)**	**(883)**

Fair Value Movements	2017/18 £'000	2018/19 £'000
Decrease in fair value of fixed rate investments	492	820
Decrease in fair value of fixed rate borrowing liabilities	336	-
Impact on Income and Expenditure Account	**828**	**820**

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

Market Risk - Price

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

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

Foreign Exchange Risk

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

17 HERITAGE ASSETS

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

The Council has held these heritage assets for a number of years pre-dating 2010. These assets are held at an estimate of current value on the balance sheet, except for the local history collection which is not included on the balance sheet as valuations are not available due to the unique nature of the assets.

Tower Hamlets Local History Library & Archives holds an extensive and unique collection of books, pamphlets, maps, photographs, press cuttings and ephemera, deeds, archives, audio-visual material, oral histories and sound recordings, digital records, and a range of other sources, all of which reflect and provide evidence of the history of the borough. It is highly unlikely that any of these assets would ever be sold as the council has a legal obligation to maintain its archives. These collections are preserved and made publicly available at the library on Bancroft Road and increasingly through the web and a range of exhibitions and outreach projects.

The council has a materiality threshold of £50,000 per asset. There are only four heritage assets above this threshold - civic regalia, two sculptures and one painting.

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

	Balance at 31 March 2017 £'000	2017/18 Acquisitions £'000	2017/18 Disposals £'000	2017/18 Revaluation £'000	Balance at 31 March 2018 £'000	2018/19 Acquisitions £'000	2018/19 Disposals £'000	2018/19 Revaluation £'000	Balance at 31 March 2019 £'000
Value of Heritage Assets held by Council									
(a) - Works of art	8,922	24	-	9,500	18,446	-	-	-	18,446
(b) - Civic Regalia	389	-	-	-	389	-	-	-	389
TOTAL HERITAGE ASSETS	**9,311**	**24**	**-**	**9,500**	**18,835**	**-**	**-**	**-**	**18,835**

(a) The council holds a number of works of art. The council has three works of art with a material value - the council has received indications of value on these assets from art experts at auction houses. This value includes a sculpture valued at £18m was relocated to the Borough during 2017/18.

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

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

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

18 SHORT TERM DEBTORS

	31 March 2018 £'000	31 March 2019 £'000
National Health Service	5,654	6,444
HM Revenue & Customs	14,475	16,875
Other Central Government	13,968	7,922
Other Local Authorities	-	9,820
Tower Hamlets Homes	1,597	994
Council Tax	1,566	1,902
National Non Domestic Rates	3,501	9,084
Housing and Tenants Rents	33,073	42,694
Other Entities & Individuals	31,766	46,636
Payments in Advance	3,708	7,783
Total	**109,308**	**150,154**

19 CASH AND CASH EQUIVALENTS

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

	31 March 2018 £'000	31 March 2019 £'000
Cash held by the Council	37,965	36,242
Short-term deposits with banks and building societies	70,053	11,500
Money Market Funds	12,836	36,650
Total Cash and Cash Equivalents	**120,854**	**84,392**

20 ASSETS HELD FOR SALE

As at the 31st March 2018, the Council has no properties which are classified as Assets Held for Sale. There was one property as at 31st March 2017 which was sold during 2017/18.

	Current		Non Current	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Value at 1st April	3,850	-	-	-
Assets newly classified as held for sale:				
Property, Plant and Equipment	-	160	-	-
Assets sold	(3,850)	-	-	-
Value at 31st March	**-**	**160**	**-**	**-**

21 CREDITORS

	31 March 2018 £'000	31 March 2019 £'000
HM Revenue & Customs	(6,964)	(5,614)
Bodies	(3,963)	(1,484)
Other Local Authorities	(8,357)	(16,210)
Council Tax	(8,357)	(8,083)
National Non Domestic Rates	(30,645)	(27,373)
Housing and Tenants Rents	(1,769)	(1,994)
Other Entities & Individuals	(74,634)	(91,521)
Receipts in advance	(19,430)	(14,556)
Total	**(154,119)**	**(166,835)**

22 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 31 March 2017 £'000	Amounts used or written back £'000	Contributions £'000	Balance at 31 March 2018 £'000	Amounts used or written back £'000	Contributions £'000	Balance at 31 March 2019 £'000
(a) Single Status	(62)	-	-	(62)	62	-	-
(b) ICT provision and other corporate provision	(3,906)	372	(490)	(4,024)	3,464	-	(560)
(c) Contract disputes	(304)	-	-	(304)	304	-	-
(d) Business rates appeals provision	(583)	3,450	(5,850)	(2,983)	7,635	(11,697)	(7,045)
(e) Insurance Fund	-			-		(1,000)	(1,000)
TOTAL	**(4,855)**	**3,822**	**(6,340)**	**(7,373)**	**11,465**	**(12,697)**	**(8,605)**

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

LONG-TERM PROVISIONS	Balance at 31 March 2017 £'000	Amounts used or written back £'000	Contributions £'000	Balance at 31 March 2018 £'000	Amounts used or written back £'000	Contributions £'000	Balance at 31 March 2019 £'000
(d) Business rates appeals provision	-			-		(7,045)	(7,045)
(e) Insurance Fund	(7,004)	113	(100)	(6,991)	1,622	979	(4,390)
(f) Repayment of deposits	(169)	-	-	(169)	111	-	(58)
(g) Water Charges	-	-	-	-	-	(9,000)	(9,000)
(h) Disrepairs	-	-	-	-		(200)	(200)
(i) Employment Disputes						(800)	(800)
TOTAL	**(7,173)**	**113**	**(100)**	**(7,160)**	**1,733**	**(16,066)**	**(21,493)**
							(30,098)

(a) For additional costs resulting from single status type agreements which changed employees' conditions of service.

(b) Provision for ICT licences and corporate provisions including adult social care payments due in 2019/20.

(c) Provision for contract disputes.

(d) Council share of provision for NNDR business rates appeals.

(e) To cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property. Amounts are transferred to the provision from the insurance reserve on an annual basis if a reliable estimate can be made of the likely settlement amount. The nature of insurance claims means it is not possible to accurately forecast when settlement of claims will take place. The Council is active in risk management, identifying areas of particular risk and taking management steps with a view to reducing possible future claims and losses. There are no material risks which are not covered by either direct insurance or self insurance via the provision.

(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. The refund of deposits will depend on the successful completion of contracts.

(g) A High Court ruling in 2016 established that another London Borough had not passed on discounts from a water supplier to its tenants. The discounts were given as part of the agreement with the water company as an administration fee for collection of charges from tenants. As a result of this ruling the Council may receive claims from tenants for overpaid water charges as a similar agreement was in place with the water company.

(h) Provision for legal costs relating to the disrepair of Council properties

(i) Provision for settlements or costs incurred in employment disputes

23 USABLE RESERVES

The Usable Reserves of the Council are as follows:

31 March 2018 £'000		31 March 2019 £'000
(26,107)	General Fund	(17,478)
(47,561)	Housing Revenue Account	(44,640)
(147,843)	General Fund Earmarked Reserves	(152,116)
(194,554)	Capital Receipts Reserve	(190,700)
(141,666)	Capital Grants Reserve	(158,453)
(5,485)	Major Repairs Reserve	-
(563,216)	**Total Usable Reserves**	**(563,387)**

More details regarding the movements in the Council's General Fund and Housing Revenue Account are detailed in the Movement in Reserves Statement and in Note 9. Details regarding the movement in Earmarked Reserves can be found in Note 10.

Capital Receipts Reserve

The capital receipts reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure, or to be set aside to finance historical capital expenditure.

31 March 2018 £'000		31 March 2019 £'000
(156,848)	Balance at 1 April	(194,554)
(59,784)	Capital Receipts in year	(23,429)
1,737	Capital Receipts Pooled	4,284
20,341	Capital Receipts used for financing	22,999
(194,554)	**Balance at 31 March**	**(190,700)**

Capital Grants Reserve

The capital grants unapplied reserve holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require payment of the monies, but have yet to be applied to meet capital expenditure.

31 March 2018 £'000		31 March 2019 £'000
(124,825)	Balance at 1 April	(141,666)
(40,775)	Capital grants recognised in year	(38,420)
23,934	Capital grants and contributions applied	21,633
(141,666)	**Balance at 31 March**	**(158,453)**

24 UNUSABLE RESERVES

31 March 2018 (Restated) £'000		31 March 2019 £'000
(910,962)	Revaluation Reserve	(596,360)
(1,472,427)	Capital Adjustment Account	(1,400,537)
-	Financial Instruments Adjustment Account	17,417
600,906	Pensions Reserve	705,400
9,027	Collection Fund Adjustment Account	11,198
-	Unequal Pay Back Pay Account	-
3,187	Accumulating Compensated Absences Adjustment Account	2,969
-	Pooled Investment Funds Adjustment Account	538
(1,770,269)	**Total Unusable Reserves**	**(1,259,375)**

Revaluation Reserve

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

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

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

2017/18 (Restated) £'000		2018/19 £'000	
(905,917)	**Balance at 1 April**		(910,962)
(174,302)	Upward revaluation of assets	(61,371)	
60,790	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	367,649	
(113,512)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		306,278
5,850	Difference between current value depreciation and historical cost depreciation	6,747	
102,617	Accumulated gains on assets sold or scrapped	1,577	
108,467	Amount written off to the Capital Adjustment Account		8,324
(910,962)	**Balance at 31 March**		**(596,360)**

24 UNUSABLE RESERVES (continued)

Capital Adjustment Account

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

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

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

Note 9 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2017/18 (Restated) £'000		2018/19 £'000	
(1,499,445)	**Balance at 1 April**		**(1,472,427)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
37,966	Charges for depreciation and impairment of non current assets	38,908	
(5,390)	Revaluation losses and reversals on Property, Plant and Equipment	104,795	
20,855	Revenue expenditure funded from capital under statute	17,955	
177,657	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	9,571	
231,088			171,229
(108,467)	Adjusting amounts written out of the Revaluation Reserve		(8,324)
122,621	Net written out amount of the cost of non current assets consumed in the year		162,905
	Capital financing applied in the year:		
(20,341)	Use of the Capital Receipts Reserve to finance new capital expenditure	(22,999)	
(22,012)	Use of the Major Repairs Reserve to finance new capital expenditure	(22,349)	
(34,746)	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	(37,880)	
(7,932)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(8,639)	
(10,572)	Capital expenditure charged against the General Fund and HRA balances	852	
(95,603)			(91,015)
(1,472,427)	**Balance at 31 March**		**(1,400,537)**

24 UNUSABLE RESERVES (continued)

Financial Instruments Adjustment Account

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

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

2017/18 £'000		2018/19 £'000
-	**Balance at 1 April**	-
-	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	17,417
-	**Balance at 31 March**	**17,417**

Pensions Reserve

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

2017/18 (Restated) £'000		2018/19 £'000
628,546	**Balance at 1 April**	600,906
(54,234)	Actuarial gains or losses on pensions assets and liabilities	75,532
69,584	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	74,258
(71,908)	Employer's pensions contributions and direct payments to pensioners payable in the year	(30,840)
28,918	Adjustment for unwinding of pre-payment	(14,456)
600,906	**Balance at 31 March**	**705,400**

24 UNUSABLE RESERVES (continued)

Collection Fund Adjustment Account

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

2017/18 £'000		2018/19 £'000
2,301	**Balance at 1 April**	9,027
6,726	Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	2,171
9,027	**Balance at 31 March**	**11,198**

Accumulated Absences Account

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

2017/18 £'000		£'000	2018/19 £'000
3,929	**Balance at 1 April**		3,187
(3,929)	Settlement or cancellation of accrual made at the end of the preceding year	(3,187)	
3,187	Amounts accrued at the end of the current year	2,969	
(742)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(218)
3,187	**Balance at 31 March**		**2,969**

Pooled Investment Fund Adjustments Account

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

2017/18 £'000		£'000	2018/19 £'000
-	**Balance at 1 April**		-
-	Upward revaluation of investments	(321)	
-	Downward revaluation of investments	859	
-			538
-	**Balance at 31 March**		**538**

25 NOTE A TO THE CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2017/18 £'000		2018/19 £'000
2,950	Interest received	4,259
(10,800)	Interest paid	(27,917)
(7,850)		**(23,658)**

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

2017/18 (Restated) £'000		2018/19 £'000
37,966	Depreciation	38,908
(5,390)	Impairment and Downward valuations	104,795
31,731	Increase/(Decrease) in Creditors	2,517
(37,205)	(Increase)/Decrease in Debtors	(36,734)
(1,792)	Movement in Pension Liability	43,418
2,435	Other non-cash items charged to the net surplus or deficit on the provision of services	16,103
177,657	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	9,571
205,402		**178,578**

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

2017/18 (Restated) £'000		2018/19 £'000
-	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	35,684
(59,784)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(23,429)
(17,638)	Any other items for which the cash effects are investing or financing cash flows	(59,215)
(77,422)		**(46,960)**

26 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2017/18 £'000		2018/19 £'000
(103,656)	Purchase of property, plant and equipment, investment property and intangible assets	(117,509)
(412,569)	Purchase of short-term and long-term investments	(429,949)
25	Other payments for investing activities	(705)
56,944	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	19,047
365,120	Proceeds from short-term and long-term investments	422,693
35,304	Other receipts from investing activities	65,820
(58,832)	**Net cash flows from investing activities**	**(40,603)**

27 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2017/18 £'000		2018/19 £'000
-	Cash receipts of short- and long-term borrowing	55,403
-	Billing Authorities - Council Tax and NNDR adjustments	-
-	Other receipts from financing activities	14,824
(2,351)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,417)
(1,340)	Repayments of short- and long-term borrowing	(66,374)
(3,691)	**Net cash flows from financing activities**	**1,436**

27a CASH FLOW- RECONCILIATION OF FINANCIAL LIABILITIES FROM FINANCING ACTIVITIES

	Balance at 1 April 2018 £'000	Financing Cash Flows £'000	Non Cash Changes £'000	Balance at 31 March 2019 £'000
Long Term Borrowings	**(83,293)**	10,000	1,004	**(72,289)**
Short Term Borrowings	**(2,010)**	669	(1,072)	**(2,413)**
Lease Liabilities	**(28,915)**	874	-	**(28,041)**
PFI Liabilities	**(34,957)**	1,542	-	**(33,415)**
Net cash outflow from financing activities	**(149,175)**	**13,085**	**(68)**	**(136,158)**

28 TRADING OPERATIONS

The following services are reported as trading activities

	2017/18			2018/19			Balance at
	Expenditure £'000	Income £'000	(Surplus)/ Deficit £'000	Expenditure £'000	Income £'000	(Surplus)/ Deficit £'000	31 March 2019 £'000
Street Trading	2,529	(2,332)	(197)	2,299	(2,294)	5	(565)
TOTAL TRADING ACCOUNTS	**2,529**	**(2,332)**	**(197)**	**2,299**	**(2,294)**	**5**	**(565)**

29 CONTINGENT LIABILITIES & CONTINGENT ASSETS

CONTINGENT LIABILITIES

Housing Transfers to Registered Social Landlords

Between March 1998 and March 2016 the Council transferred tenanted and leasehold properties to other landlords - 7,457 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to East End Homes; 2,079 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields Housing Association. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council. The amount of the potential liability cannot be determined with any certainty at present.

30 POOLED BUDGETS

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

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

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

2018/19	BCF £'000
Income	
The Council	(23,165)
Tower Hamlets Clinical Commissioning Group (CCG)	(25,465)
	(48,630)
Expenditure	48,630
Surplus/(Deficit) for the year	**-**

2017/18	BCF £'000
Income	
The Council	(19,616)
Tower Hamlets Clinical Commissioning Group (CCG)	(25,611)
	(45,227)
Expenditure	45,227
Surplus/Deficit for the year	**-**

31 MEMBERS' ALLOWANCES

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

	2017/18 £'000	2018/19 £'000
Allowances	888	1,016
Total	**888**	**1,016**

32 OFFICERS' REMUNERATION

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

2017/18	Salary, Fees and Allowances £	Expenses £	Compen-sation for Loss of Office £	Pension Contrib-ution [5] £	Other £	Total £
Mr W Tuckley - Chief Executive	198,894	83	-	38,956	-	237,933
Corporate Directors						
Children's Services	140,862	21	-	-	-	140,883
Health, Adults & Community	124,947	-	-	24,240	-	149,187
Mr G White - Governance & Monitoring Officer (Interim) [1]	42,562	-	-	-	-	42,562
Governance & Monitoring Officer [2]	92,053	-	-	17,854	-	109,907
Mr A Dalvi - Place [3]	89,510	-	82,956	4,568	-	177,034
Place [4]	99,957	216	-	19,392	-	119,565
Public Health	102,579	-	-	14,751	-	117,330
Resources	127,422	81	-	24,733	-	152,236

[1] Left 07/07/2017
[2] Commenced 03/07/2017
[3] Retired 31/05/2017. Salary includes elements relating to leave paid and notice period.
[4] Commenced 13/06/2017
[5] Pension contributions paid by Council towards future pension payable under terms of Local Government Pension Scheme. Scheme actuary calculates these required employer contributions.

2018/19	Salary, Fees and Allowances £	Expenses £	Compen-sation for Loss of Office £	Pension Contrib-ution [4] £	Other £	Total £
Mr W Tuckley - Chief Executive [1]	202,872	-	-	39,735	15,564	258,171
Corporate Directors						
Children's Services	143,679	328	-	-	-	144,007
Health, Adults & Community	134,193	-	-	26,067	-	160,260
Governance & Monitoring Officer	126,096	-	-	24,456	-	150,552
Place	129,969	-	-	25,226	-	155,195
Public Health	104,631	-	-	15,046	-	119,677
Resources [2]	89,105	37	-	16,246	-	105,388
Resources (Acting) [3]	49,208	-	-	9,547	-	58,755

[1] Other item is a one off payment for untaken leave in lieu of election preparation.
[2] Left 11/11/2018
[3] Commenced 12/11/2018
[4] Pension contributions paid by Council towards future pension payable under terms of Local Government Pension Scheme. Scheme actuary calculates these required employer contributions.

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

Remuneration band (£)	2017/18					2018/19				
	Teaching Staff	Includes Teaching Redund-ancies	Other Staff	Includes Other Staff Redund-ancies	Total Staff	Teaching Staff	Includes Teaching Redund-ancies	Other Staff	Includes Other Staff Redund-ancies	Total Staff
50,000 - 54,999	236	(1)	123	(9)	359	354	(1)	138	(11)	492
55,000 - 59,999	181	-	51	(5)	232	289	(2)	49	(5)	338
60,000 - 64,999	89	(2)	36	(5)	125	142	(2)	36	(4)	178
65,000 - 69,999	51	(2)	22	(5)	73	84	(1)	23	(7)	107
70,000 - 74,999	36	(1)	20	(1)	56	49	-	28	(5)	77
75,000 - 79,999	27	(1)	29	(3)	56	32	-	30	(1)	62
80,000 - 84,999	18	-	3	(1)	21	35	(1)	7	(3)	42
85,000 - 89,999	13	-	5	(2)	18	16	-	4	(1)	20
90,000 - 94,999	8	-	8	(5)	16	21	(1)	8	(3)	29
95,000 - 99,999	4	-	6	(2)	10	8	(1)	2	(2)	10
100,000 - 104,999	5	-	3	(1)	8	8	-	6	(1)	14
105,000 - 109,999	2	-	2	(1)	4	2	-	4	-	6
110,000 - 114,999	1	-	2	(2)	3	1	-	5	(5)	6
115,000 - 119,999	5	-	-	-	5	2	(1)	1	(1)	3
120,000 - 124,999	1	-	1	(2)	2	5	-	2	(1)	7
125,000 - 129,999	1	-	1	-	2	-	-	-	-	-
130,000 - 134,999	1	-	-	-	1	2	-	-	-	2
135,000 - 139,999	-	-	1	(1)	1	1	-	-	-	1
140,000 - 144,999	-	-	1	(1)	1	-	-	-	-	-
	679	(7)	314	(46)	993	1,051	(10)	343	(50)	1,394

Exit Payments

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

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£000)	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
0 - 20,000	-	3	188	81	188	84	1,202	793
20,001 - 40,000	-	1	44	46	44	47	1,199	1,346
40,001 - 60,000	-	1	19	9	19	10	903	465
60,001 - 80,000	-	-	7	15	7	15	464	1,020
80,001 - 100,000	-	1	4	3	4	4	363	365
100,001 - 150,000	-	-	11	4	11	4	1,378	498
150,001 - 200,000	-	-	5	2	5	2	850	347
200,001 - 250,000	-	-	2	2	2	2	437	449
Total	**-**	**6**	**280**	**162**	**280**	**168**	**6,796**	**5,283**

The above table includes any compensation for loss of office payments included within the senior officer remuneration note on previous page. During 2018/19, a payment of £372,707 was made as compensation for wrongful dismissal.

33 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

	2017/18 £'000	2018/19 £'000
Expenditure		
Property, Plant and Equipment	103,657	117,509
Heritage Assets	25	-
Revenue Expenditure Funded from Capital Under Statute	20,855	17,955
TOTAL	**124,537**	**135,464**
Sources of Finance		
Borrowing	36,866	53,088
Capital Grants and Contributions	34,746	37,880
Capital Receipts	20,341	22,999
Major Repairs Reserve	22,012	22,349
Direct Revenue Funding	10,572	(852)
TOTAL	**124,537**	**135,464**

	2017/18 £'000	2018/19 £'000
Opening Capital Financing Requirement	**281,703**	**310,637**
Capital investment		
Property, Plant and Equipment	103,657	117,509
Heritage Assets	25	-
Revenue Expenditure Funded from Capital under Statute	20,855	17,955
Sources of finance		
Capital Grants and Contributions	(34,746)	(37,880)
Capital Receipts	(20,341)	(22,999)
Major Repairs Reserve	(22,012)	(22,349)
Sums set aside from revenue:		
• Direct Revenue Funding	(10,572)	852
• Minimum Revenue Provision	(7,483)	(8,188)
• HRA Revenue Provision for Debt Repayment on Finance Lease Principal	(449)	(451)
Closing Capital Financing Requirement	**310,637**	**355,086**

34 EXTERNAL AUDIT COSTS

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

	2017/18 £'000	2018/19 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	210	212
Additional fees payable to external Audit for inquiries relating to previous year	21	-
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	20	29
Fees payable in respect of other services provided by external auditors during the year	37	2
Total	**288**	**243**

35 DEDICATED SCHOOLS GRANT

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

Notes	DSG Receivable for 2017/18	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2017/18 before Academy Recoupment	-	329,295	329,295
B	Academy figure Recouped 2017/18	-	(47,492)	(47,492)
C	Total DSG after Academy Recoupment 2017/18	-	281,803	281,803
D	Brought forward from 2016/17			1,655
E	Carry forward to 2018/19 agreed in advance	-	-	-
F	Agreed initial budgeted distribution in 2017/18	1,655	281,803	283,458
G	In-year adjustments	-	-	-
H	Final budget distribution for 2016/17	1,655	281,803	283,458
I	Less actual central expenditure	-	(264,445)	(264,445)
J	Less actual ISB deployed to schools	(18,827)	-	(18,827)
K	Council contribution for 2017/18	-	-	-
L	**Carry forward to 2018/19 agreed in advance**	**(17,172)**	**17,357**	**185**

A DSG figure as issued by DfE in March 2018.
B Academy figure Recouped 2017/18.
C Total DSG after Academy Recoupment 2017/18.
D Figure brought forward from 2016/17.
E The amount which the Council decided after consultation with the schools forum to carry forward to 2018/19 rather than distribute in 2017/18.
F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
G Changes to Initial distribution in 2017/18.
H Budgeted distribution of DSG at year end.
I Actual amount of central expenditure items in 2017/18.
J Amount of ISB distributed to schools.
K Contribution from the Council in 2017/18 which substituted for DSG in funding the Schools Budget.
L Difference between budgeted distributions and actuals plus carry forward agreed in advance.

Notes	DSG Receivable for 2018/19	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2018/19 before Academy Recoupment	88,411	254,925	343,336
B	Academy figure Recouped 2018/19	(5,258)	(61,699)	(66,957)
C	Total DSG after Academy Recoupment 2018/19	83,153	193,226	276,379
D	Brought forward from 2017/18	185		185
E	Carry forward to 2019/20 agreed in advance	-	-	-
F	Agreed initial budgeted distribution in 2018/19	83,338	193,226	276,564
G	In-year adjustments	786	-	786
H	Final budget distribution for 2018/19	84,124	193,226	277,350
I	Less actual central expenditure	(88,663)		(88,663)
J	Less actual ISB deployed to schools		(193,226)	(193,226)
K	Council contribution for 2018/19	(33)	-	(33)
L	**Carry forward to 2019/20**	**(4,572)**	**-**	**(4,572)**

A DSG figure as issued by DfE in March 2019.
B Academy figure Recouped 2018/19.
C Total DSG after Academy Recoupment 2018/19.
D Figure brought forward from 2017/18.
E The amount which the Council decided after consultation with the schools forum to carry forward to 2019/20 rather than distribute in 2018/19.
F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
G Changes to Initial distribution in 2018/19.
H Budgeted distribution of DSG at year end.
I Actual amount of central expenditure items in 2018/19.
J Amount of ISB distributed to schools.
K Contribution from the Council in 2018/19 which substituted for DSG in funding the Schools Budget.
L Difference between budgeted distributions and actuals plus carry forward agreed in advance.

36 GRANT INCOME

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

	2017/18 £'000	2018/19 £'000
Credited to Taxation and Non Specific Grant Income		
Non-Ringfenced Government Grants		
Business Rate Related Grants	(5,554)	(12,503)
Local Service Support Grant	-	(34)
New Homes Bonus	(24,185)	(20,749)
Revenue Support Grant (Formula Grant)	(54,133)	-
Total Non-Ringfenced Government Grants	**(83,872)**	**(33,286)**
Capital Grants and Contributions		
Schools-funded Capital Programme	(1,989)	(2,753)
Transport for London Funding	(1,291)	(3,012)
Major Works Contributions	(6,163)	(9,547)
Capital Maintenance Grant	(3,065)	(2,599)
Basic Needs/New Pupil Places	(6,837)	-
Community Infrastructure Levy (CIL)	(15,968)	(15,171)
Building the Pipeline Housing Grant	(1,700)	-
GLA Building Council Homes for Londoners	-	(3,250)
Developers' Contributions (capital)	(5,369)	(11,877)
Other Capital Grants	(1,378)	(2,299)
Total Capital Grants and Contributions	**(43,760)**	**(50,508)**
Credited to Services		
Capital Grants funding REFCUS	(4,910)	(1,756)
Developers' Contributions (capital) funding REFCUS	(2,924)	(2,403)
Developers' Contributions (revenue)	(3,567)	(3,147)
Dedicated Schools Grant	(281,803)	(277,165)
Education Services Grant	(1,049)	-
PFI Credits	(8,997)	(8,706)
School Sixth Form Grant	(14,962)	(13,316)
Pupil Premium Grant	(19,947)	(18,273)
Public Health Grant	(35,963)	(35,129)
Housing Benefit Subsidy	(257,898)	(228,123)
Better Care Fund	(8,658)	(11,907)
Community Infrastructure Levy (revenue)	(853)	(663)
Flexible Homelessness Support	(4,788)	(4,590)
Universal Infant Free School Meals	(2,735)	(2,737)
Community Learning	(2,381)	(2,474)
Adult Social Care Support	(1,472)	(916)
Teachers' Pay Grant	-	(900)
Unaccompanied Asylum Seeker Grant	(708)	(991)
Adult Social Care Winter Pressures	-	(1,465)
Physical Education and Sport	(972)	(1,199)
Tackling Troubled Families	(1,607)	(1,474)
London Enterprise Panel Programme	(1,751)	(2,300)
Other Revenue Grants	(5,591)	(9,986)
Total Credited to Services	**(663,536)**	**(629,620)**
Total Grant Income in Comprehensive Income & Expenditure Account	**(791,168)**	**(713,414)**

36 GRANT INCOME (continued)

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

Receipt in Advance Grant Balances	31 March 2018 £'000	31 March 2019 £'000
Capital Grants Receipts in Advance		
Developers' Contributions (capital)	(76,924)	(88,312)
New Homes Bonus London Enterprise Panel (LEP) - capital element	(851)	(453)
Other conditional capital grants and contributions	(573)	(648)
Total Capital Grants Receipts in Advance	**(78,348)**	**(89,413)**
Revenue Grants Receipts in Advance		
Developers' Contributions (revenue)	(12,471)	(8,230)
New Homes Bonus London Enterprise Panel (LEP) - revenue element	(2,604)	(304)
Other conditional revenue grants	(907)	(488)
Total Revenue Grants Receipts in Advance	**(15,982)**	**(9,022)**
Total Grant Receipt in Advance Balances	**(94,330)**	**(98,435)**

37 RELATED PARTIES

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

Central Government

Central government has effective control over the general operations of the Council– it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from central government departments and other grant making bodies are set out in the subjective analysis in Note 37 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2019 are within the creditors note.

Partnerships

The Council has partnership arrangements with the following organisations:

Ocean Regeneration Trust, the New Deal for the Community (NDC) successor organisation
Tower Hamlets Clinical Commissioning Group (CCG)

Pension Fund

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

Entities controlled or significantly influenced by the authority

Tower Hamlets Homes is a wholly owned subsidiary of London Borough of Tower Hamlets.

Seahorse Homes Ltd is a wholly owned subsidiary which hasn't commenced trading yet.

Mulberry Housing is a Community Bnefit Society which hasn't commenced trading yet.

Membership of and relationship with other organisations

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

Organisations	Members	Expenditure 2017-18	Income 2017-18	Expenditure 2018-19	Income 2018-19	Amounts due to Orgs. > £10k at 31/03/19	Amounts due to Authority > £10k at 31/03/19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bromley By Bow Centre	H Uddin	970		838		(10)	
Culloden Bangladeshi Parents Association	A M O Ahmed	11		20			
East London NHS Foundation Trust	D Jones	4,572		4,813	(323)	(374)	
East End Homes	A Cregan		(4,676)		(5,954)		388
Friends of Tower Hamlets Cemetery Park	D J Edgar	17		17			
Green Candle Dance Company	P Golds	68		58			
Mulberry Girls School	D Jones	32	(366)	162	(1,813)		
Poplar Harca	A M O Ahmed		(370)	3,878	(606)		
Rich Mix Cultural Foundation	D Jones		(2)	20			
St Pauls Way Trust School	R Saunders	48		37		(12)	
Tower Hamlets Community Housing	G Robanni	162	(35)	125	(71)	(26)	
Tower Hamlets Homes		32,642	(7,941)	33,965	(7,483)		994
Tower Hamlets Youth Sport Foundation	A Begum	17		49			
Wadajir Somali Centre	A M O Ahmed	39		33			

Organisations	Officer	Relationship With Organisation	
Marathon Events Ltd	W Tuckley	Director	
Seahorse Homes Ltd	A Sutcliffe	Board member	30
	N Murton	Board member	
Mulberry Housing	A Sutcliffe	Board member	10
London Education Partnership	A Sutcliffe	Board member	

38 LEASES

Authority as Lessee

Finance Leases

As a Lessee the Council has acquired a residential development under finance leases. The assets acquired under the leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts.
Depreciation policy on leased assets is consistent with the policy on owned assets and subject to revaluation in the same way as any other asset.

Leased In Assets

	Buildings 31 March 2018 £'000	Buildings 31 March 2019 £'000
Poplar Baths Leisure Centre	18,482	18,020
Poplar Baths Housing	11,879	5,013
Dame Colet Residential Development	8,104	3,350
Total	**38,465**	**26,383**

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

	Buildings 31 March 2018 £'000	Buildings 31 March 2019 £'000
Finance lease liabilities (net present value of minimum lease payments)	28,915	28,041
Finance costs payable in future years	63,143	61,233
Minimum lease payments	**92,058**	**89,274**

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

	Minimum Lease		Finance Lease	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	2,785	2,785	875	875
Later than one year and not later than five years	11,139	11,139	3,498	3,498
Later than five years	78,134	75,350	24,542	23,668
	92,058	**89,274**	**28,915**	**28,041**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18 no contingent rents were payable by the Authority.

38 LEASES (continued)

Authority as Lessee

Operating Leases

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

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

Leased In Assets

	Land & Buildings 31 March 2018 £'000	Vehicles Plant & Equipment 31 March 2018 £'000	Land & Buildings 31 March 2019 £'000	Vehicles Plant & Equipment 31 March 2019 £'000
Health, Adults and Communities				
Not later than one year	149	-	149	-
Later than one year and not later than five years	597	-	597	-
Later than five years	1,221	-	1,071	-
Governance				
Not later than one year	-	55	-	20
Later than one year and not later than five years	-	20	-	-
Later than five years	-	-	-	-
Children´s Services				
Not later than one year	-	256	-	150
Later than one year and not later than five years	-	305	-	156
Later than five years	-	1	-	1
Place				
Not later than one year	2,874	314	2,874	240
Later than one year and not later than five years	3,818	652	1,009	410
Later than five years	2,175	-	2,101	-
Total				
Not later than one year	3,023	625	3,023	410
Later than one year and not later than five years	4,415	977	1,606	566
Later than five years	3,396	1	3,172	1
	10,834	**1,603**	**7,801**	**977**

38 LEASES (continued)

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

	Land & Buildings 31 March 2018 £'000	Vehicles Plant & Equipment 31 March 2018 £'000	Land & Buildings 31 March 2019 £'000	Vehicles Plant & Equipment 31 March 2019 £'000
Health, Adults and Communities				
Minimum Lease Payments	149	-	149	-
Governance				
Minimum Lease Payments	-	98	-	55
Children´s Services				
Minimum Lease Payments	-	299	-	258
Place				
Minimum Lease Payments	2,908	606	2,873	315
Total				
Minimum Lease Payments	**3,057**	**1,003**	**3,022**	**628**

Authority as Lessor
Finance Leases
As a Lessor the Council has no finance leases to report .

Operating Leases

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

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

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

	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	(3,314)	(3,539)
Later than one year and not later than five years	(11,255)	(10,730)
Later than five years	(20,819)	(19,852)
	(35,388)	**(34,121)**

39 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

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

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

Movement on PFI Assets	Mulberry School (Academy) £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
Asset value at 31 March 2018 (Restated)	-	268,169	2,226	270,395
Depreciation	-	(2,242)	(178)	(2,420)
Revaluations	-	(74,536)	-	(74,536)
Enhancements	-	1,784	-	1,784
Derecognition	-	-	-	-
Asset value at 31 March 2019	**-**	**193,175**	**2,048**	**195,223**

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liabilities at 31 March 2018	(5,593)	(27,584)	(1,780)	(34,957)
Repayments/Amortisation of deferred liability	328	1,015	199	1,542
Liabilities at 31 March 2019	**(5,265)**	**(26,569)**	**(1,581)**	**(33,415)**
Consisting of:				
Long term liability	(4,895)	(25,206)	(1,383)	(31,484)
Short-term liability	(370)	(1,363)	(198)	(1,931)
Liability value at 31 March 2019	**(5,265)**	**(26,569)**	**(1,581)**	**(33,415)**

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liability				
Within 1 year	(370)	(1,363)	(198)	(1,931)
Within 2 - 5 years	(1,585)	(9,501)	(791)	(11,877)
Within 6 - 10 years	(3,310)	(15,705)	(592)	(19,607)
Within 11 - 15 years	-	-	-	-
	(5,265)	**(26,569)**	**(1,581)**	**(33,415)**
Interest				
Within 1 year	591	4,180	-	4,771
Within 2 - 5 years	1,967	14,014	-	15,981
Within 6 - 10 years	1,148	5,972	-	7,120
Within 11 - 15 years	-	-	-	-
	3,706	**24,166**	**-**	**27,872**
Service Charges				
Within 1 year	673	3,618	-	4,291
Within 2 - 5 years	2,694	10,169	-	12,863
Within 6 - 10 years	3,367	10,445	-	13,812
Within 11 - 15 years	-	-	-	-
	6,734	**24,232**	**-**	**30,966**

40 PENSIONS SCHEMES - DEFINED BENEFIT

Participation in pensions schemes

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

The Council participates in three pensions schemes:

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

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

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

Transactions Relating to Retirement Benefits

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

	The Council*		LPFA		Total	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT						
Cost of Services						
Current service costs	52,261	57,848	319	262	52,580	58,110
Past service costs	1,751	978	-	111	1,751	1,089
Impact of settlements	-	-	-	-	-	-
Finance and Investment Income and Expenditure						
Interest cost on defined benefit obligation	48,020	50,643	1,539	1,583	49,559	52,226
Interest income on plan assets	(32,981)	(35,713)	(1,325)	(1,454)	(34,306)	(37,167)
Net charge to the Surplus or Deficit on Provision of Services	***69,051***	***73,756***	***533***	***502***	***69,584***	***74,258***
Other Comprehensive Income and Expenditure						
Changes in demographic assumptions	-	-	-	(1,970)	-	(1,970)
Changes in financial assumptions	(35,927)	119,326	(2,014)	2,660	(37,941)	121,986
Other experience	-	-	-	-	-	-
Return on plan assets excluding amounts included in net interest	(14,292)	(43,901)	(2,001)	(4,086)	(16,293)	(47,987)
Actuarial losses (due to asset ceiling)	-	-	-	3,503	-	3,503
Total charge in Comprehensive Income and Expenditure Statement	***18,832***	***149,181***	***(3,482)***	***609***	***15,350***	***149,790***
MOVEMENT IN RESERVES STATEMENT						
Reversal of net charges made for retirement benefits	(69,051)	(73,756)	(533)	(502)	(69,584)	(74,258)
Actual amount charged against the General Fund/HRA balances	42,559	44,884	431	412	42,990	45,296

**** The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes***

In 2018/19 the Council paid £14.664 million into the Teachers Pension Scheme, representing 16.5% of pensionable pay. The figures for 2017/18 were £15.893 million and 16.5% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of discretionary awards made to teachers upon retirement. In 2018/19 there were such payments of £0.781m (£0.760m in 2017/18).

40 PENSION SCHEME (continued)

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of scheme liabilities:

	The Council*		LPFA		Total	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Opening balance at 1st April	(1,921,272)	(1,945,978)	(68,653)	(64,971)	(1,989,925)	(2,010,949)
Current service cost	(52,261)	(57,848)	(319)	(262)	(52,580)	(58,110)
Past service costs	(1,751)	(978)	-	(111)	(1,751)	(1,089)
Effect of settlements	-	-	-	-	-	-
Interest cost	(48,020)	(50,643)	(1,539)	(1,583)	(49,559)	(52,226)
Contributions	(9,251)	(10,318)	(55)	(47)	(9,306)	(10,365)
Benefits paid	50,650	51,845	3,581	3,381	54,231	55,226
Remeasurement gains / (losses):						-
Changes in demographic assumptions	-	-	-	1,970	-	1,970
Changes in financial assumptions	35,927	(119,326)	2,014	(2,660)	37,941	(121,986)
Other experience	-	-	-	-	-	-
31st March	**(1,945,978)**	**(2,133,246)**	**(64,971)**	**(64,283)**	**(2,010,949)**	**(2,197,529)**

**** The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes***

Reconciliation of fair value of the scheme assets:

	The Council*		LPFA		Total	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Opening fair value of scheme assets	1,298,703	1,376,054	62,676	62,907	1,361,379	1,438,961
Interest income	32,981	35,713	1,325	1,454	34,306	37,167
Contributions						
Employees into the scheme	9,251	10,318	55	47	9,306	10,365
Employer	71,477	30,428	431	412	71,908	30,840
Benefits paid	(50,650)	(51,845)	(3,581)	(3,381)	(54,231)	(55,226)
Remeasurement gains / (losses):					-	-
Return on plan assets	14,292	43,901	2,001	4,086	16,293	47,987
Actuarial losses (due to asset ceiling)	-	-	-	(3,503)	-	(3,503)
31st March	**1,376,054**	**1,444,569**	**62,907**	**62,022**	**1,438,961**	**1,506,591**

**** The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes***

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

Pension assets and liabilities recognised in the Balance Sheet

	The Council*		LPFA		Total	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Present value of scheme liabilities	(1,945,978)	(2,133,246)	(64,971)	(64,283)	(2,010,949)	(2,197,529)
Fair value of plan assets	1,376,054	1,444,569	62,907	62,022	1,438,961	1,506,591
Total deficit in the schemes	**(569,924)**	**(688,677)**	**(2,064)**	**(2,261)**	**(571,988)**	**(690,938)**

**** The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes***

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total deficit in the schemes of £690.9 million has a significant impact on the net worth of the Council as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by further contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The Council expects to make total contributions of £29.5 million in the year to 31st March 2020.

40 PENSION SCHEME (continued)

Basis for estimating assets and liabilities

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

	The Council		LPFA	
	2017/18	2018/19	2017/18	2018/19
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	22.1 years	22.1 years	20.7 years	19.8 years
Women	24.1 years	24.1 years	23.7 years	22.7 years
Longevity at 65 for future pensioners:				
Men	23.9 years	23.9 years	23.1 years	21.6 years
Women	25.8 years	25.8 years	26 years	24.4 years
Rate of inflation	2.4%	2.5%	2.4%	2.5%
Rate of increase in salaries	2.2%	2.3%	3.9%	4.0%
Rate of increase in pensions	2.4%	2.5%	2.4%	2.5%
Rate for discounting scheme liabilities	2.6%	2.4%	2.5%	2.3%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%		

* Pre-April 2008 service - 75% for post-April 2008 service

Major categories of assets as a proportion of total assets

The categories of assets are as follows.

	The Council		LPFA	
	2017/18	2018/19	2017/18	2018/19
Equities	63%	63%	61%	50%
Bonds	19%	19%	0%	5%
Property	10%	10%	7%	9%
Infrastructure	0%	0%	4%	6%
Commodities	0%	0%	0%	0%
Cash	4%	4%	6%	8%
Cash flow matching	0%	0%	0%	0%
Target return portfolio/other	4%	4%	22%	22%

41 Income and Expenditure Analysed by Nature

The Council's expenditure and income as shown in the Comprehensive Income and Expenditure Statement is analysed as follows:

2017/18 (Restated) £'000		2018/19 £'000
	Expenditure:	
472,236	Employee benefits expenses	471,170
651,523	Other service expenses	685,382
89,597	Depreciation, amortisation and impairment	143,900
10,800	Interest payments	27,917
-	Net (gains)/losses on financial assets at fair value through profit and loss	124
49,559	Interest cost on pension liabilities	52,256
1,795	Precepts and levies	1,860
1,737	Payments to housing capital receipts pool	4,284
114,127	(Gains) and losses on disposal of non-current assets	(13,858)
1,391,374	**TOTAL EXPENDITURE**	**1,373,035**
	Income:	
(226,183)	Fees, charges and other service income	(218,789)
(2,950)	Interest and investment income	(5,929)
(34,306)	Interest income on pension assets	(37,197)
(205,712)	Income from council tax and non-domestic rates	(268,793)
(791,168)	Government grants and contributions	(713,414)
(1,260,319)	**TOTAL INCOME**	**(1,244,122)**
131,055	**(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES**	**128,913**

HOUSING REVENUE ACCOUNT
INCOME AND EXPENDITURE ACCOUNT

The Housing Revenue Account (HRA) deals with the provision and maintenance of council housing by the Council acting as Landlord. It also shows income from rents and Government grant. There is a statutory requirement to keep this account separate from other Council activities (including other housing activities).

	Note	2017/18 £'000	2018/19 £'000
EXPENDITURE			
Repairs and maintenance		19,415	18,929
Supervision and management		36,584	38,954
Rents, rates, taxes and other charges		2,584	12,334
Depreciation of non-current assets	6		
On dwellings		17,052	15,912
On other assets		980	952
Revaluation losses (and reversals)		-	44,789
Debt management costs		72	79
Movement in the allowance for bad debts		(1,205)	(589)
Sums directed by the Secretary of State that are expenditure in accordance with the Code		10,047	9,013
TOTAL EXPENDITURE		85,529	140,373
INCOME			
Gross rental income			
Dwelling rents		(65,904)	(64,651)
Non dwelling rents		(4,402)	(4,195)
Charges for services and facilities		(20,609)	(19,426)
Contributions towards expenditure		(115)	(269)
TOTAL INCOME		(91,030)	(88,541)
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT		(5,501)	51,832
HRA services share of Corporate and Democratic Core		143	145
NET COST OF HRA SERVICES		**(5,358)**	**51,977**
HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account			
(Gain)/loss on sale of HRA non-current assets		(1,784)	(13,913)
Unattached capital receipts		(2,580)	(692)
Interest payable and similar charges [1]		3,909	21,444
Interest and investment income		(533)	(523)
Net interest on the net defined benefit liability	7	47	20
Capital grants and contributions receivable		(7,882)	(12,878)
DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES		**(14,181)**	**45,435**

[1] 2018/19 figure includes £17,852k of finance costs relating the repayment of LOBO loans.

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

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

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

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward		(39,079)		(47,561)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account	(14,181)		45,435	
Net additional amount required by statute to be debited to the HRA balance for the year	5,699		(42,514)	
Decrease (Increase) in the HRA Balance		**(8,482)**		**2,921**
Balance on the Statutory HRA Carried Forward		**(47,561)**		**(44,640)**

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year				
Revenue expenditure funded from capital under statute	(10,047)		(9,013)	
Capital grants and contributions	7,882		12,878	
Gain or loss on sale of HRA non-current assets	1,784		13,913	
Unattached capital receipts	2,580		692	
Reversal of revaluation losses on non-current assets	-		(44,789)	
Net charges made for retirement benefits in accordance with IAS19	844		813	
		3,043		(25,506)
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year				
Capital expenditure financed from revenue	2,207		(42)	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	-		(17,417)	
Transfer to / from Capital Adjustment Account	449		451	
		2,656		(17,008)
Net additional amount required by statute to be debited to the HRA Balance for the year		**5,699**		**(42,514)**

2 HOUSING STOCK

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

	2017/18	2018/19
Low-rise flats (1-2 storeys)	255	257
Medium-rise flats (3-5 storeys)	6,761	6,694
High-rise flats (6 or more storeys)	3,776	3,751
Houses and bungalows	776	774
TOTAL AT 31st MARCH	**11,568**	**11,476**

3 NON-CURRENT ASSETS

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

	2017/18 £'000	2018/19 £'000
Dwellings	1,201,143	1,030,754
Other Land and Buildings	58,166	58,294
Surplus Assets Not Held for Sale	11,878	13,724
Assets Under Construction	9,507	17,706
Assets Held for Sale	0	160
TOTAL	**1,280,694**	**1,120,638**

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	Assets Under Construction £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 31st March 2017	1,190,747	58,341	10,432	31,517	-	1,291,037
Additions, disposals, transfers and revaluations	10,396	(175)	1,446	(22,010)	-	(10,343)
Total value at 31st March 2018	1,201,143	58,166	11,878	9,507	-	1,280,694
Additions, disposals, transfers and revaluations	(170,389)	128	1,846	8,199	160	(160,056)
TOTAL VALUE AT 31st MARCH 2019	**1,030,754**	**58,294**	**13,724**	**17,706**	**160**	**1,120,638**

The vacant possession value of dwellings within the Council's HRA was £4,319 million in 2018/19 (£4,464 million in 2017/18). The difference between the vacant possession value and the balance sheet value shows the economic cost to the Government of providing council housing at less than open market rents.

4 MAJOR REPAIRS RESERVE

	2017/18 £'000	2018/19 £'000
Balance at 1st April	(9,459)	(5,485)
Transfer from Capital Adjustment Account - depreciation	(18,038)	(16,864)
Financing of capital expenditure	22,012	22,349
Balance at 31st March	**(5,485)**	**-**

5 CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	2017/18			2018/19		
	Dwellings £'000	Other £'000	Total £'000	Dwellings* £'000	Other £'000	Total £'000
Expenditure	23,849	10,302	**34,151**	25,162	13,150	**38,312**
		3				
Sources of finance						
Borrowing	-	94	**94**	895	544	**1,439**
Capital Receipts	973	151	**1,124**	1,248	394	**1,642**
Capital Grants and Contributions	8,720	-	**8,720**	9,725	3,199	**12,924**
Major Repairs Reserve	11,966	10,046	**22,012**	13,336	9,013	**22,349**
Direct Revenue Financing	2,190	11	**2,201**	(42)	-	**(42)**
TOTAL CAPITAL FINANCING	**23,849**	**10,302**	**34,151**	**25,162**	**13,150**	**38,312**

*These figures include that element of project spend classified as Assets Under Construction which will ultimately result in Council Dwellings

(ii) Capital Receipts

Capital receipts (gross) in 2018/19 from the disposal of non-current assets within the HRA amounted to £22.591 million (£27.183 million in 2017/18) as follows:

	2017/18 £'000	2018/19 £'000
Dwellings	27,183	22,591
TOTAL CAPITAL RECEIPTS	**27,183**	**22,591**

6 DEPRECIATION

	2017/18 £'000	2018/19 £'000
Dwellings	17,052	15,912
Other Land and Buildings	986	952
TOTAL DEPRECIATION	**18,038**	**16,864**

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 40 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note. The following transactions have been made in the account for the year.

Income and Expenditure Account	Total 2017/18 £'000	Total 2018/19 £'000
HRA INCOME AND EXPENDITURE STATEMENT		
Cost of Services		
Current service costs	4,275	4,414
Past service costs	461	1
Impact of settlements	-	-
Finance and Investment Income and Expenditure		
Interest cost on defined benefit obligation	2,606	2,827
Interest income on plan assets	(2,559)	(2,807)
Net charge to the HRA Surplus or Deficit on Provision of Services	**4,783**	**4,435**
STATEMENT OF MOVEMENT IN HRA RESERVES		
Reversal of net charges made for retirement benefits	(4,783)	(4,435)

8 RENT ARREARS

	2017/18 £'000	2018/19 £'000
Gross rent arrears at 31st March	5,082	5,011
Arrears as % of gross rent collected	7.7	7.6
Provision made for bad debts	4,038	4,098

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

Authorities are allowed to transfer sums to the HRA from another revenue account on the basis of directions issued by the Government. No sums were transferred during 2018/19.

10 ITEM 8 INTEREST ADJUSTMENT

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

COLLECTION FUND

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

2017/18				2018/19		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
			INCOME			
-	(115,157)	(115,157)	Council Tax Receivable	-	(122,619)	**(122,619)**
(421,154)	-	(421,154)	Business Rates Receivable	(431,394)	-	**(431,394)**
(23,461)	-	(23,461)	Transitional Protection Payments Receivable	(14,829)	-	**(14,829)**
(15,481)	-	(15,481)	Business Rates Supplements Receivable	(15,062)	-	**(15,062)**
(460,096)	**(115,157)**	**(575,253)**	**Total amounts to be credited**	**(461,285)**	**(122,619)**	**(583,904)**
			EXPENDITURE			
			Apportionment of Previous Year Surplus/(Deficit:)			
(657)	-	(657)	Central Government	(15,028)	-	**(15,028)**
(394)	1,000	606	Tower Hamlets	(11,357)	1,500	**(9,857)**
(263)	333	70	Greater London Authority	(11,473)	429	**(11,044)**
			Precepts, demands and shares			
148,075	-	148,075	Central Government	-	-	**-**
134,614	85,836	220,450	Tower Hamlets	292,816	93,777	**386,593**
166,024	24,861	190,885	Greater London Authority	164,709	27,980	**192,689**
			Business Rate Supplement			
15,465	-	15,465	Payment to levying authority's BRS Revenue Account	15,045	-	**15,045**
16	-	16	Administrative Costs	17	-	**17**
			Charges to the Collection Fund			
138	2,771	2,909	Increase/(decrease) in allowance for impairment	(18,450)	1,626	**(16,824)**
19,500	-	19,500	Increase/(decrease) in allowance for appeals	24,000	-	**24,000**
1,017	-	1,017	Charge to General Fund for allowable collection costs	1,029	-	**1,029**
483,535	**114,801**	**598,336**	**Total Amounts to be debited**	**441,308**	**125,312**	**566,620**
23,439	(356)	23,083	**(Surplus)/Deficit arising during the year**	**(19,977)**	**2,693**	**(17,284)**
13,598	(2,337)	11,261	**(Surplus)/Deficit b/f at 1 April 2018**	**37,037**	**(2,693)**	**34,344**
37,037	**(2,693)**	**34,344**	**(Surplus)/Deficit c/f at 31 March 2019**	**17,060**	**-**	**17,060**

(Surplus)/Deficit on the Collection Fund

2017/18				2018/19		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
14,311	-	14,311	Central Government	(718)	-	**(718)**
11,111	(2,088)	9,023	Tower Hamlets	11,198	-	**11,198**
11,615	(605)	11,010	Greater London Authority	6,580	-	**6,580**
37,037	**(2,693)**	**34,344**	**(Surplus)/Deficit c/f at 31 March**	**17,060**	**-**	**17,060**

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

Council Tax, introduced in 1993, is charged on residential properties depending on the nature and degree of occupation of the property concerned. It is subject to a system of personal discounts. For the purpose of calculating the individual tax, all domestic properties were valued by the Inland Revenue as at 1st April 1991 and placed in one of eight bands. The tax for each Band is set as a fraction of Band D. The number of properties in each band and calculation of the tax base (adjusted to reflect relevant discounts and exemptions) was approved by Full Council in January 2018 and is summarised in the table below:

Band	Valuation Bands	Ratio to Band D	2017/18 No. of Dwellings	2017/18 Equated No. of Dwellings	2018/19 No. of Dwellings	2018/19 Equated No. of Dwellings
A	Up to £40,000	6/9	1,059	706	669	446
B	£40,001 and up to £52,000	7/9	21,823	16,973	21,872	17,012
C	£52,001 and up to £68,000	8/9	34,334	30,519	35,212	31,299
D	£68,001 and up to £88,000	9/9	25,056	24,056	25,156	25,156
E	£88,001 and up to £120,000	11/9	18,049	22,060	18,950	23,161
F	£120,001 and up to £160,000	13/9	8,334	12,037	9,034	13,050
G	£160,001 and up to £320,000	15/9	3,335	5,558	3,770	6,283
H	Over £320,001	18/9	526	1,053	631	1,262
			112,516	112,962	115,294	117,669
	Adjustment for Reduction Scheme & Collection Rate			(24,178)		(22,574)
	Council Tax Base			**88,784**		**95,095**

2. NATIONAL NON-DOMESTIC RATES (NNDR)

The Council collects business rates for its local area. The amount due to be paid by a business for their property is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The rateable value is determined by the Valuation Office Agency, a government executive agency. The national uniform rate in 2018/19 was 49.3p (47.9p for 2017/18) and the rate for small businesses was set at 48.0p (46.6p for 2017/18). The total rateable value in the borough as at 31st March 2019 was £1,039 million (£1,046 million at 31 March 2018).

3. BUSINESS RATE SUPPLEMENT (BRS)

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

The Crossrail BRS multiplier for 2018/19 is 2p per pound of rateable value (unchanged from previous years), it is only paid on properties with a rateable value in excess of £70,000.

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2017/18 £'000	2018/19 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED			
Contributions			
From employers			
Normal	7	(30,311)	(31,885)
Augmentation	7	(2,462)	(1,796)
Deficit funding	7	(43,338)	(53)
From members	7	(10,819)	(11,102)
Transfers in			
Transfers in from other pension funds	8	(5,966)	(6,157)
Benefits			
Pensions	9	42,711	45,194
Lump sum benefits	9	13,192	13,580
Payments to and on account of leavers			
Refunds of contributions	10	274	224
Transfers out to other pension funds	10	4,761	4,848
Administrative expenses	11	509	1,151
NET ADDITIONS/(DEDUCTIONS) FROM DEALINGS WITH MEMBERS		**(31,449)**	**14,004**

RETURN ON INVESTMENTS		2017/18 £'000	2018/19 £'000
Investment income	12	(18,281)	(16,473)
Taxes on Income		167	73
Change in market value of investments	14a	(66,617)	(72,628)
Investment management expenses	11	3,251	2,774
NET RETURN ON INVESTMENTS		**(81,480)**	**(86,254)**
Net increase in the Fund during the year		(112,979)	(72,250)
Add: Opening net assets of the scheme		(1,367,677)	(1,480,656)
CLOSING NET ASSETS OF THE SCHEME		**(1,480,656)**	**(1,552,906)**

NET ASSETS STATEMENT AS AT 31ST MARCH		2017/18 £'000	2018/19 £'000
Investments Assets			
Pooled Investment Vehicles			
Unit Trusts	14	1,302,839	1,390,480
Property	14	142,803	157,351
Legacy	14	0	4
Other	14	0	(38)
		1,445,642	1,547,797
Cash Balances (held directly by the Fund)	14	8,733	6,512
Cash Balances (held by the Fund's external managers)	14	26,484	2,710
Other investment balances	14	832	979
Current Assets	21	1,179	1,188
Current Liabilities	22	(2,214)	(6,280)
TOTAL NET ASSETS		**1,480,656**	**1,552,906**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

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

a) General

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

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

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

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

b) Membership of the Fund

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the London Borough of Tower Hamlets Pension Fund include the following:

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

The following table sets out the membership of the London Borough of Tower Hamlets Pension Fund as at 31st March 2019

	31st March 2018	31st March 2019
Number of employees in the scheme		
LBTH	6,116	5,944
Other employers	693	836
	6,809	**6,780**
Number of pensioners		
LBTH	5,975	5,847
Other employers	358	397
	6,333	**6,244**
Number of deferred pensioners		
LBTH	7,369	7,340
Other employers	448	489
	7,817	**7,829**
Total number of members in pension scheme	**20,959**	**20,853**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employers' contributions are set based on triennial actuarial valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 15.8% to 41.4% of pensionable pay.

d) Benefits

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

NOTE 2: BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2018/19 financial year and its financial position at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose information in Note 20.

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution income

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

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

Employer deficit funding contributions are accounted for on the basis advised by the fund's actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

b) Transfers to and from other schemes

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

c) Investment income

Investment income arising from the underlying investments in pooled funds is either reinvested or taken as a cash dividend to support the Fund's cash requirements. Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as current financial asset.

As at 31st March 2019 the Fund had no direct property holdings.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

e) Taxation

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

f) Management expenses

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

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

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

Administrative expenses

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

Oversight and governance

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

Investment management expenses

The investment management fees are charged directly to the Fund.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net assets statement

g) Financial assets

Investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16).

h) Freehold and leasehold properties

The Fund has no direct investment in property

j) Derivatives

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

k) Cash and cash equivalents

Cash comprises cash in hand and internally managed cash and includes amounts held by the Fund's external managers.
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Loans and receivables

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

m) Financial liabilities

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

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS26) and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

o) Additional voluntary contributions

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

p) Contingent assets and contingent liabilities

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

q) Recharges from the General Fund

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

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

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

In response to the government's guidance and criteria on pooling investments issued in 2015, the London Borough of Tower Hamlets Pension Fund is a founding member of the London Collective Investment Vehicle (LCIV) established as a Collective Investment Vehicle for LGPS Funds. At the end of 31 March 2019, the Fund has £705.0m (45.4%) under LCIV management. A further £350.9m (22.0%) is invested in Legal and General Passive Pool.

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

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

Acturial present value of promised retirement benefits

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

For example:
a 0.5% decrease in the discount rate used would result in a decrease in the pension liability of £198m.
a 0.5% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £20m.

NOTE 6: EVENTS AFTER THE REPORTING DATE

Management have reviewed and there are no significant events after the reporting period.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 7: CONTRIBUTIONS RECEIVABLE

	2017/18 £'000	2018/19 £'000
Employees		
Council Employees Normal Contributions	(9,367)	(9,458)
Admitted Bodies Employees Normal Contributions	(128)	(115)
Scheduled Bodies Employees Normal Contributions	(1,324)	(1,529)
Total	**(10,819)**	**(11,102)**
Employers		
Council Employer's Normal Contributions	(26,099)	(27,059)
Admitted Bodies Employers' Normal Contributions	(598)	(602)
Scheduled Bodies Employers' Normal Contributions	(3,614)	(4,224)
Total	**(30,311)**	**(31,885)**
Council Employer's Special Contributions	(2,462)	(1,796)
Deficit Funding	(43,338)	(53)
Total	**(45,800)**	**(1,849)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

	2017/18 £'000	2018/19 £'000
Transfer Values		
Transfer Values Received - Individual	(5,966)	(6,157)
Total	**(5,966)**	**(6,157)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 9: BENEFITS PAYABLE

	2017/18 £'000	2018/19 £'000
Pensions	42,711	45,194
Lump Sums Retirement Benefits	11,522	11,899
Lump Sums Death Benefits	1,670	1,681
Total	**55,903**	**58,774**
By type of employer		
Administering authority	53,740	56,399
Scheduled bodies	1,402	1,525
Admitted bodies	761	850
Total	**55,903**	**58,774**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2017/18 £'000	2018/19 £'000
Transfer values paid	4,761	4,848
Refunds to members leaving service	274	224
Total	**5,035**	**5,072**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 11: MANAGEMENT EXPENSES

	2017/18 £'000	2018/19 £'000
Administration	398	976
Investment management expenses	3251	2,774
Oversight & Governance	111	175
Total	**3,760**	**3,925**

NOTE 11A: MANAGEMENT EXPENSES

	2017/18 £'000	2018/19 £'000
Management Fees	3191	2,605
Custody Fees	22	51
Transaction Costs	38	118
	3,251	**2,774**

NOTE 12: INVESTMENT INCOME

	2017/18 £'000	2018/19 £'000
Fixed interest securities	0	(9)
Equity dividends	(363)	(49)
Pooled property Investments	(6,395)	(5,885)
Pooled Investments -unit trusts and other managed funds	(11,471)	(10,475)
Interest on cash deposits	(52)	(55)
	(18,281)	**(16,473)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 13: EXTERNAL AUDIT COSTS

	2017/18 £'000	2018/19 £'000
Audit Fees Payable in respect of external audit	21	21
Total	**21**	**21**

NOTE 14: INVESTMENTS

	2017/18 £'000	2018/19 £'000
Equities	13	4
Pooled Investments	1,302,826	1,390,480
Pooled Property Investments	142,803	157,351
Other	0	(38)
Total	**1,445,642**	**1,547,797**
Other Investment Balances		
Cash Deposits	8,733	2,710
Cash Deposits	26,484	6,512
Amounts Receivable for Sales of Investments	0	99
Investment Income Due	832	881
Total	**36,049**	**10,202**
Total Investment Assets	**1,481,691**	**1,557,999**

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 31 Mar 2018 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2019 £'000
Fixed Interest Securities	0	0	(71,904)	71,904	0
Equities	13	0	0	(9)	4
Pooled Investments	1,302,826	312,512	(222,767)	(2,091)	1,390,480
Pooled Property Investments	142,803	16,996	(5,178)	2,730	157,351
Other	0	(38)	0	0	(38)
	1,445,642	**329,470**	**(299,849)**	**72,534**	**1,547,797**
Other Investment Balances					
Cash Deposits held by Managers	8,733			1	2,710
Cash Deposits held Internally	26,484				6,512
Amounts Receivable for Sales of Investments	0			93	99
Investment Income Due	832				881
Net Investment Assets	**1,481,691**			**72,628**	**1,557,999**

	Market Value 31 Mar 2017 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2018 £'000
Equities	324,294	46,649	(314,634)	(56,296)	13
Pooled Investments	894,752	145,185	149,079	113,810	1,302,826
Pooled Property Investments	133,610	13,943	(9,215)	4,466	142,803
	1,352,656	**205,777**	**(174,770)**	**61,980**	**1,445,642**
Other Investment Balances					
Cash Deposits	4,096			4,637	35,217
Investment Income Due	1,673			0	832
Amounts Payable for Purchases	(45)			0	0
Net Investment Assets	**1,358,380**			**66,617**	**1,481,691**

NOTE 14B: ANALYSIS OF INVESTMENTS

	2017/18 £'000	2018/19 £'000
Equities		
UK		
Quoted	13	4
	13	**4**
Pooled Funds - additional analysis		
UK		
Fixed income unit trust - quoted	81,152	91,800
Equity unit trust - quoted	1,221,674	130,574
Overseas		
Fixed income unit trust - quoted	0	334,399
Equity unit trust - quoted	0	696,885
UK & Overseas		
Diversified Growth	0	136,822
	1,302,826	**1,390,480**
UK Pooled property investments	142,803	157,351
	142,803	**157,351**
Other	0	(38)
Investment Assets		
Cash Deposits held by Managers	8,733	2,710
Cash Deposits held Internally	26,484	6,512
Investment Income Due	832	881
Amounts Receivable from Sales	0	99
	36,049	**10,202**
Net Investment Assets	**1,481,691**	**1,557,999**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

	2017/18 £'000	2018/19 £'000
Investments managed by regional asset pool		
London LGPS CIV	585,774	705,087
	585,774	**705,087**
Investments managed outside of regional asset pool		
Schroder	142,803	392,306
Legal & General	568,210	350,995
Goldman Sachs	77,077	52,626
Insight Investment	71,779	46,901
Legacy	0	4
Internally managed cash	26,484	6,512
Fund manager cash	8,733	2,710
	895,086	**852,054**
	1,480,860	**1,557,141**

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

Security	Market value as at 31st March 2018 £'000	% total of fund	Market value as at 31st March 2019 £'000	% total of fund
LCIV (BG) GE	318,033	21%	345,890	22%
LGIM MSCI WORLD TRGTINDX FND H	247,536	17%	244,453	16%
SCHRODER - EQUITY PROTECTION S	0	0%	234,956	15%
LCIV (BG) DGF	136,444	9%	136,822	9%
LCIV (RF) ARF	131,297	9%	130,574	8%
LCIV (CQS) MAC	0	0%	91,800	6%
LGIM FTSE ALL WORLD TARGET IND	81,152	5%	83,774	5%
GSAM STAR II	77,077	5%		
LGIM OVER 5Y INDEX- LINKED GILTS	74,546	5%		
LGIM FTSE ALL WORLD TARGT INDX	164,962	11%		
	1,231,047	**82%**	1,268,269	81%

NOTE 14D: STOCK LENDING

The Fund does not participate in stock lending

NOTE 14E: PROPERTY HOLDINGS

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

NOTE 15A: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

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

NOTE 16: FAIR VALUE – BASIS OF VALUATION

Fair Value Hierarchy

	Market Value as at 31 Mar 2019 £'000	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant observable inputs Level 3 £'000	Total £'000
Financial assets at fair value	1,547,835	4	1,390,480	157,351	1,547,835
Loans and receivables	9,222	9,222	0	0	9,222
Amounts receivable from Sales	99	99	0	0	99
Investment Income Due	881	881	0	0	881
Other	(38)	(38)	0	0	(38)
	1,557,999	**10,168**	**1,390,480**	**157,351**	**1,557,999**

	Market Value as at 31 Mar 2018 £'000	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant observable inputs Level 3 £'000	Total £'000
Financial assets at fair value	1,445,642	13	1,302,826	142,803	1,445,642
Loans and receivables	35,217	35,217	0	0	35,217
Investment Income Due	832	832			832
	1,481,691	**36,062**	**1,302,826**	**142,803**	**1,481,691**

NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

There were no transfers between levels 1 and 2 during the year.

NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 Apr 2018 £'000	Transfers in/out of level 3	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses)	Market Value 31 Mar 2019 £'000
UK Property Funds	142,803	0	16,995	(5,178)	1054	1,676	157,351
Total	**142,803**	**0**	**16,995**	**(5,178)**	**1,054**	**1,676**	**157,351**

	Assessed valuation range (+/-) %	Value 31 Mar 2019 £'000	Value on Increase £'000	Value on Decrease £'000
UK Property Funds	10%	157,351	173,086	141,616
Total		157,351	173,086	141,616

	Market Value 1 Apr 2017 £'000	Transfers in/out of level 3	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses)	Market Value 31 Mar 2018 £'000
UK Property Funds	133,609	0	13,943	(9,215)	4,466	0	142,803
Total	133,609	0	13,943	(9,215)	4,466	0	142,803

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2018				Market Value as at 31 Mar 2019		
Designated as fair value through profit and loss £	Loans and receivables £'000	Financial liabilities at amortised cost £'000		Designated as fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
			Financial assets			
0	0	0	Equities	4	0	0
1,302,839	0	0	Pooled investments	1,390,480	0	0
142,803	0	0	Pooled property Investments	157,351	0	0
0	8,733	0	Cash held with External Managers	0	2,710	0
0	26,484	0	Cash held Internally	0	6,512	0
0	0	0	Other investment balances	0	99	0
0	1,179	0	Debtors	0	1,188	0
1,445,642	**36,396**	**0**		**1,547,835**	**10,509**	**0**
			Financial liabilities			
0	0	0	Other Investment balances	0	(38)	0
0	0	(2,214)	Creditors	0	0	(6,280)
0	**0**	**(2,214)**		**0**	**(38)**	**(6,280)**
1,445,642	**36,396**	**(2,214)**	**Total**	**1,547,835**	**10,471**	**(6,280)**
	1,479,824		**Grand Total**		**1,552,026**	

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

Financial Assets	2017/18 £'000	2018/19 £'000
Fair value through profit or loss	(57,514)	(72,534)
Loans and receivables	(4,637)	(94)
Financial assets at amortised cost	(4,466)	0
Total Financial Assets	**(66,617)**	**(72,628)**

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.
The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

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

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liablities. (i.e. promised benefits payable to members)

The aim of investment risk management is to minimise the risk of an overll reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. in addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk-management strategy rests with the Pensions Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed by the Pensions Committee and Pensions Board in the light of changing market and other conditions.

Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The Fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers.

Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

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

Liquidity risk

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

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

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund’s assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets. As at 31 March 2019, liquid assets were £1,396m representing 90.0% of total assets of the Fund assets (£1,338m as at 31 March 2018). The majority of these investments can be in fact liquidated within a matter of days.

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

Currency risk

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

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

Market risk

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

Price risk

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

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

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

Interest rate risk

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

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. Cash deposits held in the Pension Fund bank account are invested in accordance with the Council’s approved Treasury Management Strategy.

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

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

Other price risk - sensitivity analysis

Asset type	Market Value as at 31/03/2019	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Cash and cash equivalents	9,222	0.2%	9,240	9,204
Investment portfolio assets:				
UK equities	4	9.0%	4	4
UK fixed Income unit trusts	91,800	4.3%	95,747	87,853
Overseas fixed Income unit trusts	334,399	4.3%	348,778	320,020
UK equity unit trusts	130,574	9.0%	142,326	118,823
Overseas equity unit trusts	696,885	9.0%	759,605	634,165
Pooled property Investments	157,351	1.7%	160,026	154,676
Other PIV	136,784	4.1%	142,392	131,176
Investment income due	980	0.0%	980	980
Total assets available to pay benefits	**1,557,999**		**1,659,098**	**1,456,901**

Asset type	Market Value as at 31/03/2018	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Cash and cash equivalents	35,217	0.4%	35,358	35,076
Investment portfolio assets:				
UK fixed Income unit trusts	74,546	8.2%	80,659	68,433
Overseas fixed Income unit trusts	148,856	8.2%	161,062	136,650
UK equity unit trusts	131,310	9.7%	144,047	118,573
Overseas equity unit trusts	811,683	9.7%	890,416	732,950
Pooled property Investments	142,803	1.8%	145,373	140,233
Other PIV	136,444	4.1%	142,038	130,850
Investment income due	832	0.0%	832	832
Total assets available to pay benefits	**1,481,691**		**1,599,785**	**1,363,597**

Currency Exposure - asset type

Asset type	Market Value as at 31/03/2019	Change in year in the net assets available to pay benefits	
	£'000	+8.2%	-8.2%
Overseas Equities			
Overseas Fixed Inome Funds	334,399	361,820	306,978
Overseas Equity Funds	696,885	754,030	639,740
Total change in assets available	**1,031,284**	**1,115,850**	**946,718**

Asset type	Market Value as at 31/03/2018	Change in year in the net assets available to pay benefits	
	£'000	+9.0%	-9.0%
Overseas Equities			
Overseas Fixed Inome Funds	148,856	162,253	135,459
Overseas Equity Funds	811,683	884,734	738,632
Total change in assets available	**960,539**	**1,046,987**	**874,091**

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

INTEREST RATE RISK

Asset type	Market Value as at 31/03/2019	Market Value as at 31/03/2018
	£'000	£'000
Cash and cash equivalents		
Cash	9,222	35,217
Total	**9,222**	**35,217**

Interest rate risk sensitivity analysis

Asset type	Market Value as at 31/03/2019	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000	£'000	£'000
Cash and cash equivalents			
Cash	9,222	92	-92
Total change in assets available	**9,222**	**92**	**-92**

Asset type	Market Value as at 31/03/2018	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000	£'000	£'000
Cash and cash equivalents			
Cash	35,217	352	-352
Total change in assets available	**35,217**	**352**	**-352**

CREDIT RISK

Summary	Rating	Market Value as at 31/03/2019	Market Value as at 31/03/2018
		£'000	**£'000**
Money Market Fund	AAA	6,000	24,000
Bank current accounts			
Custody cash account	AA	2,710	8,733
National Westminster Bank Plc	AA	512	2,484
Total		**9,222**	**35,217**

NOTE 19: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation is due to take place as at 31 March 2019.

The key elements of the funding policy are:

1) to ensure the long-term solvency of the fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment

2) to ensure that employer contribution rates are as stable as possible

3) to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return

4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so and

5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

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

Normally this is three years but in some cases a maximum period of 12 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional employer contributions.

The 2016 statutory triennial revaluation of the Pension Fund estimated the deficit on the Fund to be £235M.and the funding level to be 82.8%.This compares to a deficit at the previous revaluation in 2013 of £365M and a corresponding funding level of 71.8%.

The contribution rates are made of two values, the Primary and Secondary rate.
The Primary rate is the payroll weigthted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer Secondary rates (before applyin any pre-payment or capitalisation of future contributions).
Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the fund's website.
The table below summarises the whole Fund Primary and Secondary Contribution rates at the 2016 triennial valuation:

Primary Rate (% of pay)	2017/18 £'000	2018/19 £'000	2019/20 £'000
19.90%	13,974	14,603	15,256
	13,974	**14,603**	**15,256**

50:50 option
It is assumed that 1% of members opt into the 50:50 option in the LGPS 2014 scheme.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Actuarial Value of Promised Retirement Benefits

IAS26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose the actuarial assumptions and methodology should be based on IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £2,188 million (£2,007 million in 2017/18). This includes both vested and non-vested benefits.

Year ended	31 Mar 2018 £m	31 Mar 2019 £m
Active members	792	933
Deferred members	509	554
Pensioners	706	701
	2,007	2,188

Assumptions

To assess the value of the employer's liabilities the actuary rolls forward the values from the liabilities calculated from the funding valuation as at March 2016 using financial assumptions that comply with IAS19

Demographic assumptions

The demographic assumptions used are consistent with those used for the funding valuation as at March 2016.

Average future life expectancies at age 65 years	Male	Female
Current pensioners	22%	24%
Future pensioners	24%	26%

Commutation assumptions

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post -April 2008 service.

Financial assumptions

The financial assumptions used for the purpose of the calculation is set out in the table below

Year ended:	##################	################
Inflation/pension increase rate assumption	2.4%	2.5%
Salary increase	2.2%	2.3%
Discount rate	2.6%	2.4%

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 21: CURRENT ASSETS

	2017/18 £'000	2018/19 £'000
Short term debtors		
Contributions due - employees	27	35
Contributions due - employers	88	124
Payroll	73	403
Sundry debtors	991	536
Other	0	90
Total	**1,179**	**1,188**

NOTE 22: CURRENT LIABILITIES

	2017/18 £'000	2018/19 £'000
Sundry creditors	(1,899)	(1,279)
Transfer values payable (leavers)	(218)	(1,548)
Benefits payable	(97)	(3,415)
Other investment	0	(38)
Total	**(2,214)**	**(6,280)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

	2017/18 £'000	2018/19 £'000
Aviva	12	19
Equitable Life	5	2
	17	**21**

Additional voluntary contributions (AVC's) were paid to Aviva and Equitable Life during the year.

NOTE 24: AGENCY SERVICES

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

NOTE 25: RELATED PARTY TRANSACTIONS

The LBTH pension fund is administered by the LBTH

The Council incurred costs of £669k (£814k 2017/18) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. All monies owing to and from the fund were paid in the year.

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

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31 March 2019, the Fund held an average investment of £11.5m (£11.4m 31 March 2018), earning interest of £55k, (£90k 2017/18)

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.0m (£2.8m 2017/18) from this company.

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

Fund Administration Expenses	2017/18 £'000	2018/19 £'000
Payroll/HR Support	494	494
Central Finance	320	175
	814	**669**

NOTE 25A: KEY MANAGEMENT PERSONNEL

Employees holding key positions in the financial management of the fund as at 31st March 2019 include:

Corporate Director
Service Head - Finance & Procurement
Chief Accountant
Investment & Treasury

The value of their relationship with the fund, in accordance with IAS24 is as set out below:	2017/18 £'000	2018/19 £'000
Short term benefits	37	34
Long term/post retirement benefits	22	22

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There were no contingent liabilites as at 31st March 2019.

Auditors' Report 2018/19 – to follow.

Included after audit for publication

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director of Resources.

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- To consider and approve the Statement of Accounts.

The responsibilities of the Corporate Director of Resources

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

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

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

The Corporate Director of Resources has also:

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

Certificate of the Corporate Director or Resources

I certify that the Statement of Accounts 2018/19 presents a true and fair view of the financial position of the Council in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice") as at 31st March 2019 and its income and expenditure for the year ended 31st March 2019.

Kevin Bartle
Interim Corporate Director of Resources (Section 151 Officer)
Date:

TOWER HAMLETS

Annual Governance Statement

2018/2019

TOWER HAMLETS

Our Annual Governance Statement

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

We recognise the importance of having good governance, which includes effective leadership and management, policies and procedures, to ensure we have a well run Council that delivers high quality, value for money services to the local community. The Council has adopted a Code of Corporate Governance that is based on the recommended guidance: *Delivering Good Governance in Local Government.*

We recognise our responsibility for ensuring that the Council conducts its business in accordance with the law and proper standards and that public money is safeguarded. We have reviewed our governance processes and how they have operated over the course of the last year. This report summarises our review and conclusions.

We are satisfied that the Council has adequate governance arrangements in place. Governance is generally working well but we acknowledge that there are areas where we must improve, particularly in relation to pensions administration and the Council's statement of accounts and spending; this remains work in progress. We are committed to improving and have included a plan to record actions for 2019/20. We will report progress against these actions at the next annual review.

Signed on behalf of the London Borough of Tower Hamlets

_____	_____
Will Tuckley, Chief Executive	John Biggs, Executive Mayor

TOWER HAMLETS

Introduction

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

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

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

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

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
B. Ensuring openness and comprehensive stakeholder engagement.
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
D. Determining the interventions necessary to optimize the achievement of the intended outcomes.
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
F. Managing risks and performance through robust internal control and strong public financial management.
G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

When evaluating our performance we have taken into consideration reviews and inspections of the Council by others, such as Ofsted and the Local Government Association (LGA) – Corporate Peer Challenge, as well as the work of internal and external audit. We have also reviewed our progress against improvement actions that were identified as part of the 2017/18 Annual Governance Statement.

In addition, each Corporate Director is required to confirm that their directorates are run efficiently, effectively, and with proper risk management and governance arrangements, including a sound system of internal control. They are required to review internal controls to ensure they are adequate and effective, whilst considering the following:

- Outcomes from risk assessments and evaluations
- Self-assessment of key service areas within the directorate
- Internal audit reports and results of follow ups regarding implementation of recommendations
- Outcomes from reviews of services by other bodies, including inspectorates, external auditors, etc.
- Linkage between business planning and the management of risk

Where areas for improvement are required an action plan must be developed.

We have used these returns to further enhance our review of the Council's governance framework.

To conclude the assessment, we have provided an overall opinion on our governance arrangements and included an action plan to record how we will address any areas requiring improvement.

TOWER HAMLETS

Our Assessment

To assess the effectives of key elements of the governance framework, including partnership arrangements and Council owned companies, we have reviewed our performance against each of the seven principles of good governance. When evaluating our performance, we have taken into consideration reviews and inspections of the Council by others such as Ofsted, the Local Government Association, as well as the work of internal and external audit.

Principal	Governance Arrangements
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.	The Council's constitution records the rules and laws under which the Council operates, including the Financial Regulations. The constitution is published on the Council's website. In addition, there are a range of policies and procedures to direct and guide Members and staff, as well as codes of conduct that set out standards of behaviour expected from Members and staff. Whilst the Council seeks to always operates lawfully, during 2018/19 it has become apparent that the Council breached the law when administering the pensions scheme. Once recognised the Council reported the breaches to the Pensions Regulator and has put in place a remediation plan to rectify the issues. Further details are available here. The Council has appointed the required statutory officers which includes the Head of Paid Service (Chief Executive), the Monitoring Officer (Corporate Director, Resources) and the Chief Finance Officer, sometimes referred to as the Section 151 Officer (Corporate Director, Resources). These three officers meeting regularly to discuss governance issues. The Council operates a Standards (Advisory) Committee to manage issues of Member conduct. In accordance with best practice, the Committee is chaired by a person that is independent of the authority. The Council recognises that its Members play an important role in setting the tone from the top and is disappointed that one Member failed to maintain the required standards. Councillor Muhammad Halun Miah Harun resigned in 2018 and was prosecuted by the Council. Mr Harun was convicted of social housing fraud and imprisoned for 16 months.

	The Council has adopted a whistleblowing policy to guide and support staff about how to raise any concerns. It is readily available on the Intranet. The Monitoring Officer maintains a central record of all whistleblowing concerns and how they have been resolved. The approach to whistleblowing has recently been reviewed by Internal Audit (in 2019/20). Committee reports and decisions have been published online to ensure transparency and Executive decisions are subject to the 'Call-In' process by backbench Councillors who can raise any concerns they may have. The Council maintains a Register or Interests (for officers and Members) which includes a requirement to declare interests at meetings ensure that potential issues are recorded and Members do not take part in meetings in an inappropriate way. This includes the need to leave the room when any items for which they have a Pecuniary Interest are discussed. The Council has also maintained a Gifts and Hospitalities register to ensure that Members and officers declare any gifts and hospitality in an open and transparent manner. The Council has sought feedback from the public through its complaints and comments procedures and has responded to the outcomes, as appropriate. The Council's Audit Committee has met throughout the year and has considered reports from internal and external audit as well as other updates, reports, and advice from the Chief Financial Officer and Monitoring Officer.
B. Ensuring openness and comprehensive stakeholder engagement.	Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality/disclosure of exempt information which are provided for in statutory provisions.

	The Council has invested in the technology to facilitate the webcasting of meetings meaning that stakeholders and residents can attend meetings if they wish to or watch them online. An online library of meeting agendas, attendance, supporting papers, decisions and minutes is maintained on the Council's website. As a result, the decision-making process can be considered and reviewed by stakeholders and the public from inception through to final decision and any ultimate scrutiny. The Council has sought community views on a wide range of issues and has undertaken regular consultation and engagement with citizens and service users. The Council's Overview and Scrutiny Committee has engaged with stakeholders, residents and community groups to review services and drive improvement in service delivery. The Overview and Scrutiny Committee includes co-opted residents with relevant knowledge and has encouraged residents to attend its meetings, which are open to the public and webcast. Further, residents, community groups and expert witnesses have been invited to participate in Scrutiny review and challenge sessions so the Committee can hear directly from those whose interest are represented. Social media channels have been used extensively to support the Council's engagement with stakeholders. Details of current, planned, and past consultations have been made available on the Council's website along with information on how the public/stakeholders can put forward their views.
C. Defining outcomes in terms of sustainable	The Strategic Plan is the main business planning document of the Council. It sets out the corporate priorities and outcomes, the high level activities that will be undertaken to deliver the outcomes, as well as the measures that will help determine whether the Council is achieving the

economic, social, and environmental benefits	outcomes. The Council has a structured set of plans which turn our vision into actions, through Directorate, Key Council Strategies and Team Plans. The plan has been published in the Council's website. The performance of the Council against measurable outcome-led targets has been assessed through performance monitoring reports that have been considered within directorates, by the Corporate Leadership Team, Committees, Cabinet and subsequently at other meetings of relevance. Any such reports can also be called in for scrutiny and reviewed by the Audit Committee.
D. Determining the interventions necessary to optimise the achievement of the intended outcomes.	The Council, Cabinet and Committees have received regular reports on performance monitoring, the strategic plan and other policies and procedures which demonstrate the level to which intended outcomes are being achieved and any interventions planned to address issues. All decisions being considered have been objectively and rigorously analysed by the Monitoring Officer and the Chief Financial Officer and all reports have set sections for legal and finance comments to be recorded. Reports have bene cleared by finance and legal clearance before publication. The Council's Performance Management and Accountability Framework (PMAF) sets out how we establish whether performance improvement is necessary. The Performance Improvement Board is the main board responsible for identifying and determining interventions to bring about improvements and this board has met regularly. The Council's Performance Improvement Board challenges services where there are identified concerns, takes a trouble-shooting approach, acts as a "critical friend" to drive improvement in performance, and makes recommendations about where to focus resources to drive improvement.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.	The roles of all officers (including statutory roles) have been defined in agreed job descriptions and person specifications. Staff performance is reviewed on an annual basis in accordance with the Personal Development Review process (PDR). The Council has adopted TOWER values and new Competency Framework to support officers in delivering services. The Council's transformation programme called SMARTER TOGETHER, which is led by CLT, is focussed on ensuring the Council is more agile, leaner, and strategic to achieve the best outcomes with limited resources. All members have been provided with a Member Induction Programme and wider Member Development Programme. Members also have an online portal to give them access to many useful documents and materials. Cabinet Members and the Mayor are held to account through regular attendance at Overview and Scrutiny Committee and Sub-Committee meetings as well as through monthly Portfolio meetings with the Mayor and quarterly performance and budget monitoring meetings. All staff are provided with a corporate Induction and provided with additional documents and policies to support their induction. Staff are provided with opportunities for further development through the PDR and PDP processes. The Council has adopted a range of supporting plans and strategies including the People Resource Plan, Corporate Training Programme and Workforce Development Strategies.

F. Managing risks and performance through robust internal control and strong public financial management.	The Council has adopted a risk management strategy and approach with the main priorities of providing robust systems of identification, evaluation, and control of risks which threaten the Council's ability to meet its objectives to deliver services to the community Risk management is part of the Council's day-to-day activities and decision-making and regular reports have been provided at divisional level, directorate level, and cross-organisation with relevant Committees and Cabinet receiving regular updates and advice. The Corporate Risk Register has been regularly reviewed the Corporate Leadership Team and independently by the Audit Committee. During the last year, the Corporate and Divisional leadership teams received training on Risk Management. Refresher training is provided annually. The Corporate Director, Resources is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters. The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. The Council has a proactive, holistic approach to tackling fraud, theft, corruption, and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably. The outcomes of ant-fraud work have been reported to, and reviewed by, the Audit Committee. A Medium-Term Financial Strategy is in place. Revenue and capital budget planning based on corporate priorities are led by the Corporate Leadership Team and were presented for approval by the Council.

	Revenue and Capital Budget Monitoring reports have been presented to the Cabinet on a regular basis, this includes the annual outturn. Members have been able to scrutinise budget monitoring through the relevant Committee to ensure performance and risks are managed. Members and senior management have been provided with regular reports on performance and progress towards outcome achievement. All reports to Council, Cabinet and Committees are required to set out key implications and information in areas such as risk, equalities and environmental impact. The Audit Committee is responsible for considering the Council's arrangements for internal governance and financial management and to recommend any actions accordingly. It has received a number of relevant reports such as annual internal audit plans, reports from external audit, anti-fraud and corruption initiatives and risk management. The Council's Internal Audit service undertakes an annual programme of audits which includes providing assurance over the council's risk management processes. If any areas for improvement are identified Internal Audit makes recommendations for management to consider and implement. Progress against the plan and the outcomes of audits are reported to the Audit Committee.
G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.	The Council has a published constitution setting out how decisions are taken and how the public can get involved in decision making, including access to information, petitions and ways of getting involved in decision making. The Council seeks to write and communicate reports and other information for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.

	The Council webcasts it's Council, Cabinet and Overview and Scrutiny Committee meetings to ensure full transparency of the meetings. The Council's maintains an up-to-date website which provides a mechanism for the Council to publish information important in ensuring transparency of its actions. The Council's constitution sets out the Terms of Reference of all Committees to ensure information is presented to the Appropriate Committees. Access to Information rules set out how the Council maintains good public access to information and reports. There are governance arrangements for the partnership structure. The Tower Hamlets Plan identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities. The Head of Internal Audit provides an independent and objective annual opinion on the effectiveness of internal control, risk management, and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The Head of Internal Audit delivers a quarterly progress report to the Audit Committee setting out the outcome of Internal Audit and Counter Fraud activity. The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny, and Inspection bodies. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control, risk management and governance. As the Council's most senior decision making body, Audit Committee, and any other relevant Non-Executive Committee including Scrutiny, can report any concerns they have regarding actions that have not been undertaken.

TOWER HAMLETS

Internal Audit

The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole of the Council's activities. It is a requirement for the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of governance, risk management and internal controls within the Council. The Head of Internal Audit reported the 2018/19 annual opinion to the Audit Committee in July 2019.

> *On the basis of the audit and counter fraud activity undertaken during the year, and taking into consideration external assurances provided by Ofsted and the Local Government Association Corporate Peer Challenge as well as management's progress in addressing governance, risk and control weaknesses, it is my opinion that I can provide* ***reasonable assurance*** *that the authority has adequate systems of internal control and that they have, in the main, been operating effectively in practice.*
>
> *The framework of governance, risk management and control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.*

The full report from July 2019 is available here (item 5.6).
Given this AGS has been reproduced several months after the annual opinion was first stated, we have asked whether there is any additional commentary the Head of Internal Audit would like to add. The Head of Internal Audit has stated:

> Since stating my opinion in July 2019 new information has been brought to my attention which includes a resubmission of the Annual Assurance Statement from the Corporate Director of Resources. This statement records significant governance issues related to the statement of accounts and Council spending.
>
> As stated above, my opinion takes into consideration the internal audit and counter fraud activity undertaken during the year, as well as external assurances provided by Ofsted and the Local Government Association Corporate Peer Challenge and management's progress in addressing governance, risk and control weaknesses. I have recorded limitations to the scope of my opinion which state:

"The internal audit plan cannot address all risks across the Council and the plan represents our best use of the available resources. The annual opinion draws on the work carried out by Internal Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit plan. Not all risks fall within our audit plan. However, I have confirmed there were no audits of Information Technology (IT) related risks in 2018/19. Whilst I understand IT services are outsourced, I consider this lack of review material and I am limiting the scope of my opinion to exclude IT related risks. I will ensure that IT related governance, risks and controls are subject to internal audit in 2019/20 and will engage the support of specialist IT auditors."

In considering this new information, I have decided to clarify the scope of my annual opinion so that stakeholders who may wish to rely on the opinion are clear on its limitations and why the opinion between internal and external audit may differ. The following paragraph has been added to the annual reporting of the Head of Internal Audit at 10.1.

"Internal Audit does not audit the Council's annual statement of accounts and therefore the work of Internal Audit and my opinion do not cover the associated financial statements or disclosures. The Council's external auditors (Deloitte) are responsible for the audit of the annual statement of accounts and reporting whether, in their opinion, they present a true and fair view of the financial position of the Council."

In addition, to support management in addressing these emerging governance issues, and provide independent assurance to the Audit Committee, I will reconsider the focus and scope of the remaining audits in the 2019/20 audit plan. The outcomes of these audits will be reported to senior management and the Audit Committee.

Paul Rock, Head of Internal Audit, Fraud and Risk.

External Audit & Inspections

External Audit

In July 2018 KPMG, the previous external auditor, completed their audit of the 2017/18 financial statements. Within the Annual Audit Letter presented to the Audit Committee, the auditor issued an unqualified opinion in relation to the Council's 2017/18 statutory

financial statements. This means that KPMG concluded that the financial statements gave a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

However, the 2017/18 value for money (VFM) work, KPMG issued a qualified conclusion on the Council's arrangements to secure value for money for 2017/18. KPMG specifically concluded that "the authority had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2017/18. KPMG remained satisfied that none of the outstanding issues have an adverse impact on the 'sustainable resource development' criterion. KPMG therefore issued a qualified VFM conclusion on an 'except for' basis, which is consistent with the VFM opinion given in 2016/17.

From 1 September 2018 Deloitte LLP was appointed as the Council's external auditor, this was following the decision of the Council to opt in to the Public Sector Audit Appointments Limited (PSAA) arrangement. The PSAA Board appointed Deloitte to audit the accounts of the Council for a period of five years (2018/19 to 2022/23).

Deloitte were unable to complete their audit of the 2018/19 financial statements before the deadline of 31 July. In July 2019 Deloitte reported to the Audit Committee that their audit was ongoing and would not be complete because of delays in delivery of supporting working papers for audit from management and delays in receiving information and explanations in response to subsequent audit queries. There are were also open issues which needed to be resolved prior to finalisation of their report. The significant issues they highlighted included misstatements and disclosure deficiencies.
The auditors also indicated they would most likely be issuing a qualified "value for money conclusion" because Ofsted's 2018 report and subsequent monitoring reports indicated (notwithstanding the improvement trajectory) that proper arrangements to secure to secure economy, efficiency and effectiveness in the use of resources were not in place throughout the whole of the period covered (the 2018/19 financial year).

The full report is available here (item 4).

In response, the Council developed an action plan that has been overseen by the S.151 Officer and the Deputy Section 151 Officer; additional resources have been sourced to complete the plan and produce a revised set of accounts and a dedicated finance improvement team has been created for additional support. The Council anticipates the accounts will be closed by November 2021.

Other Inspections

During 2018/19 external inspectors from Ofsted and the Local Government Association have completed inspections and reviews, summary details are as follows.

Ofsted

As a follow up to the April 2017 report published by Ofsted in respect of Tower Hamlets' Single Inspection of Children in need of help and protection, children looked after and care leavers and the Local Safeguarding Children Board, all of the scheduled Ofsted monitoring visits have now been completed. The full inspection of the service was completed during June 2019. The majority of the monitoring reports have highlighted areas of improvement across Children's Social Care. They have also helpfully pointed out areas where further work is required, and we have focused much activity on strengthening these aspects of practice in order that we can present a strong and positive account of practice throughout the upcoming inspection. The final judgement from the full inspection in June was published at the end of July 2019 and Ofsted rated the Council as Good.

The full report is available here.

Local Government Association (LGA) – Corporate Peer Challenge

During June 2018, the council took part in a four day Local Government Association led Corporate Peer Challenge. The LGA Peer Challenge team were asked to review the following:

1. How the Council adequately addressed the directions issued by MHCLG and the expectations of the departed commissioners.
2. Whether the Council is addressing its chosen priorities and delivery continued improvements to local residents and businesses.
3. Whether the Council is identifying key challenges and setting realistic and ambitious targets for the future.

The final feedback report issued to the Mayor and the Chief Executive concluded that:

- The council has transformed and improved the culture of the organisation due to the hard work and commitment of the Mayor, Members and officers throughout the organisation. It was recognised that such a transformation has been delivered by strong leadership from the Mayor and Chief Executive, and positive relationships between Members and officers. The Peer Team also found that staff appreciate the open and positive culture that the senior leadership are championing and feel more engaged. Furthermore, there are strong relationships between the council and partners and an encouraging sense of optimism amongst partners for the future and the way the council is progressing.
- The Peer Team concluded that Tower Hamlets is a borough with enormous opportunities and potential. The borough has a diverse and vibrant community and the council has a relatively healthy financial position and an enviable asset base with the potential to invest, innovate, and drive through further change.
- The Corporate Peer Challenge identified a number of areas where the council can continue to improve. There are still large areas in the council in need of modernisation and some services are still traditional and paternalistic. The council needs to increase the pace of change in the borough and is currently too risk averse as a result of past decision making. Furthermore, the council needs to take a more proportionate risk-based approach and empower officers to be less cautious and bureaucratic in order to drive through improvements at a faster rate. To ensure that the Council moves forward quickly, the council needs to have an unrelenting focus on the areas of failure including those identified by Ofsted in Children's Services

As a result of the feedback received improvement actions were developed with the delivery of these monitored by the Transformation & Improvement Board which is chaired by the Mayor with external representation. The action plan responding to the recommendations can be found here.

The full report is available here.

Planning Peer Challenge Tower Hamlets Council

In 2018 the Council commissioned a peer challenge of its planning service with the Planning Advisory Service and Local Government Association. In the final report, issued in December 2018, the report authors concluded:

"The planning service is performing well against all of the government's national planning performance indicators and has addressed a specific legacy performance issue. It is not 'resting on its laurels'; a process improvement review has recently been completed and the commissioning of this planning peer challenge is a clear indicator of the service's commitment to continuous improvement.

The Place Directorate should build on the local plan work already completed and the strategies for the opportunity areas to turn the Mayor's priorities into a clear vision and strategy for the whole organisation. The Place Directorate departments should be clear on how they will work together (and on what) and the whole organisation will need to be committed to joined-up, corporate planning and delivery. The planning service will then be able to fully address how it needs to be organised and structured to play its full part."

The authors made a series of recommendations which the council accepted and are progressing. This includes, key appointments being made, the establishment of a new Regeneration function with a series of area boards, new working relationships being embedded across Place, and the Planning service has developed new committee arrangements for briefing Councillors on major schemes and for engaging residents in the planning process. The planning service continues to monitor and manage performance carefully and evolve its learning and development offer to meet available resources". A copy of the report is available upon request.

Council Owned Companies and Partnerships

Tower Hamlets Homes

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

During 2018/19, the Council commissioned Altair to support it in exploring options for the delivery of its housing management services beyond the end of the current management agreement. The review was undertaken in two stages; consisting of a baseline assessment and an options review.
The purpose of the baseline Assessment stage of the project was to review the current strategic, operational and financial context of LBTH, and to assess the effectiveness of THH as a housing manager, considering its strengths and challenges.

Overall, Altair assessed that THH is a generally well-performing housing manager in terms of both housing management performance and cost. There is room for improvement in some key areas of service delivery, but evidence of performance improvements over recent years and an extensive transformation programme currently being delivered are positive.
The review further found no performance or financial imperative to significantly change the housing management arrangements for the LBTH stock currently managed by THH.

The Council's Internal Audit team providers internal audit services to THH. In keeping with the Public Sector Internal Audit Standards, the Head of Internal Audit issued an annual opinion about the governance, risk management and internal control arrangements. The opinion was as follows:

> *On the basis of the audit work undertaken during the 2018/19 financial year, my overall opinion on the organisation's system of governance, risk and control is that* ***substantial*** *assurance can be provided that the internal control environment (including the key financial systems, risk and governance) is in the main well established and operating effectively in practice.*
>
> *However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give this assurance.*

<u>Seahorse Homes Limited</u>

Seahorse Homes Limited is a wholly owned company limited by shares established in 2017, to provide market rented homes and deliver a return on investment, both to cross-subsidise affordable housing and to fund wider General Fund services. The agreed business plan sets out its intention to acquire homes and then to develop homes. The Council holds 100% of the shares in this

company and has initially committed £6m in equity. The company has yet to start trading. The Board of Directors is comprised of three Council officers. Following staffing changes within the Council the composition of the Board is being reviewed to minimise potential conflict of interests.

Mulberry Housing Society

Mulberry Housing Society is a not-for-profit charitable Community Benefit Society (CBS) established in 2017. The Council funds the CBS and holds two of five seats of the Board, the others being held by independent people initially appointed by the Council. The Board of Directors is comprised of two council officers and three independent members. The society is seeking to acquire homes which will be let at sub-market rent levels in order to meet housing needs. There were no financial transactions through the CBS in 2018/19. As an independent CBS, the Council does not have any equity shareholding in the company but intends to fund activities through retained right to buy receipts and loan finance.

PLACE Ltd (Pan-London modular Temporary Accommodation)

This not-for-profit company limited by guarantee (CLG) was set up by the Council in 2018 is a collaborative enterprise between a group of London Boroughs. The company will purchase modular homes that can be delivered to 'meanwhile' sites across the capital and relocated several times over a minimum 40 year lifespan. The pilot site is likely to be in Tower Hamlets. The company has secured capital grant from the Greater London Authority, which will be administered by the Council. In addition, the Council is considering providing a capital loan facility to the company. As a CLG, the Council does not have an equity shareholding in the company.

Capital Letters (London) Ltd (Pan-London TA procurement hub)

This not-for-profit company limited by guarantee (CLG) was set up by the Council in 2018 and is a collaborative enterprise between a group of London Boroughs. The company will lease private properties for use as temporary accommodation and tenancies to prevent homelessness. The company has secured revenue grant funding from MHCLG which will initially be administered by the Council; a Chief Executive and Chief Finance Officer have been appointed in 2019 and they will be adopting their own processes

and procedures including for the payment of salaries and maintenance of accounting systems. The Council may provide a loan facility to the company to support positive cash flow. As a CLG, the Council does not have an equity shareholding in this company.

Significant Governance Issues

Corporate Directors are required to consider whether there have been any significant governance issues. For the purposes of this review we have defined a significant governance issue as something that:

- Seriously prejudiced or prevented achievement of one or more principal objectives.
- Resulted in the need to seek additional funding to resolve the issue.
- Required a significant diversion of resources.
- Had a material impact on the accounts.
- Resulted in significant public interest or has seriously damaged the reputation of the Council.
- Resulted in formal actions by the Section 151 (Corporate Director, Resources) or Monitoring Officer (Corporate Director, Governance).
- Received significant adverse commentary in an external inspection report and was not or cannot be addressed in a timely manner.

Progress against Significant Governance Issues Identified in 2017/18

In 2017/18 the AGS included three significant governance issues which needed to be addressed during 2018/19. All actions have been completed and closed.

No.	Action	Outcome
1	To continue to effectively deliver the commitments outlined and defined within the Best Value Improvement Plan as a response to the findings of the Commissioners.	The improvement plan outcomes have been delivered.

2.	To continue to deliver improvements in Children's Services that respond to the Ofsted findings.	Ofsted re-inspected the authority and published their report in July 2019 which concluded the Council has made significant improvements and rated the service as Good.
2	The 2017/18 Internal Audit of the Leaving Care Service governance and control arrangements received a Nil assurance rating to this audit and which recommended that a full service review is undertaken.	This action has been delivered. Internal Audit continued to provide support and assisted the service in reconciling its records and payments. A further audit will be undertaken in 2019/20.

Significant Governance Issues Identified in 2018/19

All five Corporate Directors submitted their returns for 2018/19 to the Chief Executive. The Corporate Directors of Place, Governance, Children's & Culture confirmed there were no significant governance issues. The Corporate Directors for Health, Adults & Community and Resources identified several issues, the most significant were as follows. In addition, the Audit Committee requested that concerns in relation to consultations be included.

No.	Issue	Action	Responsible	Timescale
1	Outstanding Payments to care providers end of year accrual process and implementation of Electronic Home Care Monitoring. Associated adverse end of year budget position in relation to adult social care.	Outstanding Payments Hub established to recover position on monies owed to providers – external input to design (Socitm) and CPMO oversight and support. Review of accruals process and improvements to monthly budget process particularly around home care.	Claudia Brown, Divisional Director, Adult Social Care & Allister Bannin, Finance Adrian Osborne, Finance Business Partner & relevant managers	December 2019 Monthly

No.	Issue	Action	Responsible	Timescale
		Commissioned review of Electronic Home Care Monitoring from Socitm – final report now prepared and recommendations being discussed and implemented.	Denise Radley & Divisional Directors & Finance Business Partner	End July 2019 and then implementation
2	Adult Social Care Improvement – consistent practice and quality	Improvement Board replaced by Quality Assurance Board during 2018/19. Independent input from LGA Care & Health Improvement Advisor. Internal audits & follow ups of relevant areas). Further actions include need for improved data to support performance & quality improvement and recruitment and retention of social workers.	Claudia Brown, Divisional Director Adult Social Care	Plans extend throughout 2019/20
3	There are significant issues with the 2018/19 accounts closure which continues to require extensive remedial actions. This has included: • Weaknesses in how accruals have been raised. • Pension fund deficit and accounting. • Valuation of infrastructure and temporary accommodation assets. • Accounting processes for the collection and general funds.	An action plan has been developed and is being overseen by the S.151 Officer and the Deputy Section 151 Officer. Additional resources have been sourced to complete the plan and produce a revised set of accounts. Advice and support is being support from other London Boroughs and Grant Thornton. A dedicated finance improvement team is being created for additional support.	Corporate Director, Resources. Divisional Director, Finance, Procurement and Audit.	April 2020

No.	Issue	Action	Responsible	Timescale
4	The Council is in an overspend position. There has been significant slippage in the achievement of savings targets c. £10 million. The position may change (for the worse) as the accounts need to be restated.	The Corporate Leadership Team is committed to meeting the financial challenges. All directorates will monitor and find ways to proportionally respond to the increasingly challenging financial and demand position whilst delivering statutory duties and existing savings targets. The financial position will be closely monitored and reported to CLT and MAB.	Corporate Directors and Budget Managers.	March 2020
5	Budget Management needs to be improved across the Council	A new budget handbook has been produced and will be launched imminently. Finance will provide training and guidance to budget managers. The finance improvement team will provide additional support. CLT will adopt a more challenging approach to the delivery of Recovery Plans and discretionary spending decisions.	Divisional Director, Finance, Procurement and Audit Corporate Directors and all Budget Managers	March 2020
6	There are a number of performance, administration and governance issues, some of which are breaches of law and it is necessary that the Council informs The Pensions Regulator of these breaches and	The actuary is completing urgent reviews of annual allowances. Additional interim resources are being recruited to current establishment as a matter of urgency.	Divisional Director, Finance, Procurement and Audit	September 2020

No.	Issue	Action	Responsible	Timescale
	provide the Regulator with a robust improvement plan and work programme. These issued include: • Failure to provide Annual Benefit Statements to 100% of scheme members. • Outstanding scheme tax returns from previous years. • Failure to issue Annual Allowance Statements to all scheme members who require one. • A lack of policy documents and data quality issues.	The software provider has completed a review of scheme member data in line with guidance notes set down by The Pensions Regulator (TPR). Results have been quantified to provide guidance on corrective action required. TPR was notified of key breaches identified. Remediation plan to be submitted to Pensions Board in March 2020.		
7	There is an overspend on the Dedicated Schools Grant. In addition, there is demand and budget pressure on SEND and the associated transportation.	The financial position will be closely monitored and reported to CLT and MAB. A financial recovery plan has been produced and submitted to the Department for Education. A wider review of SEND is being undertaken and will be focussed on demand and funding management. SEND Transportation has recently been reviewed by Grant Thornton and options to manage demand and costs have been	Corporate Director, Resources Corporate Director, Children's and Culture.	January 2020

No.	Issue	Action	Responsible	Timescale
		presented to the Directorate for their consideration and implementation.		
8	Internal Audit has been under resourced as a result of vacancies, misaligned work force and no external delivery partner. There is a risk that the current and future annual opinions will be limited in scope and/or unsafe.	All vacancies to be filled as a matter of urgency. Existing temporary staff, where appropriate, to be moved to permanent contracts. External delivery partner to be sourced urgently.	Head of Internal Audit	March 2020
9	The Council's consultation and engagement activities with the community and stakeholders are currently managed by individual services and departments, with significant differences in process. Although some very good practice exists, the quality of the community involvement activities across the council is variable. Issues include: • An absence of accepted set of standards or guidance on conducting consultation and engagement activities. • Consultation responses often being held by the consulting team and thus inaccessible to colleagues – who may then go out to consult on similar issues. • The lack of a standard means of providing feedback to the community on the impact of their contributions.	In line with our Community Engagement Framework 2018-21, a Transforming Consultation and Engagement programme has been set up to deliver: • Guidance for staff on conducting consultation and engagement activities which will provide a standardised, streamlined approach to community involvement activities as well as enable compliance with standards. • An online hub to facilitate community involvement which will provide central repository of all engagement and consultation activities undertaken by the Council and open a range of innovative and engaging multimedia tools and reporting.	Divisional Director of Strategy, Policy and Performance Divisional Director of Communication and Marketing	July 2020

TOWER HAMLETS

Conclusion and Opinion

Opinion

We are satisfied that the Council has adequate governance arrangements in place. Governance is generally working well but we acknowledge that there are areas where we must improve, particularly in relation to the Council's statement of accounts and spending. We are committed to improving and have included a plan to record actions for 2019/20. We will report progress against these actions at the next annual review.

Definitions

As part of this review we have provided an opinion on the level of assurance that the governance arrangements can provide and whether the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. To assist with this assessment, we have defined the opinion ratings as follows:

Good	Strong governance arrangements exist, they are operating effectively, and minimal improvements are required.
Adequate	The governance arrangements are adequate and support the Council in meeting its objectives, but improvements are required to achieve good governance.
Requires Improvement	There are significant governance issues which may result in the Council failing to achieve its objectives.

GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

FINANCIAL TERMS

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

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

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

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

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

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

Actuarial Valuation – Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates. The most recent valuation was in 2016.

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

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

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

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

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

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

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

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

Business Rate Supplement (BRS) – The Business Rate Supplements Act 2009 enables levying authorities - county councils, unitary district councils and, in London, the Greater London Authority - to

levy a supplement on the Business Rate to support additional projects aimed at economic development of the area.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contingent Liability - This is a potential "one-off" future liability or loss , but the level of uncertainty is such that the establishment of a provision is not appropriate.

Contingent Asset – This is a potential "one-off" future receipt or acquisition of an asset, but the level of uncertainty is such that the recognition of the gain is not appropriate.

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

Consumer Price Index (CPI) – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The CPI includes some financial services in the basket of goods not included in the RPI.
Creditors - Amount of money owed by the Council for goods and services received. Also referred to as, Payables.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of an asset to the lessee.

Financial Instrument - Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Instrument Adjustment Account (FIAA) - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWLB) debt.

General Fund (GF) - The Council's main revenue account from which the cost of providing most of the Council's services is met.

Greater London Authority (GLA) – A strategic Local Authority with a capital-wide role.

Group Accounts – Where a Council has a material interest in a separate entity, the entity's assets and liabilities may need to be incorporated within the council's group accounts.

Heritage asset – An asset with historical, artistic, scientific, technological, geo-physical and/or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Historic Cost – The actual cost of an asset in terms of past consideration as opposed to current value.

Housing Revenue Account (HRA) - A statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

Impairment – A reduction in the valuation of PPE caused either by a change in the market price of the asset or damage/deterioration of the asset in excess of depreciation.

Infrastructure Assets – Inalienable assets, expenditure on which is only recoverable by continued use of the asset created. There is no prospect of sale or alternative use. Examples include roads, bridges, and tunnels.

Intangible Assets – Non-financial long-term assets that do not have physical substance but are identifiable and controlled by the Council i.e. purchased software licences.

Interest Rate Risk – The uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

International Financial Reporting Standards (IFRS) – The set of international accounting standards issued by the International Accounting Standards Board (IASB). Local Authorities are required to produce accounts based on IFRS.

Inventories – The values of, stocks held and work in progress that have not been completed.

Investment Properties – Those properties that are held solely to earn rentals and/or for capital appreciation, rather than for the delivery of services.

Liability – A liability is where the Council owes payment to an individual or another organisation.

Levy – Payments to bodies such as the Environment Agency. The cost of these bodies is funded by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

Long-Term Assets – Assets that yield benefit to the Council and the services it provides for a period of more than one year.

Long-Term Liability – An amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

Major Repairs Reserve – Represents the funds available to meet capital investment in council housing

Materiality - the level (usually expressed in financial terms but not usually expressly stated) below which accountants, auditors, or their clients or employers, consider risks or problems not to be significant.

Medium Term Financial Strategy (MTFS) – The Council's strategic plan surrounding its finances for the next 3 years.

Minimum Revenue Provision (MRP) – The amount that has to be charged to revenue to provide for the redemption of debt. Not applicable to the HRA.

Movement in Reserves Statement – A summary of the Council's reserves at the balance sheet date split between usable and unusable reserves.

National Non-Domestic Rates (NNDR) – Local Businesses contribute to Council expenditure based on a rate in the pound decided by Central Government, this is applied to the rateable value of their premises.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Abbreviations used in Accounts

AGS - Annual Governance Statement

ALMO - Arm's Length Management Organisation (Tower Hamlets Homes)

AVC – Additional Voluntary Contribution

BCF – Better Care Fund

BRS – Business Rates Supplement

BSF - Building Schools for the Future

BVIB – Best Value Improvement Board

CBS – Community Benefit Society

CCG - Clinical Commissioning Group

CFR - Capital Financing Requirement

CIES - Comprehensive Income and Expenditure Statement

CIL - Community Infrastructure Levy

CIPFA - Chartered Institute of Public Finance and Accountancy

CLG – Company Limited by Guarantee

CPB – Corporate Parenting Board

CPI - Consumer Price Index

DfE - Department for Education

DRC – Depreciated Replacement Cost

DSG - Dedicated Schools Grant

EIR - Effective Interest Rate

EUV – Existing Use Value

EUV-SH – Existing Use Value-Social Housing

FIAA – Financial Instruments Adjustment Account

GF - General Fund

GLA - Greater London Authority

HMT – HM Treasury

HRA - Housing Revenue Account

IAS - International Accounting Standard

IFRS - International Financial Reporting Standards

LASAAC - Local Authority (Scotland) Accounts Advisory Committee

LBTH - London Borough of Tower Hamlets

LGA – Local Government Association

LGPS - Local Government Pension Scheme

LOBO - Lender's Option – Borrower's option

LPFA - London Pensions Fund Authority

MHCLG – Ministry of Housing, Communities & Local Government

MRP - Minimum Revenue Provision

MTFS - Medium Term Financial Strategy

NDC - New Deal for the Community

(N)NDR - (National) Non-Domestic Rates

NPV - Net Present Value

PFI - Private Finance Initiative

PMAF – Performance Management and Accountability Framework

PMO – Project Management Office

PPE - Property, Plant and Equipment

PSIAS – Public Sector Internal Audit Standards

PWLB - Public Works Loans Board

REFCUS - Revenue Expenditure Funded by Capital Under Statute

RPI - Retail Price Index

RSG - Revenue Support Grant

SDPS - Surplus or Deficit on the Provision of Services

SEN – Special Educational Needs

SOLACE – Society of Local Authority Chief Executives

TA – Temporary Accommodation

TH - Tower Hamlets

THH - Tower Hamlets Homes

TIB - Transformation & Improvement Board

VFM - Value For Money

This page is intentionally left blank

LONDON BOROUGH OF TOWER HAMLETS

DRAFT

ANNUAL FINANCIAL REPORT 2019-20

(UNAUDITED)

DRAFT ANNUAL FINANCIAL REPORT 2019-20

CONTENTS

Narrative Report – 2019/20

Introduction

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2019/20, which reports our financial results for the year.

The past few months have been extremely challenging, both for the nation as a whole and for Tower Hamlets, while we learn to adjust to life under Covid-19. The Statement of Accounts allows us to take stock of the position as at 31 March 2020, and to consider what bearing this might have on the future financial position of the Council.

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

The Council's financial accounts have been compiled in accordance with "proper accounting practice", as outlined in the Accounting Policies section, with which councils must comply by statute.

Kevin Bartle,
Interim Corporate Director of Resources (Section 151 Officer)

Introduction to Tower Hamlets

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

One of the Borough's biggest strengths remains its proud history and continued commitment to diversity, with over 137 languages spoken and 43 per cent of residents born in over 200 different countries. For many years new communities have settled in Tower Hamlets because of the opportunities to trade and do business. There are numerous major cultural events that bring our communities together in celebration such as the Boishakhi Mela and firework display which attract 130,000 people every year.

Tower Hamlets is one of the fastest growing and most densely populated places in the UK. The borough's population has grown by almost 20 per cent since 2011 to 317,705 and it is expected to reach 365,200 by 2027. It is a young borough with the average age just 31 and 46 per cent of the population are aged between 20 and 39.

The Borough also boasts a strong and expanding business and financial sector and is home to international business districts which generate the third highest economic output in the UK. Canary Wharf has 120,000 people working in 37 office buildings, 300 shops, cafés and restaurants and more than 200 cultural events every year. Additionally, the City Fringe includes Whitechapel, Aldgate and Spitalfields. It is being developed to support London's financial sector, the growing digital creative businesses in Tech City and has plans for a world-class life science centre. However, despite rapid development and transformation, there remains significant levels of poverty in the borough and the pockets of affluence are surrounded by high levels of deprivation. At 32.5 per cent Tower Hamlets has the highest child poverty rates in England, 4 in 10 households live below the poverty line and 21 per cent of households have no adult in employment.

Tower Hamlets has a number of outstanding assets and excellent transport links to central London. There are 26 London Underground and DLR stations serving seven lines including Crossrail – the second highest of any London borough. The Borough has over 120 parks including Victoria Park, and part of the Queen Elizabeth Olympic Park. Additionally, it is home to world class culture with 22 art galleries and historic attractions including the Tower of London, the V&A Museum of Childhood and the Museum of London, Docklands and Tower Bridge.

Organisational Context

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

The Council is looking to deliver the following priorities and outcomes over the next three years:

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

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

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

5. People live in a borough that is clean and green.
6. People live in good quality affordable homes and well-designed neighbourhoods.

7. People feel safer in their neighbourhoods and anti-social behaviour is tackled.
8. People feel they are part of a cohesive and vibrant community.

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

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

The plan is a key link in the 'Golden Thread' and used to inform directorate, service and team planning. It also sets out how the Council will deliver the objective and priorities set out in the new Tower Hamlets Plan developed by the Tower Hamlets Strategic Partnership.

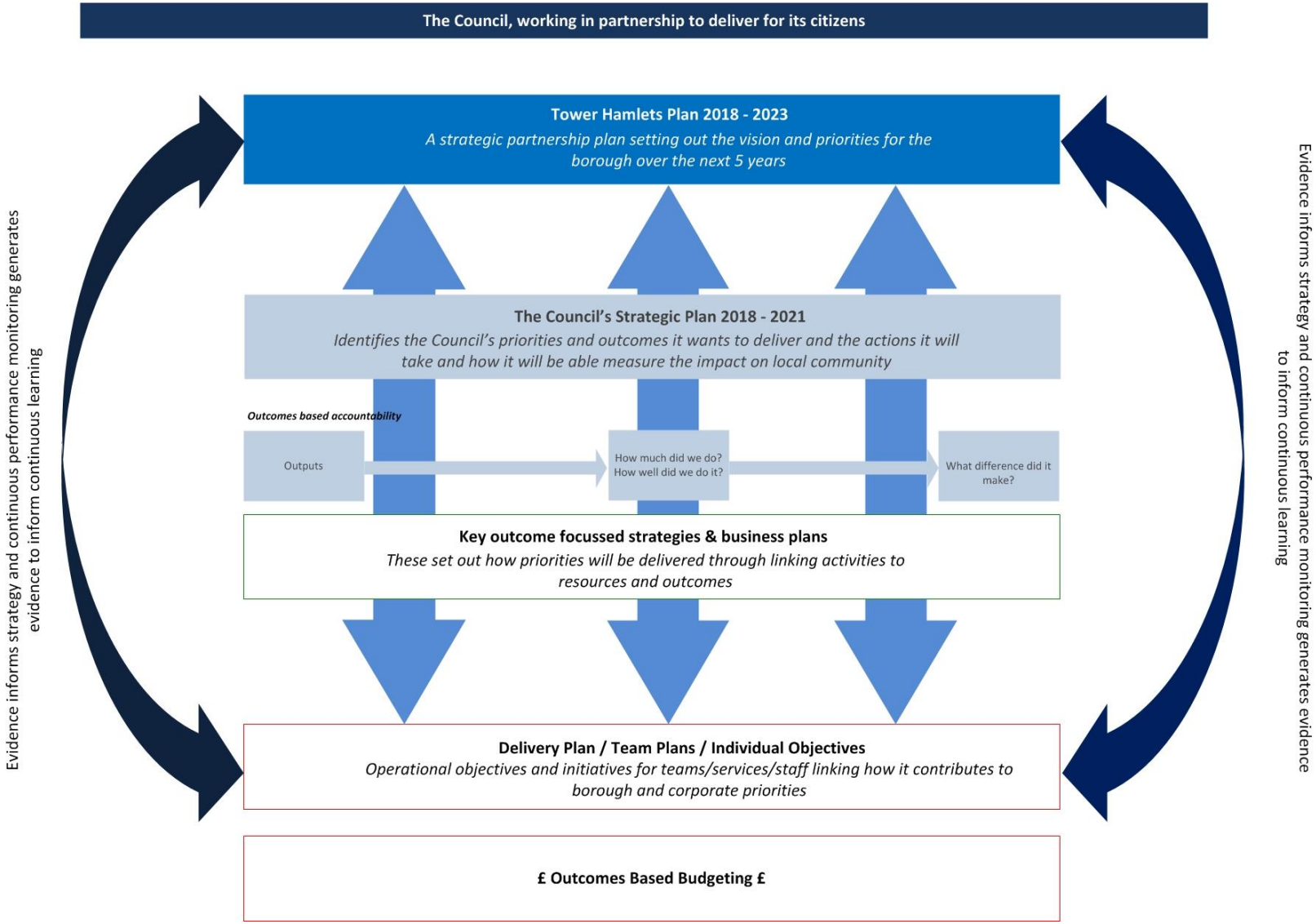
Operational Model

The Council has adopted an outcomes-based accountability approach, which is an internationally recognised method that has a proven track record in supporting rapid improvement in delivering outcomes. This required engagement across the council and is a collaborative approach to identify the activity needed to make a difference, and how our success will be measured.

Our Target Operating Model (TOM) sets the framework through which we deliver the outcomes of the Tower Hamlets Plan and the Strategic Plan. The TOM supports an evidence-based approach where data are used to inform continuous learning and delivery is reviewed continuously to ensure impact on residents and communities. Flexibility and agility are key to delivery as they allow us to adjust in response to evidence about impact and the changing needs of the community.

The diagram below illustrates the Council's Corporate Target Operating Model and the 'Golden Thread' from the Tower Hamlets Plan and the Strategic Plan through to Delivery Plans, Team Plans and Individual Objectives.

Diagram 1 – LB Tower Hamlets Corporate Target Operating Model:



Organisational Challenges

The Council has been operating in and against a particularly challenging financial context. Since 2010 64% of the Council's core funding has been cut and the Council has had to save £176 million due to government austerity. The Council will need to save an additional £44 million by 2022 whilst meeting increased demand in adult social care, children's social care and housing. Following years of the Government's austerity agenda, there has been a high level of national uncertainty, complicated by Brexit, Fair Funding and a changing government. The election in December resulted not only in a severely delayed Local Government Finance Settlement, but also an absence of any clear plan for the future of local government funding. It seems clear however that the upcoming Fair Funding Review, the business rates retention scheme reset and the Comprehensive Spending Review, will all have a detrimental impact on many councils especially inner London boroughs like Tower Hamlets.

This particularly challenging environment has been exacerbated by the Covid-19 pandemic. The pandemic has added further pressure to the availability of the Council's resources and has forced the Council to significantly reconstitute its services and redeploy staff to safeguard residents, whilst leading the business continuity efforts to ensure the workforce has been able to continue to work safely and in line with government guidelines in its delivery of services to its residents.

Despite these many challenges, the Council continues to meet its key objectives, safeguard front line services and vulnerable residents, and invest in the future of the community. Only last year Ofsted rated our Children's Services as 'Good' recognising the 'remarkable progress' we have made. This year we are backing that progress with additional funding to ensure a stable and secure future for our young people. The Council will continue to meet its key objectives and deliver the Mayor's priorities, namely: funding additional police officers; delivering additional council homes and new affordable homes; providing free school meals for all primary school pupils in the borough, cleaning up our streets with a new in-house waste service; protecting the poorest with 100 per cent council tax discount and through the deployment of our tackling poverty fund; supporting thousands more local people to develop new skills and gain employment; and transforming the way our neighbourhoods work through our Liveable Streets programme to cut down on rat running, improve air quality and make our roads more pedestrian friendly.

Key Achievements

Throughout 2019/20 we have worked together with our community to make Tower Hamlets a fairer, cleaner and safer borough.

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

We are putting young people at the heart of what we do. In June 2019, our children's social care service was inspected by OFSTED who have rated our

service as good and have been impressed by the remarkable progress we have made since our previous inspection.

We built on this success by evaluating the effectiveness of the support we are providing for children and young people with Special Educational Needs and Disabilities. In addition, we are also continuing a programme of work to build upon and promote the established multi-agency response to exploitation that has been facilitated through the exploitation team.

We have started a programme to support middle attaining pupils by boosting borough-wide careers guidance and developing an earlier careers programme at Key Stage 3. We delivered professional development sessions for teachers through the TH Education Partnership. With the East London Business Alliance we delivered a programme of careers workshops with Year 7 pupils.

Our Youth Service has seen positive progress with increasing participation by girls through high quality activities outside of school, including Bronze Duke of Edinburgh Award, an empowerment project during the summer holiday, and increased and regular attendance by girls at the Limehouse youth hub.

We are working with our partners and residents to reduce health and wellbeing inequalities. This year we launched our new Integrated Information and Advice Service model and commissioning approach. The redesigned service provides joined up information and advice across health and social care services to residents at an earlier stage so that they can be more independent for longer.

We are taking action to reduce inequality and make sure people feel that they fairly share the benefits from growth. Over the course of the year we have undertaken poverty proofing audits in schools. We provided free food and activities for children over Christmas at leisure centres, and we continue to encourage residents to claim the benefits they are entitled to. Our Resident Support Scheme for those in particular hardship is continuing to provide emergency grants to vulnerable residents in crisis.

Our residents tell us that they feel part of a cohesive and vibrant community. Between April and December 2019, 26 community events and festivals bringing people together took place in our parks and open spaces with attendance figures of nearly 90,000, including our annual fireworks display inspired by the 50th anniversary of the Apollo moon landing. Black History Month featured a total of 61 events with 20 of the events having more direct involvement from Tower Hamlets Council, either activities programmed by libraries and Idea Stores, Idea Store Learning or the Local History Library & Archives, or exhibitions at venues such as the Brady Arts Centre and The Art Pavilion. Our Season of Bangla Drama was attended by over 4,500 people at 34 events over 24 days and involved 28 organisations.

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

We are making Tower Hamlets safer by working more closely in partnership with other agencies and our communities.

As part of this, we have continued Operation Continuum to disrupt the street drugs trade. We have delivered raids across the borough in Bow, Stepney, Mile End, Shadwell and Whitechapel. This has led to over 234 arrests since the beginning of 2019 and £686,000 cash being confiscated under the Proceeds of Crime Act. Operation Continuum's work is supported through the council funded team of police officers, the Partnership Task-Force (PTF), to tackle local priorities.

Our new substance misuse service is now up and running. Our new treatment provider offers a person-centred recovery treatment service supporting adults misusing drugs and alcohol. Weapons and drugs sweeps by the Tower Hamlets Enforcement Officers (THEOS) in partnership with the police led to a large seizure of cannabis in Mile End Park and those arrested were referred on to our drug treatment services.

We have delivered over 30 outreach sessions to raise awareness of violence against women and girls, domestic violence and hate crime.

We have implemented a range of initiatives to clean up the borough and improve the public realm. In 2019-20 we developed plans to bring our waste and recycling services back in-house from the beginning of 2020-21. We have increased monitoring of street cleansing to improve standards and reduce cleansing complaints across the borough. Alongside this, we have introduced the use of red sacks to all our businesses customers to help identify commercial waste on the street and to help reduce fly-tipping of business waste in black sacks. We launched a pilot scheme to test whether a new type of bin would help us to reduce contamination in our recycling and increase the level of recycling. Contaminated recycling cannot be processed so these initiatives will enable us to focus our financial resources where it matters most.

We are continuing to roll out the Love Your Neighbourhood programme which aims to make our streets more attractive for walking and cycling and improve air quality. We have now completed scheme designs for 21 School Streets around primary schools. We installed a bus gate in Wapping High Street which restricts traffic, except buses, during the morning and evening peaks. This will reduce traffic levels by removing through traffic seeking to avoid congestion on The Highway, and make the streets in Wapping safer and better social spaces.

At the end of 2018/19 the council declared a climate emergency and committed to become carbon neutral by 2025. In May 2019 Cabinet approved a further £1.7m for carbon reduction projects, which include energy home visits, retrofitting energy efficiency works in schools, grants to SME's, community led solar panel projects and community buildings energy efficiency projects.

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

We are building an organisational environment and culture that enables our staff to drive continuous improvement. We have improved how we consult and engage our residents and external stakeholders by procuring a new online

consultation hub. We have moved more of our services online to make it easier for customers to get things done.

The roll out of new IT equipment to enable our workforce to work smarter and in a more agile way is gathering pace. We accelerated the roll out speed so that staff can use new ways of working, especially towards the end of the year as the impact of the coronavirus pandemic required new ways of working, supported by our IT, for many.

We are continuing to improve the way we use our buildings and assets including creating two Community Hubs (Granby Hall and Raines House). Our new Town Hall, which is due to open in 2022, will foster greater collaboration with our partners, increase the Council's transparency with the public and ensure everything we do is outwardly focussed.

Throughout the year we continued to prepare for the UK leaving the EU. We ran an awareness raising campaign around the EU Settlement Scheme. Our work aims to ensure vulnerable residents have the support they need to register with the scheme. We are also collaborating with local voluntary and community agencies that have received funding from the Home Office to assist with applications.

We are continuing to assess potential impacts and risks for services and partners arising from Brexit, especially after the transition period. Contingency planning for national level issues, such as food, fuel, and medicine have taken place and the council has engaged its service providers in these areas.

Monitoring Performance

We normally report on our strategic plan performance every quarter, including at the end of the financial year. However, the impact of the coronavirus pandemic means that we have postponed our end of year reporting to the early autumn.

At the end of quarter 3 2019/20 (December 2019) all 73 strategic plan activities were expected to be delivered by the end of the year. At the same time, 19 performance indicators had met or had exceeded their target and 7 were between the target and the minimum expectation, while 11 fell short. The remaining 16 indicators are data only measures or do not have an expected data return for the period.

The diagram below summarises the performance of the Strategic Plan activities and measures as reported at the end of the third quarter in 2019/20.

Diagram 2: Tower Hamlets Strategic Plan – Quarter 3 Performance

Tower Hamlets Strategic Plan 2019-2022

Working together with the community, for a fairer, cleaner and safer borough

TOWER HAMLETS

Priority 1

People are aspirational, independent and have equal access to opportunities

2019/2022 Outcome 1

People access a range of education, training, and employment opportunities

Actions	0	0	8	0	
PIs	1	1	3	0	0

2019/2022 Outcome 2

Children and young people are protected so they get the best start in life and can realise their potential

Actions	0	0	7	0	
PIs	1	0	3	0	0

2019/2022 Outcome 3

People access joined-up services when they need them and feel healthier and more independent

Actions	0	0	7	0	
PIs	2	0	2	0	2

2019/2022 Outcome 4

Inequality is reduced and people feel that they fairly share the benefits from growth

Actions	0	0	5		
PIs	4	1	1	0	2

Priority 2

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

2019/2022 Outcome 5

People live in a borough that is clean and green

Actions	0	0	8	0	
PIs	0	1	4	0	0

2019/2022 Outcome 6

People live in good quality affordable homes and well-designed neighbourhoods

Actions	0	0	8	0	
PIs	2	1	0	0	1

2019/2022 Outcome 7

People feel safer in their neighbourhood and anti-social behaviour is tackled

Actions	0	0	8	0	
PIs	0	1	2	0	2

2019/2022 Outcome 8

People feel they are part of a cohesive and vibrant community

Actions	0	0	5	0	
PIs	0	0	0	0	3

Priority 3

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

2019/2022 Outcome 9

People say we are open and transparent, putting residents at the heart of everything

Actions	0	0	4	0	
PIs	0	0	1	0	4

2019/2022 Outcome 10

People say we work together across boundaries in a strong and effective partnership to achieve the best outcomes for our residents

Actions	0	0	5	0	
PIs	1	0	2	0	1

2019/2022 Outcome 11

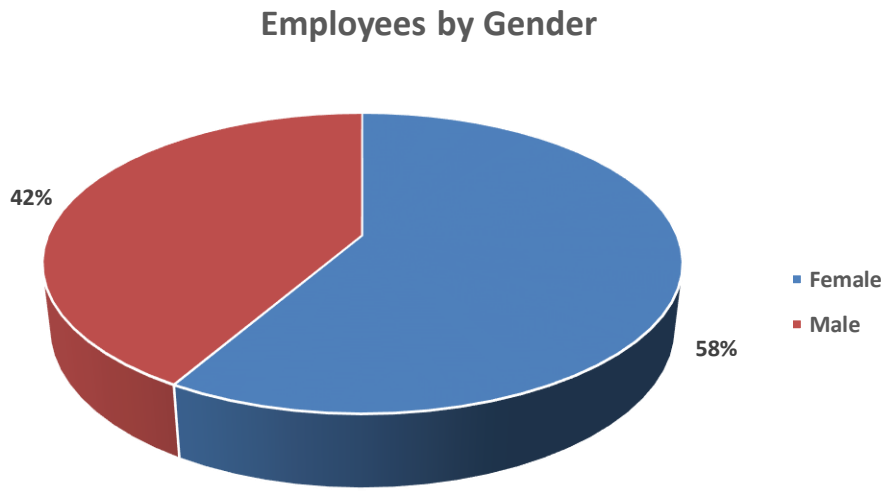
People say we continuously seek innovation and strive for excellence to embed a culture of sustainable improvement

Actions	0	0	8	0	
PIs	0	2	1	0	1

Target met or exceeded | Near Target | Off Target | Information unavailable | Data only

Workforce

The council employed a total of 4399 people as at 31 March 2020. This is a decrease compared to the previous year when the staff count was 4,499. The diagram shows the council's workforce broken down by gender.



Key Strategic Risks

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

The Council uses a corporate risk management system to identify all relevant corporate risks. Through this system, the Council has identified a number of significant governance challenges. These include:

- Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency. There is an on-going need to ensure that services to all vulnerable children and young people have focus on safeguarding and a prevention of harm.
- Risk to essential service delivery including the protection of staff, stakeholders and continued service delivery (critical) as a result of the current coronavirus pandemic.
- The Council may significantly overspend its budget, fail to deliver savings and continue to rely on dwindling reserves. As of July 2020 there is a potential budget gap of £12.9m for 2021-22 with a further £26.3m in 2022/23.
- Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.

- Following the Grenfell Fire tragedy residents of tower blocks in the borough are not safe or do not feel safe from fire following reassurance, advice, interim measures and completed, in progress or scheduled remedial actions to improve fire safety.
- Risk that inequalities in attainment and well-being between disadvantaged children and other children will increase as a consequence of prolonged period out of school.
- There is a risk that the Council will fail to comply with its obligations in relation to the Protection of Freedoms Act 2012 and may also fail to meet the requirements of the Data Protection Act 2018 related to the use and management of video surveillance systems.
- The Council may fail to deliver the strategic plan's priorities and outcomes and/or meet its responsibilities generally to the community.
- We are currently at a recycling rate of 23.2% and have a target to reach 35% by 2020. Services are currently in transition from contracted to an in-house delivery model. This may impact on our ability to bring in long term measures to improve recycling on the service as there may be significant service redesign.

Financial Overview

In February 2020 the Council agreed its budget for 2020/21 and set out a Medium Term Financial Strategy (MTFS) covering the period 2020-2023. This included the requirement for additional savings of £8.7m over that previously planned for, to be delivered over the extended MTFS period.

Very shortly thereafter the country was hit by the Covid-19 pandemic and on 20th March the government implemented a series of emergency measures including a lockdown. Local authorities' emergency planning procedures were invoked and new responsibilities followed, especially with respect to the borough's most vulnerable residents.

This crisis has had a profound impact on the Council's budget and its ability to deliver services and, as a consequence, on its financial planning assumptions. The council welcomed the Government's pledge to provide 'whatever it takes' to cover the cost of dealing with the crisis. As a result of the pandemic, and this explicit government commitment, new areas of expenditure were required, together with recognition of fundamental shifts in the Council's main sources of funding. The Council's priorities were redefined by the crisis and the delivery of some proposed investments and savings were paused.

The Council is in the process of assessing the key issues affecting the Council's budget planning for the future, including the impact of the Covid-19 pandemic on the Council's finances for 2021/22 and future years. The national environment, both financial and in relation to the virus, continues to be subject to significant uncertainty with the government announcing the deferral of the Fair Funding Review and the Business Rates Reset, and there being potential for further waves of the virus.

The Council has been experiencing a rise in demand and extreme pressure on services especially in mental health, social care, homelessness, unemployment, domestic abuse as well as increased levels of financial hardship, poverty exacerbating exiting inequalities. A refreshed strategic plan has been drafted, outlining the high-level interventions we will take as part of our response and forming a basis for future policy considerations.

Taken together the revised MTFS and strategic plan inform a new direction in what is a fundamentally more challenging financial environment.

If government fails to honour its pledge to cover the cost of dealing with the pandemic then as a council we will be in a difficult financial position in future years and as a result will have to make tough choices about our services. We are not complacent and will continue to fight for our fair share of funding to continue to protect the essential services needed to support residents.

Revenue Outturn for the Year

General Fund

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

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

The outturn for General Fund services, excluding the Dedicated Schools Budget, finalised at a £9.0m overspend on services in-year, together with a one-off planned drawdown of £9.0m from General Fund balances, which stand at £24.3m as at 31st March 2020; this position has been managed by the utilisation of New Homes Bonus grant, as reported to Cabinet, and earmarked reserves (see table below). There have also been one-off corporate movements, which have arisen as part of the process of improving the financial management and accounting of the organisation.

There were significant in-year overspends in Children and Culture, and Health, Adults and Communities, of £9.8m and £5.0m respectively.

Revenue Reserves

The table below presents the movement on reserves and free balances over the last three years:

	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2020 £m
General Fund balances	(26.1)	(17.5)	(24.6
HRA balances	(47.6)	(44.6)	(48.2)
Dedicated Schools Grant (surplus)/deficit	(0.2)	4.6	11.1
Schools balances	(25.5)	(25.6)	(25.9)
GF earmarked reserves (non-schools/DSG)	(122.2)	(131.1)	(132.7)*

**This figure has been stripped of exceptional items of £10.3m relating to Covid-19 grant, and £7.8m of Community Infrastructure Levy in order to provide a better like-for-like comparison.*

Housing Revenue Account

The Housing Revenue Account (HRA) records expenditure and income on running the Council's own housing stock and closely related services or

facilities. The HRA is ring-fenced within the General Fund and primarily supports management and maintenance costs.

The HRA outturn finalised at £3.6m underspend, but only after a provision requirement of £9.2m had been backdated to 2018/19.

Dedicated Schools Budget

This budget records the expenditure and income on the ring-fenced schools' budgets and related services.

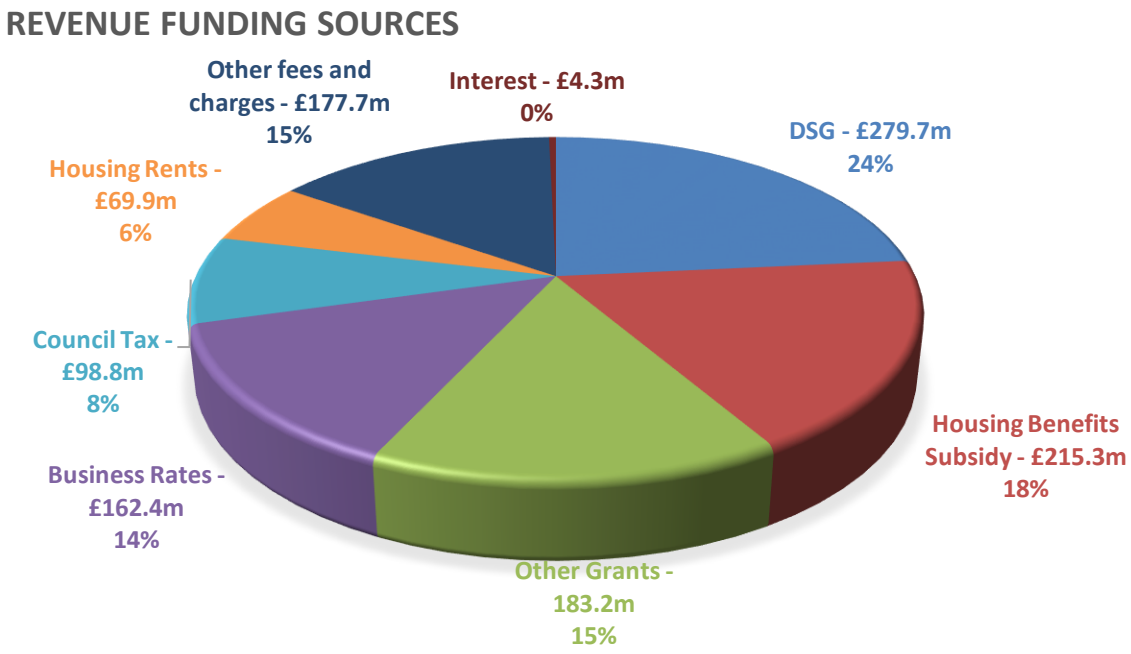
The outturn finalised at an in-year overspend on Dedicated Schools Grant of £6.5m, and the main reason for this is the overspend within the High Needs Funding Block, in very similar fashion to the previous year.

The Dedicated Schools Grant now has a cumulative deficit of £11.1m.

Revenue Income

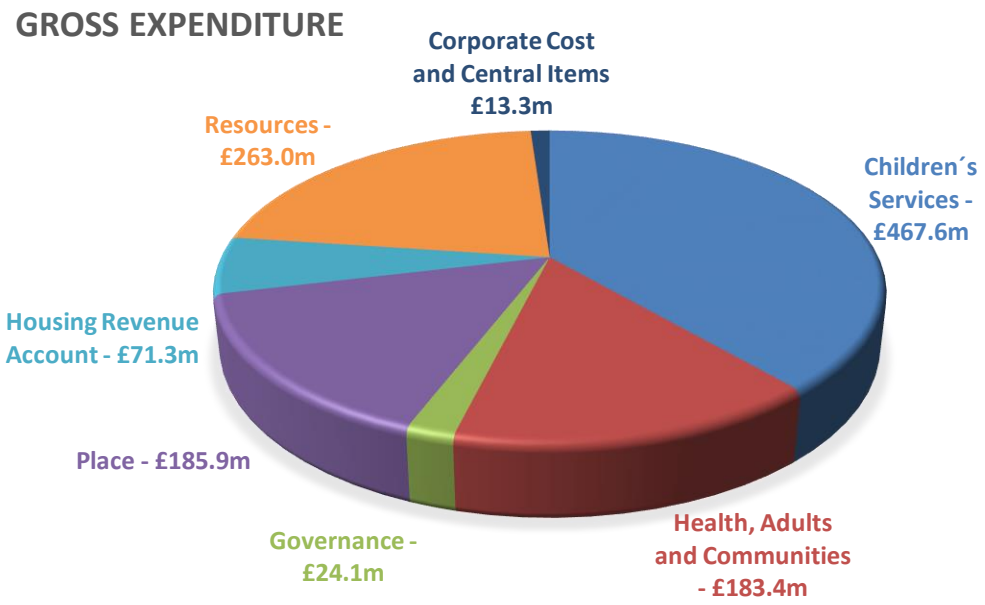
Government grants and subsidies continue to be the main sources of revenue funding, although with not inconsiderable revenues from fees and charges, business rates, council tax and housing rents.

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



Expenditure on Services

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



Capital Investment and Funding

Capital Investment

The Council has continued to invest in its infrastructure with over £179.9 million spent on its capital programme. The main area of investment was in housing, with £57.1 million spent through the HRA capital programme and £32.7m million spent on temporary accommodation. £19 million was spent on the new Whitechapel Civic Centre site. Furthermore, over £11m was invested in improving schools, and £13.6m was spent on upgrading roads and paths.

Capital Funding

The largest share of funding for the capital programme, at £67.2m, fell to borrowing, currently incurred as "internal borrowing" (ie borrowing against internal resources such as reserves and working capital), although external borrowing will be required at some point soon to continue funding the extensive capital programme.

Further to that, capital grants and contributions financed £49.2m, followed by the use of capital receipts, at £45.0m

Borrowing

Long-term borrowing for the Council remained almost unchanged throughout the year, falling slightly from £72.3m to £71.5m.

Short-term borrowing, arising from repayment liabilities associated with loans, also fell, from £2.4m to £1.2m.

Pensions

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

The net liability decreased from £690.9 million in 2018/19 to £433.9 million in 2019/20. The decreased deficit is attributable in large part to changing assumptions used by the actuary; of particular note is that the assumption for the rate of increase for pensions (taken to be the same as the Consumer Price Index) has been revised down to 1.9% from than the previous figure of 2.5%.

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

THE ACCOUNTING STATEMENTS

These comprise:

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

The **Core Financial Statements**:

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

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

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

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

Notes to the Core Financial Statements

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

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

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

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

MOVEMENT IN RESERVES STATEMENT

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

	NOTES	USABLE RESERVES							UNUSABLE RESERVES								
		GENERAL FUND BALANCE £'000	EARMARKED RESERVES £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000	POOLED INVESTMENT FUNDS ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	TOTAL UNUSABLE RESERVES £'000	TOTAL AUTHORITY RESERVES £'000
Balance as at 31 March 2018		**(26,107)**	**(147,843)**	**(47,561)**	**(5,485)**	**(194,554)**	**(141,666)**	**(563,216)**	**(910,962)**	**(1,472,427)**	**600,906**	**9,027**	**-**	**-**	**3,187**	**(1,770,269)**	**(2,333,485)**
Movement in reserves during 2018/19																	
Surplus or (Deficit) on the Provision of Services		83,478	-	45,435	-	-	-	**128,913**	-	-	-	-	-	-	-	**-**	**128,913**
Other comprehensive expenditure and income		-	-	-	-	-	-	**-**	306,278	-	75,532	-	-	-	-	**381,810**	**381,810**
Total Comprehensive Expenditure and Income		**83,478**	**-**	**45,435**	**-**	**-**	**-**	**128,913**	**306,278**	**-**	**75,532**	**-**	**-**	**-**	**-**	**381,810**	**510,723**
Adjustments between accounting basis and funding basis under regulations		(79,122)	-	(42,514)	5,485	3,854	(16,787)	**(129,084)**	8,324	71,890	28,962	2,171	17,417	538	(218)	**129,084**	**-**
Net Increase or Decrease before Transfers to Earmarked Reserves		**4,356**	**-**	**2,921**	**5,485**	**3,854**	**(16,787)**	**(171)**	**314,602**	**71,890**	**104,494**	**2,171**	**17,417**	**538**	**(218)**	**510,894**	**510,723**
Transfers to or from earmarked reserves	9	4,100	(4,100)	-	-	-	-	**-**	-	-	-	-	-	-	-	**-**	**-**
Transfers to or from school reserves	9	173	(173)	-	-	-	-	**-**	-	-	-	-	-	-	-	**-**	**-**
Increase or (Decrease) in 2018/19		**8,629**	**(4,273)**	**2,921**	**5,485**	**3,854**	**(16,787)**	**(171)**	**314,602**	**71,890**	**104,494**	**2,171**	**17,417**	**538**	**(218)**	**510,894**	**510,723**
Balance as at 31 March 2019		**(17,478)**	**(152,116)**	**(44,640)**	**-**	**(190,700)**	**(158,453)**	**(563,387)**	**(596,360)**	**(1,400,537)**	**705,400**	**11,198**	**17,417**	**538**	**2,969**	**(1,259,375)**	**(1,822,762)**
Movement in reserves during 2019/20																	
Surplus or (Deficit) on the Provision of Services		34,716	-	(39,310)	-	-	-	**(4,594)**	-	-	-	-	-	-	-	-	**(4,594)**
Other comprehensive expenditure and income		-						**-**	(212,852)	-	(316,458)	-	-	-	-	**(529,310)**	**(529,310)**
Total Comprehensive Expenditure and Income		**34,716**	**-**	**(39,310)**	**-**	**-**	**-**	**(4,594)**	**(212,852)**	**-**	**(316,458)**	**-**	**-**	**-**	**-**	**(529,310)**	**(533,904)**
Adjustments between accounting basis and funding basis under regulations		(47,600)	-	35,740	-	56,544	(35,710)	**8,974**	5,550	(78,025)	45,004	13,136	(435)	5,796	-	**(8,974)**	**-**
Net Increase or Decrease before Transfers to Earmarked Reserves		**(12,884)**	**-**	**(3,570)**	**-**	**56,544**	**(35,710)**	**4,380**	**(207,302)**	**(78,025)**	**(271,454)**	**13,136**	**(435)**	**5,796**	**-**	**(538,284)**	**(533,904)**
Transfers to or from earmarked reserves	9	5,506	(5,506)	-	-	-	-	**-**	-	-	-	-	-	-	-	**-**	**-**
Transfers to or from school reserves	9	244	(244)	-	-	-	-	**-**	-	-	-	-	-	-	-	**-**	**-**
Increase or (Decrease) in Year		**(7,134)**	**(5,750)**	**(3,570)**	**-**	**56,544**	**(35,710)**	**4,380**	**(207,302)**	**(78,025)**	**(271,454)**	**13,136**	**(435)**	**5,796**	**-**	**(538,284)**	**(533,904)**
Balance as at 31 March 2020		**(24,612)**	**(157,866)**	**(48,210)**	**-**	**(134,156)**	**(194,163)**	**(559,007)**	**(803,662)**	**(1,478,562)**	**433,946**	**24,334**	**16,982**	**6,334**	**2,969**	**(1,797,659)**	**(2,356,666)**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2018/19 Gross Expenditure £'000	2018/19 Gross Income £'000	2018/19 Net Expenditure £'000		Note	2019/20 Gross Expenditure £'000	2019/20 Gross Income £'000	2019/20 Net Expenditure £'000
			Continuing Operations				
494,776	(361,019)	133,757	Children and Culture		467,633	(356,318)	111,315
173,745	(69,412)	104,333	Health, Adults and Communities		183,449	(82,605)	100,844
211,278	(86,219)	125,059	Place		185,876	(105,441)	80,435
21,298	(3,107)	18,191	Governance		24,072	(4,421)	19,651
140,373	(88,541)	51,832	Local Authority Housing (Housing Revenue Account)		71,315	(97,576)	(26,261)
252,882	(227,737)	25,145	Resources		263,016	(226,567)	36,449
1,159	(7,428)	(6,269)	Corporate Cost and Central Items		13,339	(8,406)	4,933
1,295,511	**(843,463)**	**452,048**	**NET COST OF SERVICES**		**1,208,700**	**(881,334)**	**327,366**
		(7,714)	Other Operating Expenditure	10			17,350
		37,166	Financing and Investment Income and Expenditure	11			27,363
		(352,587)	Taxation and Non-Specific Grant Income	12			(376,673)
		128,913	**(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES**				**(4,594)**
			Other Comprehensive Income and Expenditure				
		306,278	(Surplus)/Deficit on revaluation of non-current assets				(212,852)
		75,532	Remeasurement of the net defined beneift pensions liability				(316,458)
		381,810	**OTHER COMPREHENSIVE INCOME AND EXPENDITURE**				**(529,310)**
		510,723	**TOTAL COMPREHENSIVE INCOME AND EXPENDITURE**				**(533,904)**

BALANCE SHEET

31 March 2019 £'000		Notes	31 March 2020 £'000
	Long-term Assets		
2,348,953	Property, plant and equipment	14	2,689,948
18,835	Heritage Assets	16	18,835
-	Intangible Assets	15	684
72,462	Long-term investments	17	64,666
1,208	Long Term Debtors	18	1,616
2,441,458	**Total Long-term assets**		**2,775,749**
	Current Assets		
257,698	Short-term investments	17	100,880
160	Assets held for sale	21	-
150,154	Short-term debtors	19	207,072
120,032	Cash and cash equivalents	20	161,525
528,044	**Total Current Assets**		**469,477**
	Current liabilities		
(35,640)	Cash and cash equivalents	20	(27,959)
(2,413)	Short-term borrowing	17	(1,162)
(166,835)	Short-term creditors	22	(179,660)
(8,605)	Provisions	23	(9,198)
(213,493)	**Total Current liabilities**		**(217,979)**
	Long Term Liabilities		
(21,493)	Provisions	23	(13,368)
(72,289)	Long-term borrowing	17	(71,534)
(690,938)	Liability related to defined benefit pension schemes	41	(433,946)
(89,413)	Capital grants receipts in advance	37	(96,094)
(58,650)	Deferred liabilities	39,40	(55,639)
(464)	Deferred Income - Receipt in Advance		-
(933,247)	**Total Long-Term Liabilities**		**(670,581)**
1,822,762	**NET ASSETS**		**2,356,666**
	Reserves		
	Usable Reserves		
(563,387)	Usable Reserves	24	(559,007)
(1,259,375)	Unusable Reserves	25	(1,797,659)
(1,822,762)	**TOTAL RESERVES**		**(2,356,666)**

I certify that the statement of accounts presents a true and fair view of the financial position of the Council as at 31 March 2020 and its income and expenditure for the year then ended.

Date

Kevin Bartle - Interim Corporate Director of Resources (Section 151 Officer)

CASH FLOW STATEMENT

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

2018/19 £'000		Notes	2019/20 £'000
(128,913)	Net surplus or (deficit) on the provision of services		4,594
178,578	Adjustments to net surplus or deficit on the provision of services for non cash movements	26	77,163
(46,960)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(97,837)
2,705	**Net cash flows from Operating Activities**		**(16,080)**
(40,603)	Investing Activities	27	82,448
1,436	Financing Activities	28	(17,194)
(36,462)	**Net increase (or decrease) in cash and cash equivalents**		**49,174**
120,854	Cash and cash equivalents at the beginning of the reporting period		84,392
84,392	**Cash and cash equivalents at the end of the reporting period**		**133,566**

NOTES TO THE ACCOUNTS

1. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31st March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003.

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

Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the going concern concept assumes that the Council will continue in operational existence for the foreseeable future.

2. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised as the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet if material.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.
- The Council operates a de minimis of £10,000 for revenue and £50,000 for capital below which items of income and expenditure are not required to be accrued.

3. Cash and Cash Equivalents

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

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

4. Exceptional Items

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount

calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the general fund balance, MRP, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

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

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

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

8. Accounting for Council Tax and NDR

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

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

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

9. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

The Local Government scheme is a defined benefits scheme.

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

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (based on the constituents of the iBoxx AA corporate bond) as at 31st March 2020.

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

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

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

- past service cost – the increase in liabilities arising from a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services.
- net interest cost – the increase in the present value of net liabilities during the year as they move one year closer to being paid, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve.
- contributions paid to the pension funds – cash paid as employer's contributions to the pension funds.

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

The Council's wholly owned subsidiary, Tower Hamlets Homes Limited (THH), is a Local Government Pension Scheme Employer in accordance with the Local Government Pension Scheme (Amendment) Regulations 2002. The Council has incorporated its pension liabilities and assets that have arisen into its pension obligations into the net pension liability as presented on the balance sheet.

Discretionary Benefits

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

10. Financial Instruments

Financial Liabilities

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

estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

Early Loan Redemption

A LOBO loan was repaid prematurely in November 2018 and the cost of the premium to the Housing Revenue Account will be spread over the unexpired period of the loan through transfers to and from the FIAA.

Financial Assets

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

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

Financial Assets Measured at Amortised Costs

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently carried at their amortised cost. Annual credits to the Financing and Investment line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

Expected Credit Loss Model

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

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was

initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

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

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

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

Financial Assets Measured at Fair Value through Profit or Loss

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

11. Government Grants and Contributions

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

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

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

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

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

12. Heritage assets

The Council does not actively acquire or dispose of heritage assets as part of its normal day-to-day business and where the Council holds heritage assets, these have usually been donated.

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £18.8 million at 31 March 2020. This valuation is based on valuations for art and museum collections where the asset has a material value. Items without a material value are excluded from the balance sheet. Valuations are made by what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous. The Council has four heritage assets that have material values, one painting, two public sculptures and the civic regalia, these values are reviewed periodically. The real value of these items would only be established upon sale as valuations on assets of this nature are subjective.

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

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

13. Leases

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as a Lessee

Finance Leases

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

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

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

Operating Leases

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

The Council as a Lessor

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

Operating Leases

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

14. Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the Council's arrangements for accountability and financial performance. The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received.

15. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).
- Other Land and Buildings – current value, determined as the amount that would be paid for the asset in its existing use.

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to long-term assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

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

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

16. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

There is also a third PFI contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. The assets of the CHP scheme are included on the council's balance sheet with a deferred income balance, both of which are written down over the term of the contract.

17. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

(or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service account.

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in note 29 to the accounts.

Contingent Assets

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

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

18. Reserves

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

Certain reserves are kept to manage the accounting processes for long-term assets, financial instruments, retirement and employment benefits and do not represent usable resources for the Council. Collectively, these are presented as Unusable Reserves on the Balance Sheet.

19. Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

20. Fair value measurement

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

fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

21. Value added Tax (VAT)

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

22. Community Infrastructure Levy

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

23. Schools

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

financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

2 Accounting Standards that have been issued but have not yet been adopted

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

• **IFRS 16 *Leases* –** This is effective for annual reporting periods beginning on or after 1 January 2019, but implementation by the UK public sector has been delayed until 1 April 2021. This standard will require the Council to recognise more leases where they are the lessor on balance sheet with the corresponding liability for lease payments.

• **IAS 19 *Employee Benefits* –** this will require remeasurement of the net pension asset/liability, and will apply from 1 April 2020. Due to the highly technical nature of the change it is difficult to assess the accounting impact at this stage.

3 Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the authority has not had to make any critical judgements.

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

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

The items in the authority's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Pensions Liability – Estimation of the net liability, of £433.9m, to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund investments. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The actuaries provide the following sensitivity analysis: a 0.5% decrease in the real discount rate would lead to an increase of approximately £160.7m in the scheme liabilities; a 0.5% increase in the rate of pension increase (taken as CPI) would lead to an increase of £148.4m; and a 0.5% increase in the assumed rate of increase of salaries would result in £11.3m.

Council Dwellings and Other Land and Buildings (within Property, Plant and Equipment) – Assets at carrying value of £2,436m are valued in accordance with the professional standards set by the Royal Institution of Chartered Surveyors and valuations are prepared by the Council's external specialists.

As part of this process of valuation, property transactions are examined in the market at large. Nonetheless a large element of judgement is exercised by professional valuers since land valuations are dependent on a wide range of factors, and relevant property transactions outline a range from which the valuer then applies their professional judgement.

In particular, arising from the potential impact of the Covid-19 pandemic on property values, their valuations are reported on the basis of "material valuation uncertainty".

5 Material Items of Income and Expenditure

A material item is an item of expenditure or income that is unusual in scale and non-recurring. For 2019/20 the only item of this nature is the revaluation movements applied to the Housing Revenue Account, which had seen a reduction in value of £44.8m in 2018/19 debited to revenue, changing to a £25.3m reversal (ie gain in value) credited in the current year.

6 Events after the balance sheet date

Since the Balance Sheet date of 31 March 2020, there have been no material events that would necessitate amendments to these accounts.

The statement of accounts is adjusted to reflect events after the Balance Sheet date, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period, unless deemed insignificant to the true and fair view of the council's assets and liabilities. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

The UK government imposed coronavirus (covid-19) lockdown measures in England on 26 March 2020 and subsequently revised and extended them. As a result, many workers were furloughed and almost all schools, businesses, venues, facilities and amenities were closed. After this lockdown was lifted, various other restrictions were in place throughout 2020 and a second lockdown was implemented from the 5 November 2020. Although March 2020 saw the first few weeks of the covid-19 crisis, the full financial consequences will fall in 2020/21 and future years and therefore is considered as a non-adjusting event with conditions arising after the reporting date.

The financial impact of Covid-19 in 19/20 was not material on reserves since the events after the reporting period do not indicate that the Council would be unable to continue as a going concern.

7 Expenditure and Funding Analysis

The expenditure and funding analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates. Income and expenditure accounted for under generally accepted accounting practices are presented more fully in the comprehensive income and expenditure statement.

2018/19				2019/20		
Expenditure Chargeable to GF and HRA balances £'000	Adjustments between funding and accounting basis £'000	Net Expenditure in the CIES £'000		Expenditure Chargeable to GF and HRA balances £'000	Adjustments between funding and accounting basis £'000	Net Expenditure in the CIES £'000
115,452	18,305	133,757	Children and Culture	82,186	29,129	111,315
145,995	(41,662)	104,333	Health, Adults and Communities	90,654	10,190	100,844
64,862	60,197	125,059	Place	50,732	29,703	80,435
14,309	3,882	18,191	Governance	16,443	3,208	19,651
2,921	48,911	51,832	Local Authority Housing (Housing Revenue Account)	(3,580)	(22,681)	(26,261)
14,201	10,944	25,145	Resources	25,877	10,572	36,449
16,404	(22,673)	(6,269)	Corporate Cost and Central Items	2,733	2,200	4,933
374,144	**77,904**	**452,048**	**NET COST OF SERVICES**	**265,045**	**62,321**	**327,366**
(362,594)	39,459	(323,135)	Other Income and Expenditure	(275,749)	(56,211)	(331,960)
11,550	**117,363**	**128,913**	**(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES**	**(10,704)**	**6,110**	**(4,594)**
(73,668)			**Opening General Fund and HRA balances**	(62,118)		
8,629			Movement on General Fund Balance in Year	(7,134)		
2,921			Movement on HRA Balance in Year	(3,570)		
(62,118)			**CLOSING GENERAL FUND AND HRA BALANCES**	**(72,822)**		

7a Note to the Expenditure and Funding Analysis

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

2018/19						2019/20				
Adjustments for Capital Purposes	Transfers to/from Earmarked Reserves	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments		Adjustments for Capital Purposes	Transfers to/from Earmarked Reserves	Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
17,151	4,585	9,297	(12,728)	18,305	Children and Culture	11,694	6,167	11,268	-	29,129
-	(420)	5,367	(46,609)	(41,662)	Health, Adults and Communities	3,708	1,326	5,156	-	10,190
51,327	(1,265)	9,434	701	60,197	Place	31,252	(9,231)	8,130	(448)	29,703
-	-	2,077	1,805	3,882	Governance	-	838	2,370	-	3,208
53,393	-	(835)	(3,647)	48,911	Local Authority Housing (Housing Revenue Account)	(19,469)	-	143	(3,355)	(22,681)
(776)	14,210	6,972	(9,462)	10,944	Resources	1,123	2,171	7,278	-	10,572
12,723	4,219	(18,409)	(21,206)	(22,673)	Corporate Cost and Central Items	(11,350)	9,847	(6,225)	9,928	2,200
133,818	**21,329**	**13,903**	**(91,146)**	**77,904**	**NET COST OF SERVICES**	**16,958**	**11,118**	**28,120**	**6,125**	**62,321**
(45,512)	(25,602)	15,059	95,514	39,459	Other income and expenditure from the Expenditure and Funding Analysis	(68,599)	(16,868)	16,884	12,372	(56,211)
88,306	**(4,273)**	**28,962**	**4,368**	**117,363**	**DIFFERENCE BETWEEN SURPLUS OR DEFICIT AND THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES**	**(51,641)**	**(5,750)**	**45,004**	**18,497**	**6,110**

Adjustments for Capital Purposes

This column includes the following adjustments:

Services – depreciation and impairment and revaluation gains and losses are added back in as these are not in the net chargeable amounts but are chargeable under generally accepted accounting practices. Capital expenditure financed by revenue and statutory charges for capital financing (Minimum Revenue Provision) are removed as these is not chargeable to the Comprehensive Income and Expenditure Statement

Other income and expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets and also adjusts for the share of housing capital receipts paid to central government under a pooling arrangement. Capital grants are adjusted for income not chargeable under generally accepted accounting practices.The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Transfers to/from Earmarked Reserves

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

Net Change for Pensions Adjustments

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

Services - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs

Other income and expenditure – the net interest on the defined benefit liability is charged to Financing and Investment Income and Expenditure.

Other Adjustments

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

Sevices – adjustments in this column include the timing differences for premia and discounts; interest payable, interest receivable, levies and trading account surplus/deficit moved out of service expenditure to be recognised as part of Other Income and Expenditure within the Surplus or Deficit on the Provision of Services; recognising the accrual of employee annual leave in the Comprehensive Income and Expenditure Statement; also adjusting revenue grants to include those receivable without conditions or for which conditions were satisfied throughout the year.

Other income and expenditure – this column represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

8 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2019/20	USABLE RESERVES						UNUSABLE
	GENERAL FUND BALANCE £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES £'000
Adjustments involving the Capital Adjustment Account							
Reversal of items debited or credited to the CIES							
Charges for depreciation and impairment of non current assets	(22,311)	-	(16,295)	-	-	**(38,606)**	**38,606**
Revaluation movements on PPE (charged to SDPS) reversed	(15,133)	25,349	-	-	-	**10,216**	**(10,216)**
Capital grants and contributions applied	17,726	1,527	-	-	29,979	**49,232**	**(49,232)**
Revenue expenditure funded from capital under statute	(11,174)	(8,073)	-	-	-	**(19,247)**	**19,247**
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(436)	(3,502)	-	-	-	**(3,938)**	**3,938**
	-	-	-	-	-		**-**
Inclusion of items not debited or credited to the CIES	-	-	-	-	-		**-**
Statutory provision for the financing of capital investment	9,247	2,059	-	-	-	**11,306**	**(11,306)**
Capital expenditure charged against the General Fund and HRA balances	2,193	-	-	-	-	**2,193**	**(2,193)**
Adjustments involving the Capital Receipts Reserve							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	2,089	10,806	-	(12,895)	-	**-**	**-**
Use of the Capital Receipts Reserve to finance new capital	-	-	-	45,024	-	**45,024**	**(45,024)**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(24,415)	-	-	24,415	-	**-**	**-**
Adjustment involving the Major Repairs Reserve							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	16,295	-	-	**16,295**	**(16,295)**
	-	-	-	-	-		**-**
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	435	-	-	-	**435**	**(435)**
Adjustment involving the Pensions Reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	(88,567)	(5,771)	-	-	-	**(94,338)**	**94,338**
Employer's pensions contributions and direct payments to pensioners payable in the year	43,950	5,384	-	-	-	**49,334**	**(49,334)**
	-	-	-	-	-		**-**
Adjustments involving the Collection Fund Adjustment Account							
Amount by which council tax and NNDR credited to the CIES is different from council tax and NNDR income calculated in accordance with statutory requirements	(13,136)	-	-	-	-	**(13,136)**	**13,136**
Adjustments involving the Pooled Investments Adjustment Account						**-**	**-**
Amount by which changes in the value of pooled investments charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	(5,796)					**(5,796)**	**5,796**
Adjustments involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to CIES when receivable	58,163	7,526	-	-	(65,689)	**-**	**-**
Total Adjustments	**(47,600)**	**35,740**	**-**	**56,544**	**(35,710)**	**8,974**	**(8,974)**

8 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2018/19	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account							
Reversal of items debited or credited to the Comprehensive I&E							
Charges for depreciation and impairment of non current assets	(22,044)	-	(16,864)	-	-	**(38,908)**	**38,908**
Revaluation losses on PPE (charged to SDPS)	(60,006)	(44,789)	-	-	-	**(104,795)**	**104,795**
Movements on the market value of investment assets	-	-	-	-	-	**-**	**-**
Amortisation of intangible assets	-	-	-	-	-	**-**	**-**
Capital grants and contributions applied	12,918	3,329	-	-	21,633	**37,880**	**(37,880)**
Movement in the donated assets account	-	-	-	-	-	**-**	**-**
Revenue expenditure funded from capital under statute	(8,942)	(9,013)	-	-	-	**(17,955)**	**17,955**
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(1,175)	(8,396)	-	-	-	**(9,571)**	**9,571**
Inclusion of items not debited or credited to the Comprehensive							
Statutory provision for the financing of capital investment	8,188	451	-	-	-	**8,639**	**(8,639)**
Capital expenditure charged against the General Fund and HRA balances	(810)	(42)	-	-	-	**(852)**	**852**
Adjustments involving the Capital Receipts Reserve							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	-	22,309	-	(22,309)	-	**-**	**-**
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	22,999	-	**22,999**	**(22,999)**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(4,284)	-	-	4,284	-	**-**	**-**
Unattached capital receipts	428	692	-	(1,120)	-	**-**	**-**
Adjustment involving the Major Repairs Reserve							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	22,349	-	-	**22,349**	**(22,349)**
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	(17,417)	-	-	-	**(17,417)**	**17,417**
							-
Adjustments involving the Pooled Investments Adjustment Account						**-**	**-**
charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	(538)					**(538)**	**538**
						-	**-**
Adjustment involving the Pensions Reserve						**-**	**-**
Reversal of items relating to retirement benefits debited or credited to the CIES	(69,823)	(4,435)	-	-	-	**(74,258)**	**74,258**
Employer's pensions contributions and direct payments to pensioners payable in the year	40,048	5,248	-	-	-	**45,296**	**(45,296)**
Adjustments involving the Collection Fund Adjustment Account							
Amount by which council tax and NNDR credited to the CIES is different from council tax and NNDR income calculated in accordance with statutory requirements	(2,171)	-	-	-	-	**(2,171)**	**2,171**
Other adjustments include							
Adjustments involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to CIES when receivable	28,871	9,549	-	-	(33,822)	**-**	**-**
Adjustments involving the Accumulated Absences Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	218	-	-	-	-	**218**	**(218)**
Total Adjustments	**(79,122)**	**(42,514)**	**5,485**	**3,854**	**(12,189)**	**(129,084)**	**129,084**

9 Transfers to / from Earmarked Reserves

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

		BALANCE AT 31 MARCH 2018 £'000	TRANSFERS OUT 2018/19 £'000	TRANSFERS IN 2018/19 £'000	BALANCE AT 31 MARCH 2019 £'000	TRANSFERS OUT 2019/20 £'000	TRANSFERS IN 2019/20 £'000	BALANCE AT 31 MARCH 2020 £'000
1	Schools Balances	(25,465)	500	(673)	(25,638)	1,417	(1,661)	(25,882)
2	DSG	(186)	4,758	-	4,572	6,508	-	11,080
3	Insurance	(21,234)	3,568	-	(17,666)	9,000	-	(8,666)
4	New Civic Centre	(17,247)	-	-	(17,247)	254	-	(16,993)
5	Parking Control	(3,295)	-	-	(3,295)	-	-	(3,295)
6	Transformation	(14,975)	5,777	-	(9,198)	3,855	-	(5,343)
7	Collection Fund Smoothing Reserve	-	-	(6,515)	(6,515)	-	(4,930)	(11,445)
8	ICT / Finance Systems	(20,968)	4,865	-	(16,103)	1,555	-	(14,548)
9	Mayor's Tackling Poverty Reserve	(4,066)	700	-	(3,366)	-	-	(3,366)
10	Free School Meals	(4,000)	-	-	(4,000)	2,000	-	(2,000)
11	Mayor's Investment Priorities	(7,020)	2,380	-	(4,640)	-	(784)	(5,424)
12	Risk Reserve	(8,754)	5,345	(1,126)	(4,535)	-	(2,883)	(7,418)
13	New Homes Bonus	(12,113)	-	(16,826)	(28,939)	-	(1,620)	(30,559)
14	Adults, Health & Wellbeing (including Public Health)	(1,297)	-	(420)	(1,717)	704	-	(1,013)
15	Services Reserve	(1,508)	-	(387)	(1,895)	-	(1,296)	(3,191)
16	Revenue Grants	(5,715)	172	(3,927)	(9,470)	992	-	(8,478)
17	Covid-19 Grant	-	-	-	-	-	(10,318)	(10,318)
18	Ringfenced Developers' Contributions	-	-	(2,464)	(2,464)	-	(703)	(3,167)
19	CIL	-	-	-	-	-	(7,840)	(7,840)
Earmarked Reserve Total		**(147,843)**	**28,065**	**(32,338)**	**(152,116)**	**26,285**	**(32,035)**	**(157,866)**

Corporate Reserves

1 Reserves held by schools under the scheme of delegation. This balance can only be used by the Schools and is not available to the Council for general use.

2 This is Dedicated Schools Grant, bringing forward the deficit. This is disclosed separately in accordance with the requirements of the Accounts and Audit Regulations 2015, as amended (Regulation 7 (4)). A plan to reduce the deficit position was agreed between the Council and the Department for Education in February 2020.

3 The Council is self insured for most liability and property risks below £1 million. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision.

4 Reserve to contribute towards funding of the new Civic Centre in Whitechapel.

5 Parking control reserve.

6 Reserve created to support the delivery of the Council's transformation programme.

7 Collection Fund Smoothing Reserve - used to manage fluctuations in Business Rates income

8 Reserve to support the planned investment in Council's finance systems.

9 Contribution toward funding of welfare reform programme.

10 Reserve to fund free school meals programme.

11 Reserve to fund Mayor's Investment Priority schemes.

12 Risk Reserve to manage funding of risks arising.

13 Unspent element of the New Homes Bonus Grant which will to be used to fund housing schemes.

14 Reserves held for Adults, Health and Wellbeing and Public Health services.

15 Includes Building Control, Land Charges, and Planning reserves.

16 Unspent revenue grants without repayment conditions.

17 Grant received to fund Covid-19 related expenditure.

18 This balance sonsists of developers' contributions which are ringfenced for specific purposes.

19 Community Infrastructure Levy.

10 Other Operating Expenditure

2018/19 £'000		Note	2019/20 £'000
1,860	Levies		1,892
4,284	Payments to Housing Capital Receipts Pool		24,415
(13,858)	Net (gain) / loss on disposal of non-current assets		(8,957)
(7,714)	**Total**		**17,350**

11 Financing and Investment Income and Expenditure

2018/19 (Restated) £'000			2019/20 £'000
27,917	Interest payable and similar charges		9,159
15,059	Net interest on the net defined benefit liability/(asset)		16,884
(5,929)	Interest receivable and similar income	17	(4,274)
124	Net (gains)/losses on financial assets at fair value through profit and loss		5,146
(5)	(Surplus) or deficit of trading operations		448
37,166	**Total**		**27,363**

12 Taxation and Non Specific Grant Income

2018/19 £'000			2019/20 £'000
(93,185)	Council Tax income		(98,831)
(175,608)	Non domestic rates		(162,353)
(33,286)	Non-ringfenced Government grants	37	(38,959)
(50,508)	Capital grants and contributions	37	(76,530)
(352,587)	**Total**		**(376,673)**

13 Income and Expenditure Analysed by Nature

2018/19 £'000		2019/20 £'000
471,170	Employee benefits expenses	479,288
685,382	Other service expenses	706,988
143,900	Depreciation, amortisation and impairment	28,390
52,256	Interest cost on pension liabilities	52,853
27,917	Interest payments	9,159
124	Net (gains)/losses on financial assets at fair value through profit and loss	5,146
1,860	Precepts and levies	1,892
4,284	Payments to housing capital receipts pool	24,415
(13,858)	Gains and losses on disposal of non-current assets	(8,957)
1,373,035	**TOTAL EXPENDITURE**	**1,299,174**
(218,789)	Fees, charges and other service income	(247,615)
(37,197)	Interest income on pension assets	(35,969)
(5,929)	Interest and investment income	(4,274)
(268,793)	Income from council tax and non-domestic rates	(261,183)
(713,414)	Government grants and contributions	(754,727)
(1,244,122)	**TOTAL INCOME**	**(1,303,768)**
128,913	**(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES**	**(4,594)**

14 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2019/20	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRA-STRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
Cost or Valuation									
At 1 April 2019	**1,030,754**	**1,100,071**	**26,008**	**170,750**	**27,956**	**25,159**	**66,976**	**2,447,674**	**198,258**
Additions	29,011	50,462	13,323	22,692	2,459	-	42,370	**160,317**	7,439
Revaluation increases/(decreases) recognised in the Revaluation Reserve	54,736	125,270	-	-	-	974	-	**180,980**	27,988
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	25,349	(15,370)	-	-	-	238	-	**10,217**	(3,467)
Derecognition - Disposals	(3,392)	-	-	-	-	-	-	**(3,392)**	
Derecognition - Other	-	(666)	-	-	(108)	-	-	**(774)**	
Assets Reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	**-**	
Other Reclassification of Assets	-	24,464	-	-	(17)	-	(24,441)	**6**	
At 31 March 2020	**1,136,458**	**1,284,231**	**39,331**	**193,442**	**30,290**	**26,371**	**84,905**	**2,795,028**	**230,218**
Accumulated Depreciation and Impairment									
At 1 April 2019	**-**	**13,648**	**22,887**	**62,179**	**-**	**7**	**-**	**98,721**	**3,035**
Depreciation charge	15,382	13,572	681	8,891	-	80	-	**38,606**	2,075
Depreciation written out to the Revaluation Reserve	(15,331)	(16,465)	-	-	-	(76)	-	**(31,872)**	(1,875)
Derecognition - Disposals	(51)	-	-	-	-	-	-	**(51)**	
Derecognition - Other	-	(336)	-	-	-	-	-	**(336)**	
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	**-**	
Other Reclassification of Assets	-	12	-	-	-	-	-	**12**	
At 31 March 2020	**-**	**10,431**	**23,568**	**71,070**	**-**	**11**	**-**	**105,080**	**3,235**
Net Book Value									
At 31 March 2020	**1,136,458**	**1,273,800**	**15,763**	**122,372**	**30,290**	**26,360**	**84,905**	**2,689,948**	**226,983**
At 31 March 2019	**1,030,754**	**1,086,423**	**3,121**	**108,571**	**27,956**	**25,152**	**66,976**	**2,348,953**	195,223

14 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2018/19	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRA-STRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
Cost or Valuation									
At 1 April 2018	**1,201,039**	**1,329,541**	**24,833**	**162,286**	**28,423**	**23,442**	**9,507**	**2,779,071**	**273,230**
Adjustment to opening balance between cost/valuation and accumulated depreciation	104	1,784	-	-	-	-	-	**1,888**	-
Adjusted cost/valuation at 1 April 2018	**1,201,143**	**1,331,325**	**24,833**	**162,286**	**28,423**	**23,442**	**9,507**	**2,780,959**	**273,230**
Additions	19,898	68,910	1,175	6,736	1,267	-	19,523	**117,509**	1,784
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(138,582)	(198,319)	-	-	-	1,850	-	**(335,051)**	(72,667)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(44,178)	(60,484)	-	-	-	(133)	-	**(104,795)**	(4,089)
Derecognition - Disposals	(8,519)	-	-	-	-	-	-	**(8,519)**	-
Derecognition - Other	-	(1,222)	-	-	-	-	-	**(1,222)**	-
Assets Reclassified (to)/from Held for Sale	-	(169)	-	-	-	-	-	**(169)**	-
Other Reclassification of Assets	992	(39,970)	-	1,728	(1,734)		37,946	**(1,038)**	-
At 31 March 2019	**1,030,754**	**1,100,071**	**26,008**	**170,750**	**27,956**	**25,159**	**66,976**	**2,447,674**	198,258
Accumulated Depreciation and Impairment									
At 1 April 2018	**(104)**	**11,763**	**22,296**	**53,753**	**6**	**3**	**-**	**87,717**	**2,835**
Adjustment to opening balance between cost/valuation and accumulated depreciation	104	1,784	-	-	-	-	-	**1,888**	-
Adjusted accumulated depreciation at 1 April 2018	**-**	**13,547**	**22,296**	**53,753**	**6**	**3**	**-**	**89,605**	**2,835**
Depreciation charge	15,912	13,899	591	8,426	-	80	-	**38,908**	2,420
Depreciation written out to the Revaluation Reserve	(15,828)	(12,869)	-	-	-	(76)	-	**(28,773)**	(2,220)
Derecognition - Disposals	(124)	-	-	-	-	-	-	**(124)**	-
Derecognition - Other	-	(51)	-	-	-	-	-	**(51)**	-
Assets reclassified (to)/from Held for Sale	-	(9)	-	-	-	-	-	**(9)**	-
Other Reclassification of Assets	40	(869)	-	-	(6)	-	-	**(835)**	-
At 31 March 2019	**-**	**13,648**	**22,887**	**62,179**	**-**	**7**	**-**	**98,721**	3,035
Net Book Value									
At 31 March 2019	**1,030,754**	**1,086,423**	**3,121**	**108,571**	**27,956**	**25,152**	**66,976**	**2,348,953**	**195,223**
At 31 March 2018	**1,201,143**	**1,317,778**	**2,537**	**108,533**	**28,417**	**23,439**	**9,507**	**2,691,354**	270,395

14 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:
- Council Dwellings – As advised by qualified valuer.
- Other Land and Buildings – As advised by qualified valuer
- Vehicles, Plant & Equipment - 5 years on a straight line basis, or as advised by the service
- Infrastructure assets - between 12 and 100 years

Capital Commitments

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

	Committed sum £'000	Costs to 31/3/2020 £'000	2020/21 onwards £'000
Whitechapel Civic Centre	110,204	27,769	82,435
New Housing - Infill sites	28,500	25,130	3,370
Barnsley Street	18,097	0	18,097
Bow Site - Phoenix SEN	14,569	4,788	9,781
St Pauls Way	7,793	0	7,793
Mellish Street	7,168	0	7,168
Lowder House Garage site	5,261	0	5,261
Bartlett Park	3,512	2,604	908
Keats House	3,034	0	3,034
Strahan Road	2,535	0	2,535
Hanbury St Garage site	2,305	0	2,305
Sidney Street	1,748	0	1,748
TOTAL	**204,726**	**60,291**	**144,435**

Revaluations

In 2019/20, valuations of PPE were performed by Wilks Head and Eve, and were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2016'.

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations in previous years were performed generally as at 1st April in the year of valuation (with the exception of schools, for which revaluations were recommissioned as at 31st March from 2016/17 onwards). For 2019/20 the valuation date switched to 31st March (with the exception of leisure and sports centres, which were valued as at 31st January). A summary of total valuation per asset category is shown below.

ANALYSIS OF ROLLING REVALUATION PROGRAMME	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	-	792	15,763	122,372	30,290	-	84,905	254,122
Valued at current value in:								
2019/20	1,136,458	1,050,428	-	-	-	17,404	-	2,204,290
2018/19	-	133,658	-	-	-	-	-	133,658
2017/18	-	15,546	-	-	-	-	-	15,546
2016/17	-	30,678	-	-	-	1,215	-	31,893
2015/16	-	42,698	-	-	-	7,741	-	50,439
31 March 2020	**1,136,458**	**1,273,800**	**15,763**	**122,372**	**30,290**	**26,360**	**84,905**	**2,689,948**

Impairment Losses

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. An impairment review was carried out by qualified valuers at 31st March 2020 and concluded that there was no significant impairment to report.

15 INTANGIBLE ASSETS

	Balance at 1st April 2018 £'000	Purchases £'000	In-year Amortisation £'000	Balance at 31st March 2019 £'000	Purchases £'000	In-year Amortisation £'000	Balance at 31st March 2020 £'000
Cost	-	-	-	-	684	-	684
Amortisation	-	-	-	-	-	-	-
Net book value	**-**	**-**	**-**	**-**	**684**	**-**	**684**

The Council has accounted for expenditure on new hosted system upgrades in 2019/20 as intangible assets.

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

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

16 HERITAGE ASSETS

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

The Council has held these heritage assets for a number of years pre-dating 2010. These assets are held at an estimate of current value on the balance sheet, except for the local history collection which is not included on the balance sheet as valuations are not available due to the unique nature of the assets.

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

It is highly unlikely that any of these assets would ever be sold as the council has a legal obligation to maintain its archives.

These collections are preserved and made publicly available at the library on Bancroft Road and increasingly through the web and a range of exhibitions and outreach projects.

The council has a materiality threshold of £50,000 per asset. There are only four heritage assets above this threshold - civic regalia, two sculptures and one painting.

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

	Balance at 31st March 2018	2018/19 Acquisitions	2018/19 Disposals	2018/19 Revaluation	Balance at 31st March 2019	2019/20 Acquisitions	2019/20 Disposals	2019/20 Revaluation	Balance at 31st March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Value of Heritage Assets held by Council									
(a) - Works of art	18,446	-	-	-	18,446	-	-	-	18,446
(b) - Civic Regalia	389	-	-	-	389	-	-	-	389
TOTAL HERITAGE ASSETS	18,835	-	-	-	18,835	-	-	-	18,835

(a) The council holds a number of works of art. The council has three works of art with a material value - the council has received indications of value on these assets from art experts at auction houses. This value includes a sculpture valued at £18m which was relocated to the Borough during 2017/18.

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

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

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

17 FINANCIAL INSTRUMENTS

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

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

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

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

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

Catagories of Financial Instruments

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

Financial Instrument Categories	Non-Current		Current		Total	
	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000
Financial Assets						
Financial Assets - Fair Value through profit and loss						
Investments	55,462	49,666	-	-	55,462	49,666
Cash Equivalents			36,650	57,750	36,650	57,750
Financial Assets at Amortised Cost						
Investments	17,000	15,000	257,698	100,880	274,698	115,880
Trade Debtors	1,208	1,616	69,269	83,101	70,477	84,717
Cash and Cash Equivalents	-	-	83,382	103,775	83,382	103,775
Total Financial Assets	**73,670**	**66,282**	**446,999**	**345,506**	**520,669**	**411,788**
Financial Liabilities						
Financial Liabilities at Amortised Cost						
Cash and Cash Equivalents	-	-	(35,640)	(27,959)	(35,640)	(27,959)
Borrowing	(72,289)	(71,534)	(2,413)	(1,162)	(74,702)	(72,696)
Trade Creditors	-	-	(90,710)	(103,931)	(90,710)	(103,931)
Service Concessions and Finance Leases	(58,650)	(55,639)	(2,805)	(3,011)	(61,455)	(58,650)
Total Financial Liabilities	**(130,939)**	**(127,173)**	**(131,568)**	**(136,063)**	**(262,507)**	**(263,236)**

17 FINANCIAL INSTRUMENTS (continued)

Gains and Losses on Financial Instruments

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

	2018/19			2019/20		
	Financial Liabilities measured at amortised cost £'000	Financial Assets measured at amortised cost £'000	Financial Assets measured at FVPL* £'000	Financial Liabilities measured at amortised £'000	Financial Assets measured at amortised cost £'000	Financial Assets measured at FVPL* £'000
Interest expense	10,065	-	-	9,159		
Loan repayment penalty	17,852	-	-			
Interest income	-	(5,929)			(4,274)	
Money Market Funds (Cash Equivalents)			(414)			(650)
Pooled Funds	-	-	538			5,796
Net Gain/(Loss) for the year	**27,917**	**(5,929)**	**124**	**9,159**	**(4,274)**	**5,146**

*Fair Value through Profit and Loss

Fair Values of Financial Assets and Financial Liabilities

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

Fair Value of Liabilities Carried at Amortised Cost	31 March 2019 Carrying amount £'000	31 March 2019 Fair value £'000	31 March 2020 Carrying amount £'000	31 March 2020 Fair value £'000
Cash and Cash Equivalents	(35,640)	(35,640)	(27,959)	(27,959)
Borrowing held at amortised cost				
Public Works Loans Board	(57,125)	(61,025)	(55,121)	(61,964)
Market Loans - Fixed Interest	(17,577)	(29,081)	(17,575)	(30,565)
Trade Creditors	(90,710)	(90,710)	(103,931)	(103,931)
Service Concessions and Finance Leases	(61,455)	(84,855)	(58,650)	(76,381)
Financial Liabilities	**(262,507)**	**(301,311)**	**(263,236)**	**(300,800)**

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

Fair Value of Assets Carried at Amortised Cost	31 March 2019 Carrying amount £'000	31 March 2019 Fair value £'000	31 March 2020 Carrying amount £'000	31 March 2020 Fair value £'000
Investments held at amortised cost	274,698	274,698	115,880	115,880
Trade Debtors	69,269	69,269	83,101	83,101
Long Term Debtors	1,208	1,208	1,616	1,616
Cash and Cash Equivalents	83,382	83,382	103,775	103,775
Financial Assets	**428,557**	**428,557**	**304,372**	**304,372**

The fair value is assumed to be the carrying value since for all the assets listed the true fair value is unlikely to be materially different from the carrying amount.

17 FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy of financial assets and financial liabilities

Recurring fair value measurements using:	31 March 2020			
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
Financial liabilities				
Cash and Cash Equivalents		(27,959)		(27,959)
Public Works Loans Board		(61,964)		(61,964)
Market Loans - Fixed Interest		(30,565)		(30,565)
Trade Creditors		(103,931)		(103,931)
Service Concessions and Finance Leases			(76,381)	(76,381)
Total	**0**	**(224,419)**	**(76,381)**	**(300,800)**
Financial assets				
Investments held at amortised cost		115,880		115,880
Trade Debtors		83,101		83,101
Long Term Debtors		1,616		1,616
Cash and Cash Equivalents		103,775		103,775
Total	**0**	**304,372**	**0**	**304,372**

Fair Value

Basis for recurring fair value measurements:

Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

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

Level 3 Inputs – unobservable inputs for the asset or liability.

17 FINANCIAL INSTRUMENTS (continued)

Nature and extent of risks arising from Financial Instruments

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

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

In managing these risks, the Council has adopted and complies with CIPFA's Code of Practice on Treasury Management and the Prudential Code (both revised in December 2017) and the HMCLG's Guidance on Local Government Investments. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises from the possibility that counterparties may default in their obligation to pay amounts due to the Council. This risk arises from lending surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. The Council invests primarily on the basis of security, liquidity and then the level of returns, in that priority order. It is the policy of the Council to place deposits only with organisations of high credit quality as set out in the Treasury Management Strategy. These include entities with a minimum long-term credit rating of A-, the UK government, other local authorities and unrated entities for which the Councl has received independent advice from the Council's treasury advisers. In addition to credit rating, the Council has regard to other measures including credit default swaps when selecting its counterparties. The Council has a policy of placing limits on its exposure to these counterparties, details of which can be found in the TMS.

Amounts arising from Expected Credit Losses

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

Financial Asset Class	Amounts at 31 March 2019 £'000	Historical experience of default %	Estimated maximum exposure to default £'000	Amounts at 31 March 2020 £'000	Historical experience of default %	Estimated maximum exposure to default £'000
Cash & cash equivalents deposits	83,382	-	-	103,775	-	-
Money Market Funds (cash equivalents)	36,650	-	-	57,750	-	-
Pooled Funds - FVPL	55,462	-	-	49,666	-	-
Fixed term deposits (banks and other financial institutions)	274,698	-	-	115,880	-	-
TOTAL	**450,192**	-	-	**327,071**	-	-

The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for customers; adequacy of loss allowances against debtors that meet the definition of a financial instrument can be assessed as follows:

	31 March 2019 £'000	31 March 2020 £'000
Financial instrument debtors older than 1 month, less than 12 months	20,155	40,652
Financial instrument debtors older than 12 months	44,133	52,624
Loss allowance	(41,296)	(41,242)

17 FINANCIAL INSTRUMENTS (continued)

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

Liquidity Risk

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

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

Loans outstanding	31 March 2019 £'000	31 March 2020 £'000
Public Works Loans Board	120,847	117,347
Market debt	61,522	60,763
PFI / Finance Leases	89,327	81,751
TOTAL	**271,696**	**259,861**
Less than 1 year	11,836	10,534
Between 1 and 2 years	31,740	33,254
Between 2 and 5 years	38,476	29,370
Between 5 and 10 years	16,766	16,766
More than 10 years	172,878	169,937
TOTAL	**271,696**	**259,861**

The Council uses money market funds to provide liquidity.

Market Risk - Interest rate:

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

- borrowings at variable rates - the interest expense will rise
- borrowings at fixed rates - the fair value of the liabilities will fall
- investments at variable rates - the interst income will rise
- investments at fixed rates - the fair value of the assets will fall

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

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

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

17 FINANCIAL INSTRUMENTS (continued)

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

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

According to this assessment, at 31st March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as follows:

Interest Rate Risk	2018/19 £'000	2019/20 £'000
Increase in interest payable on variable rate borrowings	-	-
Increase in interest receivable on variable rate investments	(883)	(840)
Impact on Income and Expenditure Account	**(883)**	**(840)**

Fair Value Movements	2018/19 £'000	2019/20 £'000
Decrease in fair value of fixed rate investments	820	477
Decrease in fair value of fixed rate borrowing liabilities	-	-
Impact on Income and Expenditure Account	**820**	**477**

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

Market Risk - Price

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices and its

Foreign Exchange Risk

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

18 LONG TERM DEBTORS

	Balance at 1st April 2018	Advances	Income and Adjustments	Balance at 31st March 2019	Advances	Income and Adjustments	Balance at 31st March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Mortgages on Right to Buy properties	26	1	-	27	-	-	27
Sundry Loans	564	1,117	(500)	1,181	408	-	1,589
	590	**1,118**	**(500)**	**1,208**	**408**	**-**	**1,616**

19 SHORT TERM DEBTORS

	31 March 2019 £'000	31 March 2020 £'000
National Health Service	6,444	8,679
HM Revenue & Customs	16,875	21,657
Other Central Government Bodies	7,922	16,521
Other Local Authorities	9,820	15,319
Tower Hamlets Homes	994	1,165
Council Tax	1,902	2,175
National Non Domestic Rates	9,084	6,894
Housing and Tenants Rents	42,694	45,020
Other Entities & Individuals	46,636	79,561
Payments in Advance	7,783	10,081
Total	**150,154**	**207,072**

20 CASH AND CASH EQUIVALENTS

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

	31 March 2019 £'000	31 March 2020 £'000
Cash held by the Council	36,242	46,816
Short-term deposits with banks and building societies	11,500	29,000
Money Market Funds	36,650	57,750
Total Cash and Cash Equivalents	**84,392**	**133,566**

21 ASSETS HELD FOR SALE

	31 March 2019 £'000	31 March 2020 £'000
Value at 1st April	-	160
Assets newly classified as held for sale:		
Property, Plant and Equipment	160	-
Assets declassified as held for sale:		
Property, Plant and Equipment	-	-
Assets sold	-	(160)
Value at 31st March	**160**	**-**

22 CREDITORS

	31 March 2019 £'000	31 March 2020 £'000
HM Revenue & Customs	(5,614)	(5,790)
Other Central Government Bodies	(1,484)	(6,582)
Other Local Authorities	(16,210)	(6,249)
Council Tax	(8,083)	(9,244)
National Non Domestic Rates	(27,373)	(14,070)
Housing and Tenants Rents	(1,994)	(1,979)
Other Entities & Individuals	(91,521)	(104,963)
Receipts in advance	(14,556)	(30,783)
Total	**(166,835)**	**(179,660)**

23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 31 March 2018 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2019 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2020 £'000
(a) Business rates appeals	(2,983)	7,635	(11,697)	(7,045)	12,594	(11,787)	(6,238)
(b) Insurance Fund	-	-	(1,000)	(1,000)	991	(991)	(1,000)
(c) Other corporate provisions	(4,024)	3,464	-	(560)	560	(1,960)	(1,960)
(h) Single Status	(62)	62	-	-	-	-	-
(i) Contract disputes	(304)	304	-	-	-	-	-
TOTAL	**(7,373)**	**11,465**	**(12,697)**	**(8,605)**	**14,145**	**(14,738)**	**(9,198)**

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

LONG-TERM PROVISIONS	Balance at 31 March 2018 £'000	Amounts used or written back £'000	Contributions or transfers to short-term provisions £'000	Balance at 31 March 2019 £'000	Amounts used or written back £'000	Transfers to short-term provisions £'000	Balance at 31 March 2020 £'000
(a) Business rates appeals	-	-	(7,045)	(7,045)	-	6,545	(500)
(b) Insurance Fund	(6,991)	1,622	979	(4,390)	589	991	(2,810)
(d) Repayment of deposits	(169)	111	-	(58)	-	-	(58)
(e) Water Charges	-	-	(9,000)	(9,000)	-	-	(9,000)
(f) Disrepairs	-	-	(200)	(200)	-	-	(200)
(g) Employment Disputes	-	-	(800)	(800)	-	-	(800)
TOTAL	**(7,160)**	**1,733**	**(16,066)**	**(21,493)**	**589**	**7,536**	**(13,368)**

(a) Council share of provision for business rates appeals. A significant number of the appeals have been resolved in 2019-20, and the remaining long term provision is held for more complex cases that will go to tribunal hearings.

(b) To cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property. Amounts are transferred to the provision from the insurance reserve on an annual basis if a reliable estimate can be made of the likely settlement amount. The nature of insurance claims means it is not possible to accurately forecast when settlement of claims will take place. The Council is active in risk management, identifying areas of particular risk and taking management steps with a view to reducing possible future claims and losses. There are no material risks which are not covered by either direct insurance or self insurance via the provision.

(c) Provision has been made to meet anticipated liabilities in relation to the fatal incident involving a child in Mile End Park in 2015.

(d) The provision is used to hold deposits received from contractors with approval for erecting temporary structures. On completion of the work, the deposits will be refunded to the contractors, less deductions for any liabilities incurred. The refund of deposits will depend on the successful completion of contracts.

(e) A High Court ruling in 2016 established that another London Borough had not passed on discounts from a water supplier to its tenants. The discounts were given as part of the agreement with the water company as an administration fee for collection of charges from tenants. As a result of this ruling the Council may receive claims from tenants for overpaid water charges as a similar agreement was in place with the water company.

(f) Provision for legal costs relating to the disrepair of Council properties

(g) Provision for settlements or costs incurred in employment disputes

24 USABLE RESERVES

31 March 2019 £'000		31 March 2020 £'000
(17,478)	General Fund	(24,612)
(44,640)	Housing Revenue Account	(48,210)
(152,116)	Earmarked Reserves	(157,866)
(190,700)	Capital Receipts Reserve	(134,156)
(158,453)	Capital Grants Reserve	(194,163)
-	Major Repairs Reserve	-
(563,387)	**Total Usable Reserves**	**(559,007)**

More details regarding the movements in the Council's General Fund and Housing Revenue Account are detailed in the Movement in Reserves Statement and in Note 8. Details regarding the movement in Earmarked Reserves can be found in Note 9. Details of the Major Repairs Reserve can be found under the Notes to the Housing Revenue Account.

Capital Receipts Reserve

31 March 2019 £'000		31 March 2020 £'000
(194,554)	Balance at 1 April	(190,700)
(23,429)	Capital Receipts in year	(12,895)
4,284	Capital Receipts Pooled	24,415
22,999	Capital Receipts used for financing	45,024
(190,700)	**Balance at 31 March**	**(134,156)**

Capital Grants Reserve

31 March 2019 £'000		31 March 2020 £'000
(141,666)	Balance at 1 April	(158,453)
(38,420)	Capital grants recognised in year	(65,689)
21,633	Capital grants and contributions applied	29,979
(158,453)	**Balance at 31 March**	**(194,163)**

25 UNUSABLE RESERVES

31 March 2019 £'000		31 March 2020 £'000
(596,360)	Revaluation Reserve	(803,662)
(1,400,537)	Capital Adjustment Account	(1,478,562)
17,417	Financial Instruments Adjustment Account	16,982
705,400	Pensions Reserve	433,946
11,198	Collection Fund Adjustment Account	24,334
2,969	Accumulating Compensated Absences Adjustment Account	2,969
538	Financial Instruments Revaluation Reserve	6,334
(1,259,375)	**Total Unusable Reserves**	**(1,797,659)**

Revaluation Reserve

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

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

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

2018/19 £'000		2019/20 £'000	
(910,962)	**Balance at 1 April**		(596,360)
(61,371)	Upward revaluation of assets	(223,532)	
367,649	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	10,680	
306,278	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(212,852)
6,747	Difference between current value depreciation and historical cost depreciation	5,253	
1,577	Accumulated gains on assets sold or scrapped	297	
8,324	Amount written off to the Capital Adjustment Account		5,550
(596,360)	**Balance at 31 March**		**(803,662)**

25 UNUSABLE RESERVES (continued)

Capital Adjustment Account

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

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

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

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

2018/19 £'000		2019/20 £'000	
(1,472,427)	**Balance at 1 April**		**(1,400,537)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
38,908	Charges for depreciation and impairment of non current assets	38,606	
104,795	Revaluation losses and reversals on Property, Plant and Equipment	(10,216)	
17,955	Revenue expenditure funded from capital under statute	19,247	
9,571	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,938	
171,229			51,575
(8,324)	Adjusting amounts written out of the Revaluation Reserve		(5,550)
162,905	Net written out amount of the cost of non current assets consumed in the year		46,025
	Capital financing applied in the year:		
(22,999)	Use of the Capital Receipts Reserve to finance new capital expenditure	(45,024)	
(22,349)	Use of the Major Repairs Reserve to finance new capital expenditure	(16,295)	
(37,880)	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	(49,232)	
(8,639)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(11,306)	
852	Capital expenditure charged against the General Fund and HRA balances	(2,193)	
(91,015)			(124,050)
(1,400,537)	**Balance at 31 March**		**(1,478,562)**

25 UNUSABLE RESERVES (continued)

Financial Instruments Adjustment Account

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

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

2018/19 £'000		2019/20 £'000
-	**Balance at 1 April**	17,417
17,417	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(435)
17,417	**Balance at 31 March**	**16,982**

Pensions Reserve

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

2018/19 £'000		2019/20 £'000
600,906	**Balance at 1 April**	705,400
75,532	Actuarial gains or losses on pensions assets and liabilities	(316,458)
74,258	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	94,338
(30,840)	Employer's pensions contributions and direct payments to pensioners payable in the year	(34,872)
(14,456)	Adjustment for unwinding of pre-payment	(14,462)
705,400	**Balance at 31 March**	**433,946**

25 UNUSABLE RESERVES (continued)

Collection Fund Adjustment Account

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

2018/19 £'000		2019/20 £'000
9,027	**Balance at 1 April**	11,198
2,171	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	13,136
11,198	**Balance at 31 March**	**24,334**

Accumulated Absences Account

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

2018/19 £'000		£'000	2019/20 £'000
3,187	**Balance at 1 April**		2,969
(3,187)	Settlement or cancellation of accrual made at the end of the preceding year	(2,969)	
2,969	Amounts accrued at the end of the current year	2,969	
(218)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		-
2,969	**Balance at 31 March**		**2,969**

Pooled Investment Fund Adjustments Account

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

2018/19 £'000		£'000	2019/20 £'000
-	**Balance at 1 April**		538
(321)	Upward revaluation of investments	-	
859	Downward revaluation of investments	5,796	
538			5,796
538	**Balance at 31 March**		**6,334**

26 NOTE TO THE CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2018/19 £'000		2019/20 £'000
4,259	Interest received	5,092
(27,917)	Interest paid	(9,159)
(23,658)		**(4,067)**

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

2018/19 £'000		2019/20 £'000
38,908	Depreciation	38,606
104,795	Impairment and Downward valuations	(10,216)
2,517	Increase/(Decrease) in Creditors	10,866
(36,734)	(Increase)/Decrease in Debtors	(23,303)
43,418	Movement in Pension Liability	59,466
16,103	Other non-cash items charged to the net surplus or deficit on the provision of services	(2,194)
9,571	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	3,938
178,578		**77,163**

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

2018/19 £'000		2019/20 £'000
35,684	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	-
(23,429)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(12,895)
(59,215)	Any other items for which the cash effects are investing or financing cash flows	(84,942)
(46,960)		**(97,837)**

27 NOTE TO THE CASH FLOW STATEMENT - INVESTING ACTIVITIES

2018/19 £'000		2019/20 £'000
(117,509)	Purchase of property, plant and equipment, investment property and intangible assets	(146,865)
(429,949)	Purchase of short-term and long-term investments	(100,000)
(705)	Other payments for investing activities	(373)
19,047	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	12,895
422,693	Proceeds from short-term and long-term investments	258,000
65,820	Other receipts from investing activities	58,791
(40,603)	**Net cash flows from investing activities**	**82,448**

28 NOTE TO THE CASH FLOW STATEMENT - FINANCING ACTIVITIES

2018/19 £'000		2019/20 £'000
55,403	Cash receipts of short- and long-term borrowing	-
14,824	Billing Authorities - Council Tax and NNDR adjustments	(12,382)
(2,417)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,806)
(66,374)	Repayments of short- and long-term borrowing	(2,006)
1,436	**Net cash flows from financing activities**	**(17,194)**

29 CASH FLOW- RECONCILIATION OF FINANCIAL LIABILITIES FROM FINANCING ACTIVITIES

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

2018/19	Balance at 1 April 2018 £'000	Financing Cash £'000	Non Cash Changes £'000	Balance at 31 March 2019 £'000
Long Term Borrowings	**(83,293)**	10,000	1,004	**(72,289)**
Short Term Borrowings	**(2,010)**	669	(1,072)	**(2,413)**
Lease Liabilities	**(28,915)**	874	-	**(28,041)**
PFI Liabilities	**(34,957)**	1,542	-	**(33,415)**
Net cash outflow from financing activities	**(149,175)**	**13,085**	**(68)**	**(136,158)**

30 CONTINGENT LIABILITIES & CONTINGENT ASSETS

CONTINGENT LIABILITIES

Housing Transfers to Registered Social Landlords

Between March 1998 and March 2016 the Council transferred tenanted and leasehold properties to other landlords - 7,457 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to East End Homes; 2,079 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields Housing Association. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council. The amount of the potential liability cannot be determined with any certainty at present.

31 POOLED BUDGETS

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

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

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

2019/20	BCF £'000
Income	
The Council	(27,086)
Tower Hamlets Clinical Commissioning Group (CCG)	(26,697)
	(53,783)
Expenditure	**53,783**
Surplus/(Deficit) for the year	**-**

2018/19	BCF £'000
Income	
The Council	(23,165)
Tower Hamlets Clinical Commissioning Group (CCG)	(25,465)
	(48,630)
Expenditure	**48,630**
Surplus/Deficit for the year	**-**

32 MEMBERS' ALLOWANCES

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

	2018/19 £'000	2019/20 £'000
Allowances	1,016	1,062
Total	**1,016**	**1,062**

33 OFFICERS' REMUNERATION

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

2019/20	Salary, Fees and Allowances £	Expenses £	Compen-sation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive	206,931	603		40,530		248,064
Corporate Directors						
Children's Services	146,553	220		-		146,773
Health, Adults & Community	135,039			26,223		161,262
Governance & Monitoring Officer	128,619			24,946		153,565
Place	138,999	200		27,011		166,210
Public Health	106,725			15,347		122,072
Resources	129,996			25,220		155,216

2018/19	Salary, Fees and Allowances £	Expenses £	Compen-sation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive [1]	202,872	-	-	39,735	15,564	258,171
Corporate Directors						
Children's Services	143,679	328	-	-	-	144,007
Health, Adults & Community	134,193	-	-	26,067	-	160,260
Governance & Monitoring Officer	126,096	-	-	24,456	-	150,552
Place	129,969	-	-	25,226	-	155,195
Public Health	104,631	-	-	15,046	-	119,677
Resources [2]	89,105	37	-	16,246	-	105,388
Resources (Acting) [3]	49,208	-	-	9,547	-	58,755

[1] Other item is a one off payment for untaken leave in lieu of election preparation.
[2] Left 11/11/2018
[3] Commenced 12/11/2018

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

Remuneration band (£)	2018/19					2019/20				
	Teaching Staff	Including Teaching Redundan-cies of . . .	Other Staff	Including Other Staff Redundan-cies of . . .	Total Staff	Teaching Staff	Including Teaching Redundan-cies of . . .	Other Staff	Including Other Staff Redundan-cies of . . .	Total Staff
50,000 - 54,999	354	(1)	138	(11)	492	300	-	177	(8)	477
55,000 - 59,999	289	(2)	49	(5)	338	221	-	85	(1)	306
60,000 - 64,999	142	(2)	36	(4)	178	138	-	44	(6)	182
65,000 - 69,999	84	(1)	23	(7)	107	55	-	34	(5)	89
70,000 - 74,999	49	-	28	(5)	77	40	-	23	(3)	63
75,000 - 79,999	32	-	30	(1)	62	34	-	36	(1)	70
80,000 - 84,999	35	(1)	7	(3)	42	29	-	12	(3)	41
85,000 - 89,999	16	-	4	(1)	20	17	-	5	(1)	22
90,000 - 94,999	21	(1)	8	(3)	29	14	-	5	(3)	19
95,000 - 99,999	8	(1)	2	(2)	10	9	-	5	(2)	14
100,000 - 104,999	8	-	6	(1)	14	7	-	3	-	10
105,000 - 109,999	2	-	4	-	6	7	-	8	-	15
110,000 - 114,999	1	-	5	(5)	6	6	-	3	(2)	9
115,000 - 119,999	2	(1)	1	(1)	3	-	-	1	-	1
120,000 - 124,999	5	-	2	(1)	7	3	-	-	-	3
125,000 - 129,999	-	-	-	-	-	3	-	1	-	4
130,000 - 134,999	2	-	-	-	2	-	-	-	-	-
135,000 - 139,999	1	-	-	-	1	1	-	-	-	1
140,000 - 144,999	-	-	-	-	-	1	-	1	-	2
145,000 - 149,999	-	-	-	-	-	-	-	1	-	1
	1,051	(10)	343	(50)	1,394	885	-	444	(35)	1,329

Exit Payments

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

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£000)	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
0 - 20,000	3	6	81	101	84	107	793	977
20,001 - 40,000	1	3	46	39	47	42	1,346	1,226
40,001 - 60,000	1	3	9	17	10	20	465	980
60,001 - 80,000	-	1	15	7	15	8	1,020	551
80,001 - 100,000	1	2	3	4	4	6	365	553
100,001 - 150,000	-	-	4	12	4	12	498	1,459
150,001 - 200,000	-	-	2	-	2	-	347	-
200,001 - 250,000	-	1	2	-	2	1	449	230
250,001 - 300,000	-	-	-	1	-	1	-	254
Total	**6**	**16**	**162**	**181**	**168**	**197**	**5,283**	**6,230**

The above table includes any compensation for loss of office payments included within the senior officer remuneration note on previous page. During 2018/19, a payment of £372,707 was made as compensation for wrongful dismissal.

34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

	2018/19 £'000	2019/20 £'000
Expenditure		
Property, Plant and Equipment	117,509	160,317
Intangible Assets	-	684
Revenue Expenditure Funded from Capital Under Statute	17,955	19,247
TOTAL	**135,464**	**180,248**
Sources of Finance		
Borrowing	53,088	67,504
Capital Grants and Contributions	37,880	49,232
Capital Receipts	22,999	45,024
Major Repairs Reserve	22,349	16,295
Direct Revenue Funding	(852)	2,193
TOTAL	**135,464**	**180,248**

	2018/19 £'000	2019/20 £'000
Opening Capital Financing Requirement	**310,637**	**355,086**
Capital investment		
Property, Plant and Equipment	117,509	160,317
Intangible Assets	-	684
Revenue Expenditure Funded from Capital under Statute	17,955	19,247
Sources of finance		
Capital Grants and Contributions	(37,880)	(49,232)
Capital Receipts	(22,999)	(45,024)
Major Repairs Reserve	(22,349)	(16,295)
Sums set aside from revenue:		
• Direct Revenue Funding	852	(2,193)
• Minimum Revenue Provision	(8,188)	(9,247)
• HRA Revenue Provision for Debt Repayment on Finance Lease Principal	(451)	(2,059)
Closing Capital Financing Requirement	**355,086**	**411,284**

35 EXTERNAL AUDIT COSTS

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

	2018/19 £'000	2019/20 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	212	202
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	29	
Fees payable in respect of other services provided by external auditors during the year	2	
Total	**243**	**202**

36 DEDICATED SCHOOLS GRANT

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

Notes	DSG Receivable for 2019/20	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2019/20 before Academy Recoupment	89,646	256,205	345,851
B	Academy figure Recouped 2019/20	(4,373)	(62,513)	(66,886)
C	Total DSG after Academy Recoupment 2019/20	85,273	193,692	278,965
D	Brought forward from 2018/19	(4,572)		(4,572)
E	Carry forward to 2020/21 agreed in advance	-	-	-
F	Agreed initial budgeted distribution in 2019/20	80,701	193,692	274,393
G	In-year adjustments	757	-	757
H	Final budget distribution for 2019/20	81,458	193,692	275,151
I	Less actual central expenditure	(92,538)		(92,538)
J	Less actual ISB deployed to schools		(193,692)	(193,692)
K	Council contribution for 2019/20	-		-
L	**Carry forward to 2020/21 agreed in advance**	**(11,080)**	**(0)**	**(11,080)**

A DSG figure as issued by DfE in March 2020.
B Academy figure Recouped 2019/20.
C Total DSG after Academy Recoupment 2019/20.
D Figure brought forward from 2018/19.
E The amount which the Council decided after consultation with the schools forum to carry forward to 2020/21.
F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
G Changes to initial distribution in 2019/20.
H Budgeted distribution of DSG at year end.
I Actual amount of central expenditure items in 2019/20.
J Amount of Iindividual Schools' Budget distributed to schools.
K Contribution from the Council in 2019/20 which substituted for DSG in funding the Schools Budget.
L Difference between budgeted distributions and actuals plus carry forward agreed in advance.

Notes	DSG Receivable for 2018/19	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2018/19 before Academy Recoupment	88,411	254,925	343,336
B	Academy figure Recouped 2018/19	(5,258)	(61,699)	(66,957)
C	Total DSG after Academy Recoupment 2018/19	83,153	193,226	276,379
D	Brought forward from 2017/18	185		185
E	Carry forward to 2019/20 agreed in advance	-	-	-
F	Agreed initial budgeted distribution in 2018/19	83,338	193,226	276,564
G	In-year adjustments	786	-	786
H	Final budget distribution for 2018/19	84,124	193,226	277,350
I	Less actual central expenditure	(88,663)		(88,663)
J	Less actual ISB deployed to schools		(193,226)	(193,226)
K	Council contribution for 2018/19	(33)	-	(33)
L	**Carry forward to 2019/20**	**(4,572)**	**-**	**(4,572)**

A DSG figure as issued by DfE in March 2019.
B Academy figure Recouped 2018/19.
C Total DSG after Academy Recoupment 2018/19.
D Figure brought forward from 2017/18.
E The amount which the Council decided after consultation with the schools forum to carry forward to 2019/20.
F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
G Changes to Initial distribution in 2018/19.
H Budgeted distribution of DSG at year end.
I Actual amount of central expenditure items in 2018/19.
J Amount of ISB distributed to schools.
K Contribution from the Council in 2018/19 which substituted for DSG in funding the Schools Budget.
L Difference between budgeted distributions and actuals plus carry forward agreed in advance.

37 GRANT INCOME

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

	2018/19 £'000	2019/20 £'000
Credited to Taxation and Non Specific Grant Income		
Non-Ringfenced Government Grants		
Business Rate Related Grants	(12,503)	(9,272)
Local Service Support Grant	(34)	(36)
New Homes Bonus	(20,749)	(19,202)
Covid-19 Grant	-	(10,449)
Total Non-Ringfenced Government Grants	**(33,286)**	**(38,959)**
Capital Grants and Contributions		
Schools-funded Capital Programme	(2,753)	(722)
Special Provision Capital Fund	-	(4,834)
Transport for London Funding	(3,012)	(3,008)
Major Works Contributions	(9,547)	(7,156)
Capital Maintenance Grant	(2,599)	(2,704)
Community Infrastructure Levy (CIL)	(15,171)	(39,463)
GLA Building Council Homes for Londoners	(3,250)	(1,527)
Developers' Contributions (capital)	(11,877)	(15,982)
Other Capital Grants	(2,299)	(1,134)
Total Capital Grants and Contributions	**(50,508)**	**(76,530)**
Credited to Services		
Capital Grants funding REFCUS	(1,756)	(2,085)
Developers' Contributions (capital) funding REFCUS	(2,403)	(6,325)
Developers' Contributions (revenue)	(3,147)	(2,478)
Community Infrastructure Levy (CIL)	-	(7,840)
Dedicated Schools Grant	(277,165)	(279,722)
PFI Credits	(8,706)	(9,380)
School Sixth Form Grant	(13,316)	(12,702)
Pupil Premium Grant	(18,273)	(17,557)
Public Health Grant	(35,129)	(34,124)
Housing Benefit Subsidy	(228,123)	(215,320)
Better Care Fund	(11,907)	(14,851)
Community Infrastructure Levy (revenue)	(663)	(2,472)
Teachers' Pensions Grant	-	(4,103)
Flexible Homelessness Support	(4,590)	(3,885)
Universal Infant Free School Meals	(2,737)	(2,723)
Community Learning	(2,474)	(2,568)
Adult Social Care Support	(916)	(2,503)
Teachers' Pay Grant	(900)	(2,101)
Unaccompanied Asylum Seeker Grant	(991)	(2,040)
Adult Social Care Winter Pressures	(1,465)	(1,465)
Physical Education and Sport	(1,199)	(1,197)
Tackling Troubled Familes	(1,474)	(1,028)
London Enterprise Panel Programme	(2,300)	(287)
Other Revenue Grants	(9,986)	(10,482)
Total Credited to Services	**(629,620)**	**(639,238)**
Total Grant Income in Comprehensive Income & Expenditure Account	**(713,414)**	**(754,727)**

37 GRANT INCOME (continued)

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

Receipt in Advance Grant Balances	31st March 2019 £'000	31st March 2020 £'000
Capital Grants Receipts in Advance		
Developers' Contributions (capital)	(88,312)	(92,330)
South Dock Bridge	-	(1,750)
Building Council Homes for Londoners	-	(1,773)
Other conditional capital grants and contributions	(1,101)	(241)
Total Capital Grants Receipts in Advance	**(89,413)**	**(96,094)**
Revenue Grants Receipts in Advance		
Developers' Contributions (revenue)	(8,230)	(9,939)
Business Rate Related Grants	-	(10,419)
Other conditional revenue grants	(792)	(158)
Total Revenue Grants Receipts in Advance	**(9,022)**	**(20,516)**
Total Grant Receipt in Advance Balances	**(98,435)**	**(116,610)**

38 RELATED PARTIES

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

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from central government departments and other grant making bodies are set out in the subjective analysis in Note 36 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2020 are within the creditors note.

Partnerships

The Council has partnership arrangements with the following organisations:

Ocean Regeneration Trust, the New Deal for the Community (NDC) successor organisation
Tower Hamlets Clinical Commissioning Group (CCG)

Pension Fund

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

Entities controlled or significantly influenced by the authority

Tower Hamlets Homes is a wholly owned subsidiary of London Borough of Tower Hamlets, and was paid a management fee of £31.7m in 2019/20.

Seahorse Homes Ltd is a wholly owned subsidiary which hasn't commenced trading yet.

Mulberry Housing is a Community Bnefit Society which hasn't commenced trading yet.

Other entities where the Council has a stake in ownership and/or directorships

Capital Letters is a pan- London accommodation and procurement company owned by multiple boroughs (over 10), of which Tower Hamlets is one. Pan-London Accommodation Collaborative Enterprise Ltd (PLACE Ltd) is intended to provide modular temporary accommodation. Tower Hamlets is one of 4 key stakeholders, and is deemed the lead borough for the programme.

Membership of and relationship with other organisations

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

Organisations 2019-20	Members	Expenditure 2019-20	Income 2019-20	Amounts due to Orgs. > £10k at 31/03/20	Amounts due to Authority > £10k at 31/03/20
	£'000	£'000	£'000	£'000	£'000
Bromley By Bow Centre	H Uddin	577		(22)	
East London NHS Foundation Trust	D Jones	4,347	(117)	(68)	21
East End Homes	A Cregan	-	(4,458)	-	363
Friends of Tower Hamlets Cemetery Park	D J Edgar	86	-	-	
Green Candle Dance Company	P Golds	13	-	-	-
Mulberry Girls Trust	D Jones	128	(2,154)	(16)	11
Poplar Harca	H Uddin	1,717	(531)	(120)	32
Rich Mix Cultural Enterprises	D Jones	12	-	-	-
Tower Hamlets Community Housing	K Brady	100	(767)	(27)	-
Tower Hamlets Homes	M Francis	35,536	(7,489)	-	1,165
	Officers				
Marathon Events Ltd	W Tuckley				
Seahorse Homes Ltd	A Sutcliffe				30
	N Murton				
Mulberry Housing	A Sutcliffe				10
Capital Letters	N Murton	84		(18)	
PLACE Ltd					286

38 RELATED PARTIES (continued)

Organisations 2018-19	Members	Expenditure 2018-19	Income 2018-19	Amounts due to Orgs. > £10k at 31/03/19	Amounts due to Authority > £10k at 31/03/19
		£'000	£'000	£'000	£'000
Bromley By Bow Centre	H Uddin	838		(10)	
Culloden Bangladeshi Parents Association	A M O Ahmed	20		-	
East London NHS Foundation Trust	D Jones	4,813	(323)	(374)	
East End Homes	A Cregan		(5,954)		388
Friends of Tower Hamlets Cemetery Park	D J Edgar	17	-		
Green Candle Dance Company	P Golds	58	-		
Mulberry Girls Trust	D Jones	162	(1,813)		
Poplar Harca	H Uddin	3,878	(606)		
Rich Mix Cultural Enterprises	D Jones	20	-		
St Pauls Way Trust School	R Saunders	37		(12)	
Tower Hamlets Community Housing	K Brady	125	(71)	(26)	
Tower Hamlets Homes	M Francis	33,965	(7,483)		994
Tower Hamlets Youth Sport Foundation	A Begum	49			
Wadajir Somali Centre	A M O Ahmed	33			
	Officers				
Marathon Events Ltd	W Tuckley				
Seahorse Homes Ltd	A Sutcliffe				30
	N Murton				
Mulberry Housing	A Sutcliffe				10
Capital Letters	N Murton	-			

39 LEASES

Authority as Lessee

Finance Leases

As a Lessee the Council has acquired a residential development under finance leases. The assets acquired under the leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts. Depreciation policy on leased assets is consistent with the policy on owned assets and subject to revaluation in the same way as any other asset.

Leased In Assets

	Buildings 31 March 2019 £'000	Buildings 31 March 2020 £'000
Poplar Baths Leisure Centre	18,020	20,596
Poplar Baths Housing	5,013	4,998
Dame Colet Residential Development	3,350	3,712
Total	**26,383**	**29,306**

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

	Buildings 31 March 2019 £'000	Buildings 31 March 2020 £'000
Finance lease liabilities (net present value of minimum lease payments)	28,041	27,166
Finance costs payable in future years	61,233	59,323
Minimum lease payments	**89,274**	**86,489**

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

	Minimum Lease payments		Finance Lease Liabilities	
	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000
Not later than one year	2,785	2,785	875	875
Later than one year and not later than five years	11,139	11,139	3,498	3,498
Later than five years	75,350	72,565	23,668	22,793
	89,274	**86,489**	**28,041**	**27,166**

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

39 LEASES (continued)

Authority as Lessee

Operating Leases

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

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

Leased In Assets

	Land & Buildings 31 March 2019 £'000	Vehicles Plant & Equipment 31 March 2019 £'000	Land & Buildings 31 March 2020 £'000	Vehicles Plant & Equipment 31 March 2020 £'000
Health, Adults and Communities				
Not later than one year	149	-		-
Later than one year and not later than five years	597	-		-
Later than five years	1,071	-		-
Governance				
Not later than one year	-	20	-	
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
Children and Culture				
Not later than one year	-	150	-	67
Later than one year and not later than five years	-	156	-	80
Later than five years	-	1	-	
Place				
Not later than one year	2,874	240	4,110	218
Later than one year and not later than five years	1,009	410	8,365	138
Later than five years	2,101	-	2,122	-
Total				
Not later than one year	3,023	410	4,110	285
Later than one year and not later than five years	1,606	566	8,365	218
Later than five years	3,172	1	2,122	-
	7,801	**977**	**14,597**	**503**

39 LEASES (continued)

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

	Land & Buildings 31 March 2019 £'000	Vehicles Plant & Equipment 31 March 2019 £'000	Land & Buildings 31 March 2020 £'000	Vehicles Plant & Equipment 31 March 2020 £'000
Health, Adults and Communities				
Minimum Lease Payments	149	-	37	-
Governance				
Minimum Lease Payments	-	55	-	20
Children and Culture				
Minimum Lease Payments	-	258	-	104
Place				
Minimum Lease Payments	2,873	315	4,018	491
Total				
Minimum Lease Payments	**3,022**	**628**	**4,055**	**615**

Authority as Lessor
Finance Leases
As a Lessor the Council has no finance leases to report .

Operating Leases

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

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

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

	31 March 2019 £'000	31 March 2020 £'000
Not later than one year	(3,539)	(4,283)
Later than one year and not later than five years	(10,730)	(12,200)
Later than five years	(19,852)	(20,842)
	(34,121)	**(37,325)**

40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

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

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

Movement on PFI Assets	Mulberry School (Academy) £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
Asset value at 31 March 2019	-	193,175	2,048	195,223
Depreciation	-	(1,894)	(181)	(2,075)
Revaluations	-	26,396	-	26,396
Enhancements	-	7,439	-	7,439
Derecognition	-	-	-	-
Asset value at 31 March 2020	**-**	**225,116**	**1,867**	**226,983**

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

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

41 PENSIONS SCHEMES - DEFINED BENEFIT

Participation in pensions schemes

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

The Council participates in three pensions schemes:

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

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

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

Transactions Relating to Retirement Benefits

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

	The Council*		LPFA		Total	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000	£'000
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT						
Cost of Services						
Current service costs	57,848	71,933	262	211	58,110	72,144
Past service costs	978	5,234	111	76	1,089	5,310
Impact of settlements	-	-	-	-	-	-
Finance and Investment Income and Expenditure						
Interest cost on defined benefit obligation	50,643	51,418	1,583	1,435	52,226	52,853
Interest income on plan assets	(35,713)	(34,586)	(1,454)	(1,383)	(37,167)	(35,969)
Net charge to the Surplus or Deficit on Provision of Services	***73,756***	***93,999***	***502***	***339***	***74,258***	***94,338***
Other Comprehensive Income and Expenditure						
Changes in demographic assumptions	-	(69,671)	(1,970)	920	(1,970)	(68,751)
Changes in financial assumptions	119,326	(149,211)	2,660	(4,519)	121,986	(153,730)
Other experience	-	(116,765)	-	282	-	(116,483)
Return on plan assets excluding amounts included in net interest	(43,901)	21,935	(4,086)	1,706	(47,987)	23,641
Actuarial losses (due to asset ceiling)	-	-	3,503	(1,135)	3,503	(1,135)
Total charge in Comprehensive Income and Expenditure Statement	***149,181***	***(219,713)***	***609***	***(2,407)***	***149,790***	***(222,120)***
MOVEMENT IN RESERVES STATEMENT						
Reversal of net charges made for retirement benefits	(73,756)	(93,999)	(502)	(339)	(74,258)	(94,338)
Actual amount charged against the General Fund/HRA balances	44,884	48,879	412	455	45,296	49,334

**** The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes***

In 2019/20 the Council paid £14.703 million into the Teachers' Pension Scheme, representing 16.5% of pensionable pay. The figures for 2018/19 were £14.664 million and 16.5% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of discretionary awards made to teachers upon retirement. In 2019/20 there were such payments of £0.802m (£0.781m in 2018/19).

41 PENSION SCHEME (continued)

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of scheme liabilities:

	The Council*		LPFA		Total	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Opening balance at 1st April	(1,945,978)	(2,133,246)	(64,971)	(64,283)	(2,010,949)	(2,197,529)
Current service cost	(57,848)	(71,933)	(262)	(211)	(58,110)	(72,144)
Past service costs	(978)	(5,234)	(111)	(76)	(1,089)	(5,310)
Effect of settlements	-	-	-	-	-	-
Interest cost	(50,643)	(51,418)	(1,583)	(1,435)	(52,226)	(52,853)
Contributions	(10,318)	(10,391)	(47)	(38)	(10,365)	(10,429)
Benefits paid	51,845	57,878	3,381	3,906	55,226	61,784
Remeasurement gains / (losses):						-
Changes in demographic assumptions	-	63,486	1,970	(920)	1,970	62,566
Changes in financial assumptions	(119,326)	155,396	(2,660)	4,519	(121,986)	159,915
Other experience	-	116,765		(282)	-	116,483
31st March	**(2,133,246)**	**(1,878,697)**	**(64,283)**	**(58,820)**	**(2,197,529)**	**(1,937,517)**

**** The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes***

Reconciliation of fair value of the scheme assets:

	The Council*		LPFA		Total	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Opening fair value of scheme assets	1,376,054	1,444,569	62,907	62,022	1,438,961	1,506,591
Interest income	35,713	34,586	1,454	1,383	37,167	35,969
Contributions						
Employees into the scheme	10,318	10,391	47	38	10,365	10,429
Employer	30,428	34,417	412	455	30,840	34,872
Benefits paid	(51,845)	(57,878)	(3,381)	(3,906)	(55,226)	(61,784)
Remeasurement gains / (losses):					-	-
Return on plan assets	43,901	(21,935)	4,086	(1,706)	47,987	(23,641)
Actuarial losses	-	-	(3,503)	1,135	(3,503)	1,135
31st March	**1,444,569**	**1,444,150**	**62,022**	**59,421**	**1,506,591**	**1,503,571**

**** The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes***

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

Pension assets and liabilities recognised in the Balance Sheet

	The Council*		LPFA		Total	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Present value of scheme liabilities	(2,133,246)	(1,878,697)	(64,283)	(58,820)	(2,197,529)	(1,937,517)
Fair value of plan assets	1,444,569	1,444,150	62,022	59,421	1,506,591	1,503,571
Total deficit in the schemes	**(688,677)**	**(434,547)**	**(2,261)**	**601**	**(690,938)**	**(433,946)**

**** The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes***

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total deficit in the schemes of £433.9 million has a significant impact on the net worth of the Council as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by further contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The Council expects to make total contributions of £46.7 million in the year to 31st March 2021.

41 PENSION SCHEME (continued)

Basis for estimating assets and liabilities

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

	The Council		LPFA	
	2018/19	2019/20	2018/19	2019/20
Mortality assumptions:				
Current Pensioners - Men	22.1 years	21.5 years	19.8 years	20.4 years
Current Pensioners - Women	24.1 years	23.5 years	22.7 years	23.3 years
Future Pensioners - Men	23.9 years	22.6 years	21.6 years	21.8 years
Future Pensioners - Women	25.8 years	25.0 years	24.4 years	24.9 years
Rate of inflation	2.5%	1.9%	2.5%	2.0%
Rate of increase in salaries	2.3%	2.1%	4.0%	2.5%
Rate of increase in pensions	2.5%	1.9%	2.5%	2.0%
Rate for discounting scheme liabilities	2.4%	2.3%	2.3%	2.3%
Take-up* of option to convert annual pension into retirement lump sum	50%	50%		

* Pre-April 2008 service - 75% for post-April 2008 service

Major categories of assets as a proportion of total assets

The categories of assets are as follows.

	The Council		LPFA	
	2018/19	2019/20	2018/19	2019/20
Equities	0%	0%	40%	41%
Private Equity	0%	0%	10%	10%
Bonds	5%	0%	5%	5%
Property	10%	10%	9%	10%
Investment/Hedge Funds and Unit Trusts:	-	-	14%	13%
Equity-based	62%	51%	-	-
Bond-based	19%	0%	-	-
Hedge Funds	0%	29%	-	-
Other	0%	9%	-	-
Credit - unquoted	0%	0%	8%	8%
Infrastructure - unquoted	0%	0%	6%	7%
Cash	4%	1%	8%	6%

HOUSING REVENUE ACCOUNT
INCOME AND EXPENDITURE ACCOUNT

The Housing Revenue Account (HRA) deals with the provision and maintenance of council housing by the Council acting as Landlord. It also shows income from rents and Government grant. There is a statutory requirement to keep this account separate from other Council activities (including other housing activities).

	Note	2018/19 £'000	2019/20 £'000
EXPENDITURE			
Repairs and maintenance		18,929	20,963
Supervision and management		38,954	39,642
Rents, rates, taxes and other charges		12,334	11,575
Depreciation of non-current assets	6		-
On dwellings		15,912	15,382
On other assets		952	913
Revaluation losses (and reversals)		44,789	(25,349)
Debt management costs		79	83
Movement in the allowance for bad debts		(589)	33
Sums directed by the Secretary of State that are expenditure in accordance with the Code		9,013	8,073
TOTAL EXPENDITURE		140,373	71,315
INCOME			
Gross rental income			
Dwelling rents		(64,651)	(63,357)
Non dwelling rents		(4,195)	(4,631)
Charges for services and facilities		(19,426)	(29,062)
Contributions towards expenditure		(269)	(526)
TOTAL INCOME		(88,541)	(97,576)
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT		51,832	(26,261)
HRA services share of Corporate and Democratic Core		145	143
NET COST OF HRA SERVICES		**51,977**	**(26,118)**
HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account			
(Gain)/loss on sale of HRA non-current assets		(14,605)	(7,304)
Interest payable and similar charges [1]		21,444	3,581
Interest and investment income		(523)	(661)
Net interest on the net defined benefit liabilty	7	20	245
Capital grants and contributions receivable		(12,878)	(9,053)
DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES		**45,435**	**(39,310)**

[1] 2018/19 figure includes £17,852k of finance costs relating to the repayment of LOBO loans.

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

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

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

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward		(47,561)		(44,640)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Accoun	45,435		(39,310)	
Net additional amount required by statute to be debited to the HRA balance for the year	(42,514)		35,740	
Decrease (Increase) in the HRA Balance		**2,921**		**(3,570)**
Balance on the Statutory HRA Carried Forward		**(44,640)**		**(48,210)**

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year				
Gain or loss on sale of HRA non-current assets	14,605		7,304	
Revenue expenditure funded from capital under statute	(9,013)		(8,073)	
Capital grants and contributions	12,878		9,053	
Reversal of revaluation losses on non-current assets	(44,789)		25,349	
Net charges made for retirement benefits in accordance with IAS19	813		(387)	
		(25,506)		33,246
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year				
Capital expenditure financed from revenue	(42)		-	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	(17,417)		435	
Transfer to Capital Adjustment Account for Minimum Revenue Provision	451		2,059	
		(17,008)		2,494
Net additional amount required by statute to be debited to the HRA Balance for the year		**(42,514)**		**35,740**

2 HOUSING STOCK

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

	2018/19	2019/20
Low-rise flats (1-2 storeys)	257	255
Medium-rise flats (3-5 storeys)	6,694	6,666
High-rise flats (6 or more storeys)	3,751	3,783
Houses and bungalows	774	773
TOTAL AT 31st MARCH	**11,476**	**11,477**

3 NON-CURRENT ASSETS

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

	2018/19 £'000	2019/20 £'000
Dwellings	1,030,754	1,136,458
Other Land and Buildings	58,294	60,608
Surplus Assets Not Held for Sale	13,724	14,770
Assets Under Construction	17,706	39,221
Assets Held for Sale	160	0
TOTAL	**1,120,638**	**1,251,057**

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets £'000	Assets Under Construction £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 31st March 2018	1,201,143	58,166	11,878	9,507	-	1,280,694
Additions, disposals, transfers and revaluatio	(170,389)	128	1,846	8,199	160	(160,056)
Total value at 31st March 2019	1,030,754	58,294	13,724	17,706	160	1,120,638
Additions, disposals, transfers and revaluatio	105,704	2,314	1,046	21,515	(160)	130,419
TOTAL VALUE AT 31st MARCH 2020	**1,136,458**	**60,608**	**14,770**	**39,221**	**-**	**1,251,057**

The vacant possession value of dwellings within the Council's HRA was £4,561 million in 2019/20 (£4,319 million in 2018/19). The difference between the vacant possession value and the balance sheet value shows the economic cost to the Government of providing council housing at less than open market rents.

4 MAJOR REPAIRS RESERVE

	2018/19 £'000	2019/20 £'000
Balance at 1st April	(5,485)	-
Transfer from Capital Adjustment Account - depreciation	(16,864)	(16,295)
Financing of capital expenditure	22,349	16,295
Balance at 31st March	**-**	**-**

5 CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	2018/19 Dwellings £'000	2018/19 Other £'000	2018/19 Total £'000	2019/20 Dwellings £'000	2019/20 Other £'000	2019/20 Total £'000
Expenditure	25,162	13,150	**38,312**	29,011	28,110	**57,121**
Sources of finance						
Borrowing	895	544	**1,439**	25,403	89	**25,492**
Capital Receipts	1,248	394	**1,642**	1,888	2,563	**4,451**
Capital Grants and Contributions	9,725	3,199	**12,924**	1,526	9,357	**10,883**
Major Repairs Reserve	13,336	9,013	**22,349**	194	16,101	**16,295**
Direct Revenue Financing	(42)	-	**(42)**	-		**-**
TOTAL CAPITAL FINANCING	**25,162**	**13,150**	**38,312**	**29,011**	**28,110**	**57,121**

(ii) Capital Receipts

Capital receipts (gross) in 2019/20 from the disposal of non-current assets within the HRA amounted to £9.547 million (£22.591 million in 2018/19) as follows:

	2018/19 £'000	2019/20 £'000
Dwellings	22,591	9,145
Other land and buildings	-	402
TOTAL CAPITAL RECEIPTS	**22,591**	**9,547**

6 DEPRECIATION

	2018/19 £'000	2019/20 £'000
Dwellings	15,912	15,382
Other Land and Buildings	952	913
TOTAL DEPRECIATION	**16,864**	**16,295**

7 PENSION COSTS

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

Income and Expenditure Account	Total 2018/19 £'000	Total 2019/20 £'000
HRA INCOME AND EXPENDITURE STATEMENT		
Cost of Services		
Current service costs	4,414	5,414
Past service costs	1	112
Impact of settlements	-	
Finance and Investment Income and Expenditure		
Interest cost on defined benefit obligation	2,827	2,929
Interest income on plan assets	(2,807)	(2,684)
Net charge to the HRA Surplus or Deficit on Provision of Services	**4,435**	**5,771**
STATEMENT OF MOVEMENT IN HRA RESERVES		
Reversal of net charges made for retirement benefits	(4,435)	(5,771)

8 RENT ARREARS

	2018/19 £'000	2019/20 £'000
Gross rent arrears at 31st March	5,011	5,239
Arrears as % of rent receivable	7.6	8.1
Provision made for bad debts	4,098	4,168

COLLECTION FUND

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

2018/19				2019/20		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
			INCOME			
-	(122,619)	(122,619)	Council Tax Receivable	-	(132,268)	**(132,268)**
(431,394)	-	(431,394)	Business Rates Receivable	(433,441)	-	**(433,441)**
(14,829)	-	(14,829)	Transitional Protection Payments Receivable	(8,408)	-	**(8,408)**
(15,062)	-	(15,062)	Business Rates Supplements Receivable	(14,498)	-	**(14,498)**
(461,285)	**(122,619)**	**(583,904)**	**Total amounts to be credited**	**(456,347)**	**(132,268)**	**(588,615)**
			EXPENDITURE			
			Apportionment of Previous Year Surplus/(Deficit:)			
(15,028)	-	(15,028)	Central Government	271	-	**271**
(11,357)	1,500	(9,857)	Tower Hamlets	319	-	**319**
(11,473)	429	(11,044)	Greater London Authority	345	-	**345**
			Precepts, demands and shares			
-	-	-	Central Government	117,036	-	**117,036**
292,816	93,777	386,593	Tower Hamlets	224,709	100,331	**325,040**
164,709	27,980	192,689	Greater London Authority	126,399	31,537	**157,936**
			Business Rate Supplement			
15,045	-	15,045	Payment to levying authority's BRS Revenue Account	14,478	-	**14,478**
17	-	17	Adminstrative Costs	20	-	**20**
			Charges to the Collection Fund			
(18,450)	1,626	(16,824)	Increase/(decrease) in allowance for impairment	3,572	2,371	**5,943**
24,000	-	24,000	Increase/(decrease) in allowance for appeals	(7,977)	-	**(7,977)**
1,029	-	1,029	Charge to General Fund for allowable collection costs	1,021	-	**1,021**
441,308	**125,312**	**566,620**	**Total Amounts to be debited**	**480,193**	**134,239**	**614,432**
(19,977)	**2,693**	**(17,284)**	**(Surplus)/Deficit arising during the year**	**23,846**	**1,971**	**25,817**
37,037	(2,693)	**34,344**	**(Surplus)/Deficit b/f at 1 April**	17,060	-	**17,060**
17,060	**-**	**17,060**	**(Surplus)/Deficit c/f at 31 March**	**40,906**	**1,971**	**42,877**

(Surplus)/Deficit on the Collection Fund

2018/19				2019/20		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
(718)	-	(718)	Central Government	5,281	-	**5,281**
11,198	-	11,198	Tower Hamlets	22,514	1,501	**24,015**
6,580	-	6,580	Greater London Authority	13,111	470	**13,581**
17,060	**-**	**17,060**	**(Surplus)/Deficit c/f at 31 March**	**40,906**	**1,971**	**42,877**

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

Council Tax, introduced in 1993, is charged on residential properties depending on the nature and degree of occupation of the property concerned. It is subject to a system of personal discounts. For the purpose of calculating the individual tax, all domestic properties were valued by the Inland Revenue as at 1st April 1991 and placed in one of eight bands. The tax for each Band is set as a fraction of Band D. The number of properties in each band and calculation of the tax base (adjusted to reflect relevant discounts and exemptions) was approved by Full Council in February 2019 and is summarised in the table below:

Band	Valuation Bands	Ratio to Band D	2018/19 No. of Dwellings	2018/19 Equated No. of Dwellings	2019/20 No. of Dwellings	2019/20 Equated No. of Dwellings
A	Up to £40,000	6/9	669	446	725	483
B	£40,001 and up to £52,000	7/9	21,872	17,012	22,171	17,244
C	£52,001 and up to £68,000	8/9	35,212	31,299	35,687	31,722
D	£68,001 and up to £88,000	9/9	25,156	25,156	26,123	26,123
E	£88,001 and up to £120,000	11/9	18,950	23,161	19,488	23,818
F	£120,001 and up to £160,000	13/9	9,034	13,050	9,234	13,338
G	£160,001 and up to £320,000	15/9	3,770	6,283	3,902	6,504
H	Over £320,001	18/9	631	1,262	654	1,308
			115,294	117,669	117,984	120,540
	Adjustment for Reduction Scheme & Collection Rate			(22,574)		(22,144)
	Council Tax Base			**95,095**		**98,396**

2. NATIONAL NON-DOMESTIC RATES (NNDR)

The Council collects business rates for its local area. The amount due to be paid by a business for their property is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The rateable value is determined by the Valuation Office Agency, a government executive agency. The national uniform rate in 2019/2020 was 50.4p (49.3p for 2018/19) and the rate for small businesses was set at 49.1p (48.0p for 2018/19). The total rateable value in the borough as at 31st March 2020 was £1,022 million (£1,039 million at 31 March 2019).

3. BUSINESS RATE SUPPLEMENT (BRS)

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

The Crossrail BRS multiplier for 2019/20 is 2p per pound of rateable value (unchanged from previous years), it is only paid on properties with a rateable value in excess of £70,000.

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2018/19 £'000	2019/20 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers			
Normal	7	(31,885)	(35,145)
Augmentation	7	(1,796)	(2,321)
Deficit funding	7	(53)	(53)
From members	7	(11,102)	(11,156)
Transfers in			
Transfers in from other pension funds	8	(6,157)	(7,608)
Benefits			
Pensions	9	45,194	47,620
Lump sum benefits	9	13,580	12,798
Payments to and on account of leavers			
Refunds of contributions	10	224	756
Transfers out to other pension funds	10	4,848	6,079
Administrative expenses	11	1,151	1,196
NET (ADDITIONS)/DEDUCTIONS FROM DEALINGS WITH MEMBERS		**14,004**	**12,166**

RETURN ON INVESTMENTS		2018/19 £'000	2019/20 £'000
Investment income	12	(16,473)	(20,580)
Taxes on Income	12	73	7
Change in market value of investments			
Realised	14a	(7,530)	(44,152)
Unrealised	14a	(65,099)	75,782
Investment management expenses	11	2,774	10,121
NET RETURN ON INVESTMENTS		**(86,254)**	**21,178**
Net increase in the Fund during the year		(72,250)	33,344
Add: Opening net assets of the scheme		(1,480,656)	(1,552,906)
CLOSING NET ASSETS OF THE SCHEME		**(1,552,906)**	**(1,519,562)**

NET ASSETS STATEMENT AS AT 31ST MARCH		2018/19 £'000	2019/20 £'000
Long Term Investments			
London CIV Share capital		0	150
Investments Assets			
Pooled Investment Vehicles			
Unit Trusts	14	1,390,480	1,360,710
Property	14	157,351	147,556
Legacy	14	4	0
Other	14	(38)	(33)
Cash Deposits		1,547,797	1,508,233
Cash Balances (held directly by the Fund)	14	6,512	3,033
Cash Balances (held by the Fund's external managers)	14	2,710	8,894
Other investment balances	14	979	734
Current Assets	21	1,188	1,171
Current Liabilities	22	(6,280)	(2,653)
NET ASSETS		**1,552,906**	**1,519,562**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

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

a) General

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

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

The Fund is a contributory defined benefit pension scheme administered by London Borough of Tower Hamlets to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies.
Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the London Borough of Tower Hamlets Pension Committee which is a Committee of the London Borough of Tower Hamlets Pension Fund.

b) Membership of the Fund

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the London Borough of Tower Hamlets Pension Fund include the following:

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

The following table sets out the membership of the London Borough of Tower Hamlets Pension Fund as at 31st March 2020

	31st March 2019	31st March 2020
Number of employees in the scheme		
LBTH	5,944	6,602
Other employers	836	921
	6,780	**7,523**
Number of pensioners		
LBTH	5,847	6,108
Other employers	397	432
	6,244	**6,540**
Number of deferred pensioners		
LBTH	7,340	7,437
Other employers	489	523
	7,829	**7,960**
Total number of members in pension scheme	**20,853**	**22,023**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employers' contributions are set based on triennial actuarial valuations. The last such valuation was at 31 March 2019 although these rates will not apply until 2020/21. Currently, employer contribution rates range from 15.8% to 41.4% of pensionable pay.

d) Benefits

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

NOTE 2: BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2019/20 financial year and its financial position at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution income

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

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

Employer deficit funding contributions are accounted for on the basis advised by the Fund's actuary in the Rates and Adjustment Certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund. Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).
Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement. This does not include insourcing of 323 Veolia employees back to the Fund which took place on 29th March 2020.

c) Investment income

Investment income arising from the underlying investments in pooled funds is either reinvested or taken as a cash dividend to support the Fund's cash requirements. Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

As at 31st March 2020 the Fund had no direct property holdings.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

e) Taxation

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

f) Management expenses

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

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

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

Administrative expenses

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

Oversight and governance

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

Investment management expenses

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net assets statement

g) Financial assets

Investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16).

h) Freehold and leasehold properties

The Fund has no direct investment in property

i) Derivatives

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

j) Cash and cash equivalents

Cash comprises cash in hand and internally managed cash and includes amounts held by the Fund's external managers.
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Loans and receivables

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS26) and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

n) Additional voluntary contributions

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

o) Contingent assets and contingent liabilities

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

p) Recharges from the General Fund

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

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

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

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

In response to the government's guidance and criteria on pooling investments issued in 2015, the London Borough of Tower Hamlets Pension Fund is a founding member of the London Collective Investment Vehicle (LCIV) established as a Collective Investment Vehicle for LGPS Funds. At the end of 31 March 2020, the Fund has £673.4m (43.0%) under LCIV management. A further £319.7m (21.0%) is invested in Legal and General Passive Pool.

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

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

a) Acturial present value of promised retirement benefits

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

For example:

- a 0.5% decrease in the discount rate used would result in a decrease in the pension liability of £181m.
- a 0.5% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £14m.

b) Valuation of Investments at Level 3

The Pension Fund contains investments in unitised pooled property funds that are classified within the financial statements as level 3 investments. These funds are valued at £148m according to non-exchange based market valuations. As a result of this, the final realised value of the pooled units may differ from the valuations presented in the accounts.

NOTE 6: EVENTS AFTER THE REPORTING DATE

The first quarter of 2020 saw global stock markets fall by over 20% in response to the emergence of a virus named COVID 19 with the World Health Organisation declaring a pandemic on 11 March 2020. The response of many governments was to declare 'lockdowns' to slow the spread of the virus. This resulted in many sectors of the economy effectrively closing down for several months with the corresponding adverse impact on economic growth and the rise of government borrowing to support the economy. The expectation is that this will be a short, sharp shock to the global economy with global markets recovering by 20% in quarter 2. The Fund's investment assets have increased by £222m, or 15%, to stand at £1.743m at 30 June 2020. However, there are fears of a second wave later in the year unless a vaccine is developed. The longer term impact on individual asset classes is unclear.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 7: CONTRIBUTIONS RECEIVABLE

	2018/19 £'000	2019/20 £'000
Employees		
Council Employees' Normal Contributions	(9,458)	(9,491)
Admitted Bodies Employees' Normal Contributions	(115)	(119)
Scheduled Bodies Employees' Normal Contributions	(1,529)	(1,546)
Total	**(11,102)**	**(11,156)**
Employers		
Council Employer's Normal Contributions	(27,059)	(30,462)
Admitted Bodies Employers' Normal Contributions	(602)	(517)
Scheduled Bodies Employers' Normal Contributions	(4,224)	(4,166)
Total	**(31,885)**	**(35,145)**
Employers' Special Contribution	(1,796)	(2,321)
Deficit Funding	(53)	(53)
Total	**(1,849)**	**(2,374)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

	2018/19 £'000	2019/20 £'000
Transfer Values		
Transfer Values Received - Individual	(6,157)	(7,608)
Total	**(6,157)**	**(7,608)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 9: BENEFITS PAYABLE

	2018/19 £'000	2019/20 £'000
Pensions	45,194	47,620
Lump Sums Retirement Benefits	11,899	11,486
Lump Sums Death Benefits	1,681	1,312
Total	**58,774**	**60,418**
By type of employer		
Administering authority	56,399	57,358
Scheduled bodies	1,525	1,983
Admitted bodies	850	1,077
Total	**58,774**	**60,418**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2018/19 £'000	2019/20 £'000
Transfer values paid	4,848	6,079
Refunds to members leaving service	224	756
Total	**5,072**	**6,835**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 11: MANAGEMENT EXPENSES

	2018/19 £'000	2019/20 £'000
Administration	976	742
Investment management expenses	2774	10,121
Oversight & Governance	175	454
Total	**3,925**	**11,317**

NOTE 11A: MANAGEMENT EXPENSES

	2018/19 £'000	2019/20 £'000
Management Fees	2605	6,105
Custody Fees	51	50
Transaction Costs	118	3,966
	2,774	**10,121**

NOTE 12: INVESTMENT INCOME

	2018/19 £'000	2019/20 £'000
Fixed interest securities	(9)	0
Equity dividends	(49)	0
Pooled property Investments	(5,885)	(6,425)
Pooled Investments -unit trusts and other managed funds	(10,475)	(14,094)
Interest on cash deposits	(55)	(61)
	(16,473)	**(20,580)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 13: EXTERNAL AUDIT COSTS

	2018/19 £'000	2019/20 £'000
Audit Fees Payable in respect of external audit	21	21
Total	**21**	**21**

NOTE 14: INVESTMENTS

	2018/19 £'000	2019/20 £'000
Equities	4	0
Pooled Investments	1,390,480	1,360,710
Pooled Property Investments	157,351	147,556
Other	(38)	(33)
Total	**1,547,797**	**1,508,233**
Other Investment Balances		
Cash Deposits	2,710	8,894
Cash Deposits	6,512	3,033
Amounts Receivable for Sales of Investments	99	0
Investment Income Due	881	734
Total	**10,202**	**12,661**
Total Investment Assets	**1,557,999**	**1,520,894**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 31 Mar 2019 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2020 £'000
Fixed Interest Securities	0	0	0	0	0
Equities	4	0	0	(4)	0
Pooled Investments	1,390,480	53,362	(57,889)	(25,243)	1,360,710
Pooled Property Investments	157,351	4,896	(8,311)	(6,380)	147,556
Other	(38)	5			(33)
	1,547,797	**58,263**	**(66,200)**	**(31,627)**	**1,508,233**
Other Investment Balances					
Cash Deposits held by Managers	2,710			(3)	8,894
Cash Deposits held Internally	6,512				3,033
Amounts Receivable for Sales of Investments	99				0
Investment Income Due	881			0	734
Net Investment Assets	**1,557,999**			**(31,630)**	**1,520,894**

	Market Value 31 Mar 2018 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2019 £'000
Fixed Interest Securities	0	0	(71,904)	71,904	0
Equities	13	0	0	(9)	4
Pooled Investments	1,302,826	312,512	(222,767)	(2,091)	1,390,480
Pooled Property Investments	142,803	16,996	(5,178)	2,730	157,351
Other	0	(38)	0	0	(38)
	1,445,642	**329,470**	**(299,849)**	**72,534**	**1,547,797**
Other Investment Balances					
Cash Deposits held by Managers	8,733			1	2,710
Cash Deposits held Internally	26,484				6,512
Amounts Receivable for Sales of Investments	0			93	99
Investment Income Due	832				881
Net Investment Assets	**1,481,691**			**72,628**	**1,557,999**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14B: ANALYSIS OF INVESTMENTS

	2018/19 £'000	2019/20 £'000
Equities		
UK		
Quoted	4	0
	4	**0**
Pooled Funds - additional analysis		
UK		
Fixed income unit trust - quoted	91,800	79,089
Equity unit trust - quoted	130,574	234,063
Overseas		
Fixed income unit trust - quoted	334,399	367,686
Equity unit trust - quoted	696,885	536,417
UK & Overseas		
Diversified Growth	136,822	143,505
	1,390,480	**1,360,760**
UK Pooled property investments	157,351	147,556
	157,351	**147,556**
Other	(38)	(33)
Investment Assets		
Cash Deposits held by Managers	2,710	8,894
Cash Deposits held Internally	6,512	3,033
Investment Income Due	881	734
Amounts Receivable from Sales	99	0
	10,202	**12,661**
Net Investment Assets	**1,557,999**	**1,520,944**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

	2018/19 £'000	2019/20 £'000
Investments managed by regional asset pool		
London LGPS CIV	705,087	673,356
	705,087	**673,356**
Investments managed outside of regional asset pool		
Schroder	394,941	428,391
Legal & General	350,995	319,684
Goldman Sachs	52,626	50,806
Insight Investment	46,901	45,051
Legacy	79	87
Internally managed cash	6,512	3,033
	852,054	**847,052**
	1,557,141	**1,520,408**

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

Security	Market value as at 31st March 2019 £'000	% total of fund	Market value as at 31st March 2020 £'000	% total of fund
London Lgps Civ Lt Global Alpha Growth A	345,890	22%	294,846	19%
Mfo Gpcu - Msciworldlowcarbtarin Dgcurhofc	244,453	16%	241,537	16%
Schroder Matching Plus Bespoke Investment Fund 9 I Acc	234,956	15%	271,829	18%
London Lgps Civ Lt Diversified Growth A	136,822	9%	143,505	9%
London Lgps Civ Lt Rf Absolute Return A Gbp Di	130,574	8%	155,916	10%
Epoch Investment P Cqs Credit Multi-Asset A Gb	91,800	6%	0	0%
Gpcf - All World Index (Ofc)	83,774	5%	0	0%
LCIV CQS CREDIT MULT ASSET-A	0	0%	79,089	5%
GPCL - MSCIWORLDLW CARBONTARGETINDOFC	0	0%	78,147	5%
	1,268,269	**81%**	**1,264,869**	**82%**

NOTE 14D: STOCK LENDING

The Fund does not participate in stock lending

NOTE 14E: PROPERTY HOLDINGS

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

NOTE 15A: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

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

NOTE 16: FAIR VALUE – BASIS OF VALUATION

Description of asset	Valuation hierarchy 18/19	Valuation hierarchy 19/20	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Pooled Investments - Eqquity Funds UK and Overseas Managed Funds	Level 2	Level 2	The NAV for each share class is calcuated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Quoted UK and Overseas Bonds	Level 1	Level 2	Fixed income securities are priced based on evaluated price provided by independent pricing services	Evaluated price feeds	Not required
Pooled Investments - Property Funds	Level 3	Level 3	Closing bid price where bid and offer prices are published	Adjusted for net capital current assets	Estimated acquisition and disposal costs
Pooled Investments - Multi Asset Credit	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	Evaluated price feeds	Not required

Fair Value Hierarchy

	Market Value as at 31 Mar 2020	Quoted market price	Using observable inputs	With significant observable inputs	Total
		Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000	£'000
Financial assets at fair value	1,508,233	0	1,360,677	147,556	1,508,233
Loans and receivables	12,661	12,661	0	0	12,661
	1,520,894	**12,661**	**1,360,677**	**147,556**	**1,520,894**

	Market Value as at 31 Mar 2019	Quoted market Level 1	Using observable Level 2	With significant Level 3	Total
	£'000	£'000	£'000	£'000	£'000
Financial assets at fair value	1,548,777	4	1,391,422	157,351	1,548,777
Loans and receivables	9,222	9,222	0	0	9,222
	1,557,999	**9,226**	**1,391,422**	**157,351**	**1,557,999**

NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

On the 1 April 2019 the Fund re-assessed the holdings in London CIV Global Equity Fund and Goldman Sachs STAR fund as Level 2 which have a value at 31 March 2020 of £295m and £51m respectively.

NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 Apr 2019 £'000	Transfers in/out of level 3	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses)	Market Value 31 Mar 2020 £'000
UK Property Funds	157,351	0	4,896	(6,899)	(10,264)	2,472	147,556
Total	**157,351**	**0**	**4,896**	**(6,899)**	**(10,264)**	**2,472**	**147,556**

	Assessed valuation range (+/-) %	Value 31 Mar 2020 £'000	Value on Increase £'000	Value on Decrease £'000
UK Property Funds	10%	147,556	162,312	132,800
Total		**147,556**	**162,312**	**132,800**

	Market Value 1 Apr 2018 £'000	Transfers in/out of level 3	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses)	Market Value 31 Mar 2019 £'000
UK Property Funds	142,803	0	16,995	(5,177)	1,054	1,676	157,351
Total	**142,803**	**0**	**16,995**	**(5,177)**	**1,054**	**1,676**	**157,351**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2019				Market Value as at 31 Mar 2020		
Designated as fair value through profit and loss £	Loans and receivables £'000	Financial liabilities at amortised cost £'000		Designated as fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
			Financial assets			
4	0	0	Equities	150	0	0
1,390,480	0	0	Pooled investments	1,360,710	0	0
157,351	0	0	Pooled property Investments	147,556	0	0
0	0	0	Other investment balances	0	0	0
0	0	0	Property	0	0	0
0	2,710	0	Cash held with External Managers	0	8,894	0
0	6,512	0	Cash held Internally	0	3,033	0
99	0	0	Other investment balances	734	0	0
0	2,068	0	Debtors	0	1,171	0
1,547,934	**11,290**	**0**		**1,509,150**	**13,098**	**0**
			Financial liabilities			
0	0	0		0	0	0
(38)	0	0	Other Investment balances	(33)	0	0
0	0	(6,280)	Creditors	0	0	(2,653)
(38)	**0**	**(6,280)**		**(33)**	**0**	**(2,653)**
1,547,896	**11,290**	**(6,280)**	**Total**	**1,509,117**	**13,098**	**(2,653)**
	1,552,906		**Grand Total**		**1,519,562**	

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

Financial Assets	2018/19 £'000	2019/20 £'000
Fair value through profit or loss	(72,534)	31,627
Loans and receivables	(94)	3
Total Financial Assets	**(72,628)**	**31,630**

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.
The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

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

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liablities. (i.e. promised benefits payable to members). To mitigate this risk the Fund has established various policies that include the Funding Strategy Statement and the Investment Strategy Statement. The Fund also keeps a Risk Register that addresses specific risks on governance, funding and investments. These documents are available on the Fund's website.

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk-management strategy rests with the Pensions Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed by the Pensions Committee and Pensions Board in the light of changing market and other conditions.

Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The Fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers.

Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

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

Liquidity risk

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

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

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

Liquidity Risk (cont.)

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets. As at 31 March 2020, liquid assets were £1,371m representing 90.3% of total assets of the Fund assets (£1,396m as at 31 March 2019). The majority of these investments can be in fact

Currency risk

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

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

Market risk

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

Price risk

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

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

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

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

Market risk (cont.)

As the Fund is a long term investor the Fund accepts the risk of volatility in asset values year on year. The price risk is managed through the Fund's Investment Strategy Statement and its Funding Strategy Statement. The Fund uses a combination of investment returns and pension contributions by employers and employees to meet its liabilities.

Interest rate risk

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

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

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

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

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

OTHER PRICE RISK - sensitivity analysis

Asset type	Market Value as at 31/03/2020 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	11,927	0.6%	11,999	11,855
Investment portfolio assets:				
UK fixed Income unit trusts	79,089	5.6%	83,518	74,660
Overseas fixed Income unit trusts	367,686	5.6%	388,276	347,096
UK equity unit trusts	234,063	13.3%	265,193	202,933
Overseas equity unit trusts	536,384	13.3%	607,723	465,045
Pooled property Investments	147,556	2.3%	150,950	144,162
Other PIV	143,455	5.8%	151,828	135,182
Investment income due	734	0.0%	734	734
Total assets available to pay benefits	**1,520,894**		**1,660,221**	**1,381,667**

Asset type	Market Value as at 31/03/2019 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	9,222	0.2%	9,240	9,204
Investment portfolio assets:				
UK equities	4	9.0%	4	4
UK fixed Income unit trusts	91,800	4.3%	95,747	87,853
Overseas fixed Income unit trusts	334,399	4.3%	348,778	320,020
UK equity unit trusts	130,574	9.0%	142,326	118,823
Overseas equity unit trusts	696,885	9.0%	759,605	634,165
Pooled property Investments	157,351	1.7%	160,026	154,676
Other PIV	136,784	4.1%	142,392	131,176
Investment income due	980	0.0%	980	980
Total assets available to pay benefits	**1,557,999**		**1,659,098**	**1,456,901**

CURRENCY EXPOSURE - asset type

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

Asset type	Market Value as at 31/03/2019 £'000	Change in year in the net assets available to pay benefits +8.2%	-8.2%
Overseas Equities			
Overseas Fixed Inome Funds	334,399	361,820	306,978
Overseas Equity Funds	696,885	754,030	639,740
Total change in assets available	**1,031,284**	**1,115,850**	**946,718**

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

INTEREST RATE RISK

Asset type	Market Value as at 31/03/2020	Market Value as at 31/03/2019
	£'000	£'000
Cash and cash equivalents		
Cash	11,927	9,222
Total	**11,927**	**9,222**

Interest rate risk sensitivity analysis

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

Asset type	Market Value as at 31/03/2019	Change in year in the net assets available to pay benefits	
		+100 bps	-100bps
	£'000	£'000	£'000
Cash and cash equivalents			
Cash	9,222	92	-92
Total change in assets available	**9,222**	**92**	**-92**

CREDIT RISK

Summary	Rating	Market Value as at 31/03/2020		Market Value as at 31/03/2019
		£'000		£'000
Money Market Fund	AAA	0		6,000
Bank current accounts				
Northern Trust custody cash account	AA	8,894		2,710
National Westminster Bank Plc	AA	3,033		512
Total		**11,927**	**0**	**9,222**

NOTE 19: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation that took place as at 31 March 2016 covered the period up to 31 March 2020. The latest triennial valuation of the Fund was carried out by Hymans Robertson, the Fund's actuary as at 31 March 2019. The results were published in the triennial valuation dated 31 March 2020, with the funding level rising to 102%. This report details fund assumptions and employer contributions for the three years

The key elements of the funding policy are:

1) to ensure the long-term solvency of the Fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment

2) to ensure that employer contribution rates are as stable as possible

3) to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return

4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so and

5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

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

The triennial valuation undertaken as at 31 March 2016 covers the financial assumptions for 2019/20. The actuary estimated the deficit of the Fund to be £235m and the funding level to be 82.8%. This compared to a deficit at the previous valuation in 2013 of £365m and a corresponding funding level of 71.8%. The triennial valuation also sets the individual contribution rate to be paid by each employer from 1 April 2017 to 31 March 2020.

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

The table below summarises the whole Fund Primary and Secondary Contribution rates at the 2016 triennial valuation:

Primary Rate (% of pay)	2017/18 £'000	2018/19 £'000	2019/20 £'000
19.90%	13,974	14,603	15,256
	13,974	**14,603**	**15,256**

50:50 option
it is assumed that 1% of members opt into the 50:50 option in the LGPS 2014 scheme.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Actuarial Value of Promised Retirement Benefits

IAS26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose the actuarial assumptions and methodology should be based on IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1,949 million (£2,188 million in 2018/19). This includes both vested and non-vested benefits.

Year ended	31 Mar 2019 £m	31 Mar 2020 £m
Active members	933	684
Deferred members	554	475
Pensioners	701	790
	2,188	**1,949**

Assumptions

To assess the value of the employer's liabilities the actuary rolls forward the values from the liabilities calculated from the funding valuation as at March 2019 using financial assumptions that comply with IAS19. The figures at 31 March 2020 include an allowance for the “McCloud ruling”, i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

Demographic assumptions

The demographic assumptions used are consistent with those used for the funding valuation as at March 2019

Average future life expectancies at age 65 years	Male	Female
Current pensioners	21.5	23.5
Future pensioners	22.6	25.0

Commutation assumptions

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post -April 2008 service.

Financial assumptions

The financial assumptions used for the purpose of the calculation is set out in the table below

Year ended	################	###############
Inflation/pension increase rate assumption	2.5%	1.9%
Salary increase	2.3%	2.1%
Discount rate	2.4%	2.3%

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 21: CURRENT ASSETS

	2018/19 £'000	2019/20 £'000
Short term debtors		
Contributions due - employees	35	30
Contributions due - employers	124	920
Payroll	403	0
Sundry debtors	536	128
Other	90	93
Total	**1,188**	**1,171**

NOTE 22: CURRENT LIABILITIES

	2018/19 £'000	2019/20 £'000
Sundry creditors	(1,279)	(1,756)
Transfer values payable (leavers)	(1,548)	(22)
Benefits payable	(3,415)	(875)
Other investment	(38)	0
Total	**(6,280)**	**(2,653)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

	2018/19 £'000	2019/20 £'000
Aviva	19	27
Equitable Life / Utmost Life	2	2
	21	**29**

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

NOTE 24: AGENCY SERVICES

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

NOTE 25: RELATED PARTY TRANSACTIONS

The LBTH pension fund is administered by the LBTH

The Council incurred costs of £669k (£669k 2018/19) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. All monies owing to and from the fund were paid in the year.

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

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31 March 2020, the Fund held an average investment of £6.0m (£11.5m 31 March 2019), earning interest of £32k, (£55k 2018/19)

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.3m (£3.0m 2018/19) from this company.

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

Fund Administration Expenses	2018/19 £'000	2019/20 £'000
Payroll/HR Support	494	494
Central Finance	175	175
	669	**669**

NOTE 25A: KEY MANAGEMENT PERSONNEL

Employees holding key positions in the financial management of the Fund as at 31st March 2020 include:

Corporate Director Resources

As at 31 March 2019 this included:
Corporate Director Resources
Service Head - Finance & Procurement
Chief Accountant
Investment & Treasury Manager

The value of their relationship with the Fund, in accordance with IAS24 is as set out below:	2018/19 £'000	2019/20 £'000
Short term benefits	34	8
Long term/post retirement benefits	22	11

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There were no contingent liabilites as at 31st March 2020.

Auditors' Report 2019/20 – to follow.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director of Resources.

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- To consider and approve the Statement of Accounts.

The responsibilities of the Corporate Director of Resources

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

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

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

The Corporate Director of Resources has also:

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

Certificate of the Corporate Director or Resources

I certify that the Statement of Accounts 2019/20 presents a true and fair view of the financial position of the Council in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice") as at 31st March 2020 and its income and expenditure for the year ended 31st March 2020.

Kevin Bartle
Interim Corporate Director of Resources

TOWER HAMLETS

Annual Governance Statement

2019/2020

TOWER HAMLETS

Our Annual Governance Statement

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

We recognise the importance of having good governance, which includes effective leadership and management, policies and procedures, to ensure we have a well run Council that delivers high quality, value for money services to the local community. The Council has adopted a Code of Corporate Governance that is based on the recommended guidance: *Delivering Good Governance in Local Government.*

We recognise our responsibility for ensuring that the Council conducts its business in accordance with the law and proper standards and that public money is safeguarded. We have reviewed our governance processes and how they have operated over the course of the last year. This report summarises our review and conclusions.

In summary, the Council has strengthened its governance arrangements in many areas which has included introducing a new consultation hub, appointing an independent person to the Audit Committee, actively pursuing and successfully prosecuting incidents of fraud, updating the financial regulations, introducing a budget managers handbook and providing more briefings for budget managers. Despite these positive improvements there have been some significant challenges over the course of 2019/20, which has included ensuring we are financially sound whilst still meeting growing community needs, closing our financial accounts, administrating the pension scheme and consistently applying good risk management practices across the Council. We recognise the need to improve and are determined to do so. We have put action plans in place to address these issues and regularly report progress via the Corporate Leadership Team and relevant Committees.

Signed on behalf of the London Borough of Tower Hamlets

Will Tuckley, Chief Executive

John Biggs, Executive Mayor

Introduction

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

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

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

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

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
B. Ensuring openness and comprehensive stakeholder engagement.
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
D. Determining the interventions necessary to optimize the achievement of the intended outcomes.
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
F. Managing risks and performance through robust internal control and strong public financial management.
G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

When evaluating our performance we have taken into consideration reviews and inspections of the Council by others, such as Ofsted, as well as the work of internal and external audit. We have also reviewed our progress against improvement actions that were identified as part of the 2018/19 Annual Governance Statement.

In addition, each Corporate Director is required to confirm that their directorates are run efficiently, effectively, and with proper risk management and governance arrangements, including a sound system of internal control. They are required to review internal controls to ensure they are adequate and effective, whilst considering the following:

- Outcomes from risk assessments and evaluations
- Self-assessment of key service areas within the directorate
- Internal audit reports and results of follow ups regarding implementation of recommendations
- Outcomes from reviews of services by other bodies, including inspectorates, external auditors, etc.
- Linkage between business planning and the management of risk

Where areas for improvement are required an action plan must be developed.

We have used these returns to further enhance our review of the Council's governance framework.

Since the publication of this statement has been delayed, we have included some references to improvement in our governance arrangements that occurred after the 31 March 2020. These additions provide the reader with some detail of the progress we have made, further details with be provided in the 2020/21 Annual Governance Statement.

To conclude the assessment, we have provided an overall opinion on our governance arrangements and included an action plan to record how we will address any areas requiring improvement.

TOWER HAMLETS

Our Assessment

To assess the effectives of key elements of the governance framework, including partnership arrangements and Council owned companies, we have reviewed our performance against each of the seven principles of good governance. When evaluating our performance, we have taken into consideration reviews and inspections of the Council by others such as Ofsted, as well as the work of internal and external audit.

Principal	Governance Arrangements
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.	The Council's constitution records the rules and laws under which the Council operates, including the Financial Regulations. The constitution is published on the Council's website. The constitution was reviewed and updated and agreed at full Council in July 2019. In addition, there are a range of policies and procedures to direct and guide Members and staff, as well as codes of conduct that set out standards of behaviour expected from Members and staff. We have noted that some of the Council's policies and procedures are overdue for a review. Given the global pandemic, all overdue policies and procedures will be reviewed as soon as practicable. The Council has appointed the required statutory officers which includes the Head of Paid Service (Chief Executive), the Monitoring Officer (Corporate Director, Governance) and the Chief Finance Officer, also referred to as the Section 151 Officer (Corporate Director, Resources). These three officers meet regularly to discuss governance issues. The Council operates a Standards Advisory Committee to oversee and promote high standards of conduct by the Mayor, Councillors and Co-opted Members of the Council, including in relation to the Code of Conduct and the Register of Interests. Half the Committee membership allocation is for independent Co-opted Members and there are also two separately appointed statutory Independent Persons who advise in relation to alleged breaches of the Code of Conduct. The Committee takes an active role in this work receiving regular reports, monitoring complaints against Members, the Register of Interest/Gifts and Hospitality, Member Development and reports from the work of the Committee on Standards in Public Life amongst other matters. All

	members positively acknowledge the Code when they join the Council. A consultation was launched in June 2020 to review the model code of conduct for Members and a revised code will be published shortly. The Council has adopted a whistleblowing policy to guide and support staff about how to raise any concerns. It is readily available on the Intranet. The Monitoring Officer maintains a central record of all whistleblowing concerns and how they have been resolved. In July 2020 the Monitoring Officer reported a summary of concerns raised and their outcomes to the Audit Committee. Committee reports and key decisions have been published online to ensure transparency and Executive decisions made by the Mayor and Cabinet are subject to the 'Call-In' process by backbench Councillors who can raise any concerns they may have. However, officer decisions are not routinely published. A recent audit identified that there have been only three officer decisions published on the Council's website since May 2017. The Corporate Leadership Team and their Divisional Directors have been reminded of the requirements for publication and supported to ensure decisions are published when appropriate. The Council maintains a Register of Interests (for officers and Members) which includes a requirement to declare interests at meetings ensuring that potential issues are recorded and Members do not take part in meetings in an inappropriate way. This includes the need to leave the room when any items for which they have a Pecuniary Interest are discussed. We recognise that the number of officers declaring interests via self-service has declined. We will be requiring officers to update their declarations throughout 2020/21. A revised guide to declaring interests at meetings has been attached to all meeting agendas since May 2020. Now that the Council is operating on-line meetings (via Teams) attendants of the meeting that declare an interest are required to leave the virtual meeting room.

	The Council has also maintained a Gifts and Hospitalities register to ensure that Members and officers declare any gifts and hospitality in an open and transparent manner. The Gifts and hospitality policy needs to be reviewed, it was last reviewed in 2011. We also recognise there has been a reduction in gifts and hospitality being declared by officers, whilst this may be because less gifts and hospitality have been offered or accepted, to ensure all gifts and hospitality are recorded we will be promoting the requirements for officers throughout 2020/21. The Council has sought feedback from the public through its complaints and comments procedures and has responded to the outcomes as appropriate. The Council's Audit Committee has met throughout the year and has considered reports from internal and external audit as well as other updates, reports, and advice from the Chief Financial Officer and Monitoring Officer. In 2019 the Audit Committee adopted the terms of reference recommended by the Chartered Institute of Public Finance and Accountancy and in accordance with best practice has appointed an Independent Person to support the Committee. In July 2020 the Committee agreed its first annual report to be presented to full Council. The Council routinely provides training for its Member on ethics during their induction. Further member training on ethics and probity was planned for January 2020, but this was re-scheduled to April 2020, and then rescheduled again due to Covid-19. The training has now been provided.
B. Ensuring openness and comprehensive stakeholder engagement.	Council meetings and Committees are routinely held in public unless there are good reasons for not doing so on the grounds of confidentiality/disclosure of exempt information which are provided for in statutory provisions. The Council has invested in the technology to facilitate the webcasting of meetings meaning that stakeholders and residents can attend meetings if they wish to or watch them online. This

	technology has proven particularly effective during the Covid-19 pandemic and enabled critical Committees to continue and be available to the public. An online library of meeting agendas, attendance, supporting papers, decisions and minutes is maintained on the Council's website. As a result, the decision-making process can be considered and reviewed by stakeholders and the public from inception through to final decision and any ultimate scrutiny. The Council has sought community views on a wide range of issues and has undertaken regular consultation and engagement with citizens and service users. The Council recognises that its consultations could be improved and during 2019/20 launched a Consultations Hub to better facilitate consultations. Details of current, planned, and past consultations have been made available on the Council's website along with information on how the public/stakeholders can put forward their views. The Council's Overview and Scrutiny Committee has engaged with stakeholders, residents and community groups to review services and drive improvement in service delivery. The Overview and Scrutiny Committee includes co-opted residents with relevant knowledge and has encouraged residents to attend its meetings, which are open to the public and webcast. Further, residents, community groups and expert witnesses have been invited to participate in Scrutiny review and challenge sessions so the Committee can hear directly from those whose interests are represented. Social media channels have been used extensively to support the Council's engagement with stakeholders. The Council has adopted a Social Media Policy to provide advice and guidance on the use of social media.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits	The Strategic Plan is the main business planning document of the Council. It sets out the corporate priorities and outcomes, the high level activities that will be undertaken to deliver the outcomes, as well as the measures that will help determine whether the Council is achieving the outcomes. The Council has a structured set of plans which turn the vision into actions, through directorate, key council strategies and service plans. The plan has been published on the Council's website. The performance of the Council against measurable outcome-led targets has been assessed through performance monitoring reports that have been considered within directorates, by the Corporate Leadership Team, Committees, Cabinet and subsequently at other meetings of relevance. Any such reports can also be called in for scrutiny and reviewed by the Audit Committee. As a result of the Covid-19 pandemic the priorities and outcomes of the Council have been reviewed and presented to the Mayoral Advisory Board. The Corporate Leadership Team has agreed a recovery and reconstitution plan. Themed boards, such as 'Workforce and Wellbeing' and 'Back to Business' have been created and are led by Corporate Directors. The Council is focussed on managing and recovering from the impact of the pandemic and achieving the best outcomes for residents whilst maximising the opportunities presented through new ways of working.
D. Determining the interventions necessary to optimise the achievement of the intended outcomes.	The Council, Cabinet and Committees have received regular reports on performance monitoring, the strategic plan and other policies and procedures which demonstrate the level to which intended outcomes are being achieved and any interventions planned to address issues. All decisions being considered have been objectively and rigorously analysed by the Monitoring Officer and the Chief Financial Officer and all reports have set sections for legal and finance comments to be recorded. Reports have been cleared by finance and legal officers before publication.

	The Council's Performance Management and Accountability Framework (PMAF) sets out how we establish whether performance improvement is necessary. The Performance Improvement Board is the main board responsible for identifying and determining interventions to bring about improvements and this board has met regularly. The Council's Performance Improvement Board challenges services where there are identified concerns, takes a trouble-shooting approach, acts as a "critical friend" to drive improvement in performance, and makes recommendations about where to focus resources to drive improvement.
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.	The roles of all officers (including statutory roles) have been defined in agreed job descriptions and person specifications. Staff performance is reviewed on an annual basis. A new 'My Annual review' process has been adopted to improve the process and increase staff and management engagement. The Council has articulated its values and behaviours in 'TOWER values' which includes a behaviours framework to support officers. The Council's transformation programme called SMARTER TOGETHER, which is led by CLT, is focussed on ensuring the Council is more agile, leaner, and strategic to achieve the best outcomes with limited resources. All members have been provided with a Member Induction Programme and wider Member Development Programme. Members also have an online portal to give them access to many useful documents and materials.

	Cabinet Members and the Mayor are held to account through regular attendance at Overview and Scrutiny Committee and Sub-Committee meetings as well as through monthly Portfolio meetings with the Mayor and quarterly performance and budget monitoring meetings. All staff are provided with a corporate Induction and provided with additional documents and policies to support their induction, this includes mandatory training in areas such as data protection, anti-fraud and whistleblowing. Staff are provided with opportunities for further development through the new My Annual Review process. The Council has adopted a range of supporting plans and strategies including the People Resource Plan, Corporate Training Programme and Workforce Development Strategies.
F. Managing risks and performance through robust internal control and strong public financial management.	The Council has adopted a risk management strategy and approach with the main priorities of providing robust systems of identification, evaluation, and control of risks which threaten the Council's ability to meet its objectives to deliver services to the community. The five year Risk Management Strategy was reviewed and agreed by CLT at the end of 2019/20 and the Audit Committee in July 2020. An audit of Risk Management in 2019/20 identified that whilst the framework, strategy and procedures were well documented, directorate and service level compliance with the procedures was variable. The audit also found that, for the Corporate Risk Register, there was insufficient management review and challenge by the Corporate Leadership Team. An action plan has been put in place to address these issues but progress has been delayed by the pandemic and a lack of risk resources. The Corporate Risk Register has now been reviewed and updated by CLT and presented to the Audit Committee for review. Progress against the remaining actions in the plan will be reported to CLT and the Audit Committee. Risk management is part of the Council's day-to-day activities and decision-making and regular reports have been provided at corporate and directorate level. The Corporate Risk Register is

	independently reviewed by the Audit Committee. During the Covid-19 pandemic a bespoke risk register was created and closely monitored by the Gold and Silver groups to ensure that significant risks were acknowledged and mitigated. Engagement with risk management was strong at all level of the business throughout the pandemic and this has continued in 2020. The Corporate Director, Resources is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters. The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. During 2019/20 the Council adopted a new Scheme of Financial Delegation and updated its Financial Regulations. In addition, a new Budget Management Handbook has been published to support Budget Managers. An increased level of briefings for budget managers has also been put in place. A Medium-Term Financial Strategy is in place. Revenue and capital budget planning based on corporate priorities are led by the Corporate Leadership Team and are presented for approval by the Council. Revenue and Capital Budget Monitoring reports have been presented to the Cabinet on a regular basis, this includes the annual outturn. Members have been able to scrutinise budget monitoring through the relevant Committee to ensure performance and risks are managed. The Council has faced significant financial challenges (increased costs, significantly reduced income and undeliverable savings) throughout 2019/20 and the position worsened as a result of the Covid-19 pandemic. During the year the Council introduced a curb on non-essential spending and an Agency Panel (to review the use of agency staff). Whilst there was a reduction in agency staff costs, the initiatives did not result in significant improvement of the Council's overall financial position. In response the Council has reviewed its Medium-Term Financial Strategy, introducing enhanced budget management meetings and implemented a revised

	approach to capturing and approving savings and efficiency proposals to increase the level of confidence in their delivery. The Senior Leadership Team were tasked to prepare savings proposals. Throughout 2019/20 Finance has been focussed on rectifying significant issues with the 2018/19 statement of accounts and producing the 2019/20 statements. Several versions of revised accounts for both 2018/19 and 2019/20 have been presented to Audit Committee through the course of 2021. The external auditors anticipate completing their audits over the course of 2021, but further adjustments will be required as well as a qualified value for money opinion (further details are in the External Inspection section of this Statement). The Corporate Director, Resources commissioned an independent review to identify the lessons that need to be learned to avoid similar issues in the future that was presented to the Audit Committee in November 2020. The significant issues referred to above included serious failings in the administration and governance of pensions. As a result, the Council self-reported to The Pensions Regulator in 2019 and prepared a robust improvement plan. Issues included a failure to provide Annual Benefit Statements to 100% of members due to incomplete records, missing payroll data, back logs of work and a lack resources; outstanding scheme HMRC returns from previous years; failure to issue Annual Allowance Statements to all members and a lack of policy documents as well as data quality issues. Additional resources for the Pensions Administration team have been approved and an improvement plan established to tackle the issues highlighted. A number of these problems have now been resolved with the improvement plan subject to regular monitoring at the Pensions Board and Committee. The Council has a proactive, holistic approach to tackling fraud, theft, corruption, and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably. The outcomes of ant-fraud work have been reported to, and reviewed by, the Audit Committee. The Council has successfully prosecuted numerous incidents

	of housing fraud and recovered over £300,000 in compensation and costs as well as 40 social housing properties which can now be used by those in genuine need. All reports to Council, Cabinet and Committees are required to set out key implications and information in areas such as risk, equalities, safeguarding and environmental impact. The Audit Committee is responsible for considering the Council's arrangements for internal governance and financial management and to recommend any actions accordingly. It has received a number of relevant reports such as annual internal audit plans, reports from external audit, anti-fraud and corruption initiatives and risk management. The Council's Internal Audit service undertakes an annual programme of audits which includes providing assurance over the council's risk management processes. If any areas for improvement are identified Internal Audit makes recommendations for management to consider and implement. Progress against the plan and the outcomes of audits are reported to the Audit Committee.
G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.	The Council has a published constitution setting out how decisions are taken and how the public can get involved in decision making, including access to information, petitions and ways of getting involved in decision making. The constitution was last reviewed in early 2019 and agreed by Council in July 2019. The Council seeks to write and communicate reports and other information for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate. The Council webcasts it's Council, Cabinet, Strategic Development Committee, Development Committee and Overview and Scrutiny Committee meetings to ensure maximum transparency.

	As a result of the Covid-19 pandemic the Council introduced virtual meetings and has also webcast the Licencing Sub Committee and the Audit Committee. The Council maintains an up-to-date website which provides a mechanism for the Council to publish information important in ensuring transparency of its actions. The Council's constitution sets out the terms of reference of all Committees to ensure information is presented to the appropriate Committees. Access to Information rules set out how the Council maintains good public access to information and reports. The Council updated its Code of Corporate Governance and it was presented to the Corporate Leadership Team and the Audit Committee for approval in July 2020. There are governance arrangements for the partnership structure. The Tower Hamlets Plan identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities. The Head of Internal Audit provides an independent and objective annual opinion on the effectiveness of internal control, risk management, and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The Head of Internal Audit delivers a quarterly progress report to the Audit Committee setting out the outcome of Internal Audit and Counter Fraud activity. The Council responds to the findings and recommendations of External Audit, Scrutiny, and Inspection bodies. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control, risk management and governance. However, management's responsiveness to internal audit is inadequate for some audits with the implementation of agreed recommendations taking many months. The Head of Internal Audit

	has raised these concerns with the senior officers and the Audit Committee and has introduced new procedures to improve engagement with management. As senior Council decision making bodies, the Audit Committee, and any other relevant Non-Executive Committee including Scrutiny, can report any concerns they have regarding actions that have not been undertaken.

Internal Audit

The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole of the Council's activities. It is a requirement for the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of governance, risk management and internal controls within the Council. The Head of Internal Audit reported the 2019/20 annual opinion to the Audit Committee in July 2020. The opinion for 2020/21 will be provided in July 2021.

2019/20 Head of Internal Audit Annual Opinion Issued in July 2020

On the basis of the audit and anti-fraud activity undertaken during the year, in particular the audit of risk management, and taking into consideration external assurances and other relevant matters including the significant issues with the closure of the Council's 2018/19 Statement of Accounts and associated accounting procedures that have emerged throughout 2019/20, as well as the breaches of law in relation to Pensions Administration, it is my opinion that I can provide ***Limited***[1] *assurance that the authority has adequate systems of governance, risk management and internal control.*
Limitations of Scope

Internal Audit does not audit the Council's annual statement of accounts and this opinion does not cover the associated financial statements and disclosures. The Council's external auditors (Deloitte) are responsible for the audit of the annual statement of

[1] A **limited assurance** opinion means that significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives.

accounts and reporting whether, in their opinion, they present a true and fair view of the financial position of the Council. At the time of preparing this report neither the 2018/19 nor 2019/20 accounts have been audited, although as previously stated there were significant issues with the 2018/19 and 2019/20 accounts.

The internal audit plan cannot address all risks across the Council and the opinion is based on our best use of the available resources. The annual opinion draws on the work carried out by Internal Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit plan. Not all risks fall within our audit plan.

Paul Rock, Head of Internal Audit, Fraud and Risk.

The full report from July 2020 is available on request.

External Audit & Inspections

External Audit

From 1 September 2018 Deloitte LLP was appointed as the Council's external auditor, this was following the decision of the Council to opt into the Public Sector Audit Appointments Limited (PSAA) arrangement. The PSAA Board appointed Deloitte to audit the accounts of the Council for a period of five years (2018/19 to 2022/23).

At the time of drafting this Annual Governance Statement (January 2021) Deloitte have been unable to complete their audit of the 2018/19 or 2019/20 financial statements. There were significant issues with the Council's 2018/19 statement of accounts, and it has taken 12 months for these issues to be largely resolved, similarly there have been issues with the production of the 2019/20 statement of accounts. The Council developed an action plan that was overseen by the S.151 Officer and the Deputy Section 151 Officer, additional resources were sourced to complete the plan and produce a revised set of accounts and a dedicated finance improvement team was created for additional support. Progress has been regularly reported to the Council's Statutory Officers, Mayor, Cabinet Members and the Audit Committee. The Council published a revised draft set of accounts for 2018/19 in May 2020 however a high number of additional adjustments have been required as the audit has progressed. This has resulted in the need to produce a further version of the 2018/19 accounts which is planned to be presented to a later Audit Committee. Deloitte continue to audit the 2018/19

accounts. It is anticipated that the external audits of both sets of accounts will be completed during 2021. It is likely further adjustments will be required, a qualified value for money opinion is also expected. The Corporate Director, Resources commissioned an independent review to identify lessons learned and avoid similar issues with the accounts in the future. The outcome of this review was presented to the Audit Committee in November 2020.

The Council has in parallel been working to produce the 2019/20 accounts. As a result of the Covid-19 pandemic the timetable for publishing the accounts was extended via new regulations. The final, audited accounts for 2019/20 were due to published by 30 November 2020. Due to ongoing issues with the 2018/19 and 2019/20 accounts, the statutory deadline for publishing the 2019/20 statement of accounts has been missed however it is now planned to also present these accounts to the January 2021 Audit Committee.

Other Inspections

During 2019/20 external inspectors from Ofsted have completed an inspection of Children's Social Care Services, summary details are as follows.

Ofsted

In June 2019 Ofsted inspected Children's Social Care Services. The report was published in July 2019. Ofsted rated the performance as Good in all areas and concluded the following:

> *Services for children in Tower Hamlets are now good and have substantially improved since they were found to be inadequate in 2017. Since then, leaders and managers have had a relentless focus to improve practice to deliver good experiences and progress for children and their families. At all levels, there is effective management oversight and a direct understanding of the quality of significantly improved frontline practice.*
>
> *Effective and well-coordinated universal and early help provision means that children and families receive good help when they need it. Children in need, including those in need of protection, benefit from good assessments that inform plans to reduce risk and improve children's circumstances. The workforce reflects the diversity of the local population*

and staff sensitively take account of, and respond appropriately to, the cultural and religious needs of children and families in Tower Hamlets

Children in care and care leavers receive good support from workers who know them well and are appropriately ambitious for them. They live in stable homes, which helps them to do their best in all aspects of their lives.

The full report is available on request.

Companies, Arms-Length Management Organisations and Charitable Community Benefit Societies

The Council is involved in a number of companies as well as an Arms-Length Management Organisations and a Charitable Community Benefit Society which are detailed below. To support better governance going forward the Council will be provided with an annual report on each of the organisations to encourage openness and transparency over their activities and performance.

Tower Hamlets Homes

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

The Council's Internal Audit team provides internal audit services to THH. In keeping with the Public Sector Internal Audit Standards, the Head of Internal Audit issued an annual opinion for 2019/20 about the governance, risk management and internal control arrangements. The opinion was as follows:

On the basis of the audit work undertaken during the 2019/20 financial year, my overall opinion on the organisation's system of governance, risk and control is that ***Substantial***[2] *assurance can be provided that the internal control environment (including the key financial systems, risk and governance) is in the main well established and operating effectively in practice. However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give this assurance.*

Paul Rock, Head of Internal Audit, Fraud and Risk.

PLACE Ltd (Pan-London Modular Temporary Accommodation)

This not-for-profit company limited by guarantee (CLG), set up by the Council in 2018 working collaboratively with the London Housing Directors' Group and London Councils. It is a collaborative enterprise between a group of London Boroughs (currently with five member local authorities). The company will purchase modular homes that can be delivered to 'meanwhile' sites across the capital and relocated several times over a minimum 40 year lifespan for the programme. The pilot site is likely to be in Tower Hamlets. The company has secured capital grant from the Greater London Authority, which will be administered by the Council. In addition, the Council is considering providing a capital loan facility to the company. As a CLG, the Council does not have an equity shareholding in the company. The council is one of 4 board members and in addition there is an independent chair.

Capital Letters (London) Ltd (Pan-London Temporary Accommodation Procurement Hub)

This not-for-profit company limited by guarantee (CLG) was set up by the Council in 2018 working collaboratively with the London Housing Directors' Group and London Councils. It is a collaborative enterprise between a group of London Boroughs (currently involving 17 boroughs). The company is leasing private properties for use as temporary accommodation and securing assured shorthold tenancies to prevent homelessness. The company has secured revenue grant funding from MHCLG, which will initially be administered by Tower Hamlets Council; a Chief Executive and Chief Finance Officer were appointed in 2019 and the company has adopted their own processes and procedures (approved by representatives of its member Councils through Capital Letters' formal governance arrangements) including for the payment of salaries and maintenance of accounting systems. The Council may

[2] A **substantial** assurance opinion means there was a generally sound system of governance, risk management and control in place.

provide a loan facility to the company to support positive cash flow. As a CLG, the Council does not have an equity shareholding in this company.

Seahorse Homes Limited

Seahorse Homes Limited is a wholly owned company limited by shares established in 2017, to provide market rented homes and deliver a return on investment, both to cross-subsidise affordable housing and to fund wider General Fund services. The agreed business plan sets out its intention to acquire homes and then to develop homes. The Council holds 100% of the shares in this company and has initially committed £6m in equity. The company has yet to start trading. The Board of Directors is comprised of three Council officers. Following staffing changes within the Council the composition of the Board is being reviewed to minimise potential conflict of interests.

Mulberry Housing Society

Mulberry Housing Society is a not-for-profit charitable Community Benefit Society (CBS) established in 2017. The Council funds the CBS and holds two of five seats on the Board, the others being held by independent people initially appointed by the Council. The Board of Directors is comprised of two council officers and three independent members who are each shareholders. The society is seeking to acquire homes which will be let at sub-market rent levels in order to meet housing needs. There were no financial transactions through the CBS in 2019/20. As an independent CBS, the Council does not have any equity shareholding in the company but intends to fund activities through retained right to buy receipts and loan finance.

Significant Governance Issues

Corporate Directors are required to consider whether there have been any significant governance issues. For the purposes of this review we have defined a significant governance issue as something that:

- Seriously prejudiced or prevented achievement of one or more principal objectives.
- Resulted in the need to seek additional funding to resolve the issue.
- Required a significant diversion of resources.

- Had a material impact on the accounts.
- Resulted in significant public interest or has seriously damaged the reputation of the Council.
- Resulted in formal actions by the Section 151 (Corporate Director, Resources) or Monitoring Officer (Corporate Director, Governance).
- Received significant adverse commentary in an external inspection report and was not or cannot be addressed in a timely manner.

Progress against Significant Governance Issues Identified in 2018/19

The 2018/19 the AGS included 9 significant governance issues which needed to be addressed during 2018/19. A summary of progress/outcomes against these actions follows:

No.	Issue	Action	Progress / Outcome
1	Outstanding Payments to care providers end of year accrual process and implementation of Electronic Home Care Monitoring. Associated adverse end of year budget position in relation to adult social care.	Outstanding Payments Hub established to recover position on monies owed to providers – external input to design (Socitm) and CPMO oversight and support. Review of accruals process and improvements to monthly budget process particularly around home care. Commissioned review of Electronic Home Care Monitoring from Socitm – final report now prepared and recommendations being discussed and implemented.	The contract with our electronic home care monitoring system ended March 2020. All outstanding monies owed to providers has been paid in 2021. Alternative block payment arrangements have been put in place as a response to the pandemic. This was to ensure continuity of supply. These will need to be reviewed after the pandemic and a transition to more permanent arrangements. Longer term arrangements are also being explored as part of plans for homecare re-procurement.

No.	Issue	Action	Progress / Outcome
2	Adult Social Care Improvement – consistent practice and quality	Improvement Board replaced by Quality Assurance Board during 2018/19. Independent input from LGA Care & Health Improvement Advisor. Internal audits & follow ups of relevant areas). Further actions include need for improved data to support performance & quality improvement and recruitment and retention of social workers.	A restructure of adult social care has been completed and it was implemented on 1st September. Issues with practice and adult social care improvements are embedded in the restructure. Along with various methods introduced to improve practice across the service. (e.g. Risk panels, Care support plan assurance meetings (CSPAM) etc). In addition, we have developed and implemented various practice guides and training / briefing to improve practice across the service. We have proactively responded to audits carried out in various teams to ensure services are practising in a safe and transparent way. (No recourse to public fund, Management of client fund CLDS) With the implementation of Mosaic, there is ongoing work happening to ensure we can maximise the benefits of Mosaic and improve our data input and performance reporting. ASC recruitment strategy aimed at filling the remaining vacant post across the

No.	Issue	Action	Progress / Outcome
			service has been implemented and we are now in the process of interviewing those who were shortlisted.
3	There are significant issues with the 2018/19 accounts closure which continues to require extensive remedial actions. This has included: • Weaknesses in how accruals have been raised. • Pension fund deficit and accounting. • Schools accounting. • Valuation of infrastructure and temporary accommodation assets. • Accounting processes for the collection and general funds.	An action plan has been developed and is being overseen by the S.151 Officer and the Deputy Section 151 Officer. Additional resources have been sourced to complete the plan and produce a revised set of accounts. A dedicated finance improvement team has been created for additional support.	Progress against the action plan has been reported regularly to the Cabinet Member for Resources and the chair of the Audit Committee. The revised and updated 2018/19 Statement of Accounts were published in May 2020 and re-presented to the Audit Committee in January 2021, April 2021 and October 2021. The accounts have been in the process of being audited by Deloitte over the course of 2021. An independent review was commissioned by the Corporate Director of Resources to determine lessons learned and avoid similar issues with the accounts in the future. An action plan is being developed to address the issues raised. The 2019/20 accounts have followed a similar timeline to the 2018/19 accounts for 2021.
4	The Council is in an overspend position. There has been significant slippage in the achievement of savings targets c. £10	The Corporate Leadership Team is committed to meeting the financial challenges. All directorates will monitor and	The pandemic placed further financial strain on the Council and more than half of the

No.	Issue	Action	Progress / Outcome
	million. The position may change (for the worse) as the accounts need to be restated.	find ways to proportionally respond to the increasingly challenging financial and demand position whilst delivering statutory duties and existing savings targets. The financial position will be closely monitored and reported to CLT and MAB.	planned savings for 2019/20 were not delivered. The provisional outturn for 2019/20 was overspent by circa £10 million for the General Fund and £7m for the Dedicated Schools budget. Measures were introduced in 2020/21 to reduce future spending including a freeze on recruitment, a freeze on agency contracts, a review of staffing levels, a review of posts funded from reserves and a non-essential spending freeze. In addition, the corporate leadership team initiated a programme to identify savings proposals and ensure a balanced budget.
5	Budget Management needs to be improved across the Council	A new budget handbook has been produced and will be launched imminently. Finance will provide training and guidance to budget managers. The finance improvement team will provide additional support. CLT will adopt a more challenging approach to the delivery of Recovery Plans and discretionary spending decisions.	A new Budget Handbook was published. Training was provided to budget managers. Detailed budget challenge meetings have been introduced for high risk budgets. A new savings proposals process for scrutiny and approval has been adopted. Although it was necessary to postpone the Agresso upgrade planned for 2020, work is underway to improve the processes undertaken within Agresso and this is part

No.	Issue	Action	Progress / Outcome
			of the Council's finance improvement plan currently progressing. Once completed, this should ensure improved budget reporting to support budget managers.
6	There are a number of performance, administration and governance issues, some of which are breaches of law and it is necessary that the Council informs The Pensions Regulator of these breaches and provide the Regulator with a robust improvement plan and work programme. These issued include: • Failure to provide Annual Benefit Statements to 100% of scheme members. • Outstanding scheme tax returns from previous years. • Failure to issue Annual Allowance Statements to all scheme members who require one. • A lack of policy documents and data quality issues.	The actuary is completing urgent reviews of annual allowances. Additional interim resources are being recruited to current establishment as a matter of urgency. The software provider has completed a review of scheme member data in line with guidance notes set down by The Pensions Regulator (TPR). Results have been quantified to provide guidance on corrective action required. TPR was notified of key breaches identified. Remediation plan to be submitted to Pensions Board in March 2020.	The actuary produced Annual Allowance statements for 2018/19 apart from one case which was delayed due to information awaiting from the scheme employer. The actuary has also been commissioned to complete 2019/20 statements. Resources issues remain critical for the team. Lack of interims in this area is a continuous problem. Although a new structure which increases capacity has been approved it takes time to attract and appoint the right level and number of staff. Identification of outstanding returns commenced. On going problem due to data received from employers and the council. Pensions staff continue to work through existing data to ensure that close to 100% of active scheme members are issued statements.

No.	Issue	Action	Progress / Outcome
			The remediation plan was submitted to the Pensions Committee in June 2020 and the Pensions Board in June 2020. Work is underway on a program of drafting policy documents and procedures as required. 4 policy documents have been drafted and submitted to the Pensions Committee for approval, admin strategy, risk register and a host of Fund documents have been updated and were presented to the Pensions Board in March 2020.
7	There is an overspend on the Dedicated Schools Grant. In addition, there is demand and budget pressure on SEND and the associated transportation.	The financial position will be closely monitored and reported to CLT and MAB. A financial recovery plan has been produced and submitted to the Department for Education. A wider review of SEND is being undertaken and will be focussed on demand and funding management. SEND Transportation has recently been reviewed by Grant Thornton and options to manage demand and costs have been presented to the Directorate for their consideration and implementation.	The High Needs Block (HNB) of the DSG is being monitored and the pressure reported through the Monthly Budget monitoring cycle. The HNB recovery Plan is being monitored as part of the monthly monitoring cycle. Top up funding for schools has been reduced. Demand management is being managed through the development of guidance for schools on expectations of mainstream schools regarding inclusion of children with additional needs and appropriate requests for an EHCP.

No.	Issue	Action	Progress / Outcome
			The level of retained funding will be decreased once the restructure of the Support for Learning Service is completed and the newly formed service will be able to be deployed more flexibility to speed up the completion of EHCPs. A Transport Review Board has now been set up which is focusing on demand management in SEND transport across children's and adults; and the TSU also attend. The Board is chaired by the Divisional Director Youth and Commissioning. The Board oversees the 2019/20 Children's Services SEND Audit Action Plan.
8	Internal Audit has been under resourced as a result of vacancies, misaligned work force and no external delivery partner. There is a risk that the current and future annual opinions will be limited in scope and/or unsafe.	All vacancies to be filled as a matter of urgency. Existing temporary staff, where appropriate, to be moved to permanent contracts. External delivery partner to be sourced urgently.	An external delivery partner was sourced (BDO) for internal audit and specialist IT audit services until 2021. All temporary staff vacancies across the service were advertised and recruited to permanently. Recruitment to internal audit posts was unsuccessful and alternative service delivery models are now being explored for 2021.
9	The Council's consultation and engagement activities with the community and	In line with our Community Engagement Framework 2018-21, a Transforming	To improve the council's consultation and engagement approach, we launched our

No.	Issue	Action	Progress / Outcome
	stakeholders are currently managed by individual services and departments, with significant differences in process. Although some very good practice exists, the quality of the community involvement activities across the council is variable. Issues include: • An absence of accepted set of standards or guidance on conducting consultation and engagement activities. • Consultation responses often being held by the consulting team and thus inaccessible to colleagues – who may then go out to consult on similar issues. The lack of a standard means of providing feedback to the community on the impact of their contributions.	Consultation and Engagement programme has been set up to deliver: • Guidance for staff on conducting consultation and engagement activities which will provide a standardised, streamlined approach to community involvement activities as well as enable compliance with standards. An online hub to facilitate community involvement which will provide central repository of all engagement and consultation activities undertaken by the Council and open a range of innovative and engaging multimedia tools and reporting.	new platform, Let's Talk Tower Hamlets, and published our consultation and engagement handbook on the intranet for staff. Both key milestones were delivered in February 2020 and are already significantly helping us to ensure there's a consistent standard of consultation and that we are using new digital tools to engage our residents. The consultation handbook was quality assured and supported by the Consultation Institute, which also provided core training and advice to relevant staff across the council. Consultation activity was largely paused at the end of 2019/20 as a result of coronavirus but resumed during quarter one 2020/21. The communications and SPP teams together continue to focus on embedding our new way of working between our teams and across the council.

Significant Governance Issues Identified in 2019/20

All five Corporate Directors submitted their returns for 2019/20 to the Chief Executive. The following table summarises the most significant issues raised and the proposed actions to address them:

No.	Issue	Action	Responsible	Timescale
	The Government imposed lockdown of the Country in response to the COVID-19 pandemic is anticipated to have a material impact on the Council's income sources and expenditure requirements. The pandemic impacts in a number of ways including the achievement of corporate objectives, the need for additional extraordinary government funding and has necessitated the diversion of resources into critical services. There is no guarantee that all additional costs will be reimbursed and indeed the government has raised the prospect of Council reserves being used to support some of the activity.	Modelling of impacts particularly in relation to the Council's tax bases for business rates and Council tax has been undertaken and MTFS modelling updated Review of Strategic Plan objectives and establishment and operation of GOLD and Silver management structures Production of returns to MHCLG setting out additional costs and utilization of additional monies provided.	Divisional Director, Finance, Procurement and Audit. Divisional Director, Strategy, Policy and Performance, CLT & Chief Executive Divisional Director, Finance, Procurement and Audit.	July 2020 September 2020 Monthly from April 2020 and on-going.
	The issues identified with the 2018/19 Statement of Accounts (SoA) and reflected in the 2018/19 AGS have been worked on during the year. A revised SoA was presented to the Audit Committee in May 2020 and are now subject to external audit review (by Deloitte). Further adjustments will be required through the audit process.	A commitment was made to the Audit Committee for an independent review to be undertaken to understand and ensure that the lessons to be learnt from these issues have been fully identified and steps taken to address them. The review was completed and presented to the Audit Committee in November 2020. An	Corporate Director, Resources	March 2021

No.	Issue	Action	Responsible	Timescale
		action plan is being prepared to address the issues.		
	Budget Management remains a concern with overspending remaining a significant risk. Agreed action to mitigate budget pressures and savings slippage, such as the Agency Review Panel, the non-essential expenditure embargo and the production of Recovery Plans, have been largely unsuccessful.	An additional set of budget challenge sessions base on an assessment of financial risk were held with budget managers and relevant Corporate Directors. Immediate measures were introduced to reduce future spending including a freeze on recruitment, a freeze on agency contracts, a review of staffing levels and a review of posts funded from reserves. In addition, the senior leadership team have prepared saving proposals to ensure a balanced budget.	Corporate Director, Resources and Divisional Director, Finance, Procurement and Audit.	March 2021
	The reduction in General Reserves arising from the overspend has required a review of earmarked reserves in order to maintain an appropriate level of General Fund balances. This has impacted on delivery of other priorities and has led to a further reduction in the overall level of the Council's usable reserves.	The level of usable reserves needs to be kept under review during the year and is clearly linked to the maintenance of robust budget management processes set out above.	Corporate Director, Resources	On-going
	The COVID-19 pandemic has resulted in the potential failure of the Council's Leisure	Detailed financial analysis of the position that the provider finds themselves in was	Divisional Director, Sports, Leisure and	September 2020.

No.	Issue	Action	Responsible	Timescale
	Services provider; with a request for financial support being made to avoid service failure once lockdown is ended. The refinancing of the Poplar Baths project has also been impacted by the pausing of the proposed project finance in the light of CV-19. This brings additional risk to the council from project failure in addition to provider failure on the leisure contract.	undertaken on an open book basis to inform a decision about options for support and/ or provision of services in the future. Continued engagement with the project company and respective legal and financing specialists to minimize risk to the Council through the refinancing process.	Culture & Divisional Director, Finance, Procurement and Audit. Corporate Director, Resources	September 2020
	The COVID-19 pandemic has resulted in requests from Social Care providers for additional payments and for payments in advance of service delivery. This must also be seen in the context of the discontinued use of the electronic home care monitoring system in Adults Services and reversion to a manual system.	Alternative block payment arrangements have been put in place as a response to the pandemic. This was to ensure continuity of supply. These will need to be reviewed after the pandemic and a transition to more permanent arrangements. Longer term arrangements are also being explored as part of plans for homecare re-procurement.	Head of Strategic Finance Adults	31 March 2021 and throughout 20/21
	Towards the end of 2019/20 the Council engaged an external consultant to review the extent of video surveillance system usage and compliance with the relevant Code of Practice. The consultant concluded the following:	A comprehensive action plan to improve compliance and reduce the risks has been agreed and implementation has begun.	Senior Responsible Officer (SRO) in consultation with Council's Data Protection Officer (DPO) and Single Point of Contact	31 March 2021 and ongoing 2021/22.

No.	Issue	Action	Responsible	Timescale
	…the London Borough of Tower Hamlets can be considered not to comply with the Council's obligations to show due regard to the provisions of the Protection of Freedoms Act 2012 (PoFA), thus failing to meet the Code of Practice compiled under that Act by the Home Office Surveillance Camera Commissioner (SCC) for the operation of video surveillance systems by the Council or on behalf of the Council. *It can also be considered that the Council fails to meet the requirements to comply with the Data Protection Act 2018 Legislation and GDPR regulations the use and management of video surveillance systems. Considering the current situation, the risks to the organisation are three-fold – financial, legal and reputational.*		(SPOC) for Video Surveillance Systems	
	Failure to adequately maintain Chater House resulting in inadequate insurance, increases in premiums and a breach of the lease conditions.	Programme put in place to review the stock condition of community shops portfolio and undertake any necessary repairs and maintenance. Fire Risk Assessments to be being undertaken on all commercial portfolio.	Divisional Director Projects and Major Programmes	March 2021
	Weaknesses or non-compliance regarding the system of governance, risk management and control in the Capital Programme	Undertake a 'fundamental review' of the current year's Capital Programme plus two	Divisional Director Projects and Major Programmes	September 2020

No.	Issue	Action	Responsible	Timescale
	(Recommendation from Audit report on governance of capital programme).	years and report funding to Cabinet for oversight. Ensure the capital programme has adequate profiling of expenditure to capture any slippage / overspend over more than one year. Ensure Capital Growth Bids and Project approvals are completed and authorised by the originating officer prior to approval of the capital scheme.		 September 2020 September 2020
	A need to improve the financial governance of capital programmes *(Recommendation from Audit Report on governance of acquisition of properties for Temporary Accommodation).*	Governance arrangements for the acquisition programme to be reviewed and aligned to the Council's Programme and Project Management Office (PPMO) requirements Plan to be put in place to ensure property acquisitions are financially assessed for value for money and the Officer's Authority for properties and accord to the scheme of delegation	Divisional Director Housing and Regeneration Divisional Director Housing and Regeneration & Divisional Director Projects and Major Programmes	October 2020 October 2020
	Outdated governance (Directors) and purpose of traded companies in particular Seahorse Limited & Mulberry Housing Society.	Undertake a review and refresh of governance and purpose of traded housing companies (Seahorse Limited & Mulberry Housing Society)	Divisional Director Housing and Regeneration	October 2020

No.	Issue	Action	Responsible	Timescale
	Stronger client monitoring of capital expenditure of LBTH over Tower Hamlets Homes to mitigate risks of breaches in procurement guidelines.	THH Management Agreement to be strengthened to include an operational subgroup on procurement and management of contracts. Programme of training for project managers to be delivered to raise awareness and understanding of the governance arrangements.	Divisional Director Housing and Regeneration	September 2020

Conclusion

The Council has strengthened its governance arrangements in many areas which has included introducing a new consultation hub, appointing an independent person to the Audit Committee, actively pursuing and successfully prosecuting incidents of fraud, updating the financial regulations, introducing a budget managers handbook and providing more briefings for budget managers. Despite these positive improvements there have been some significant challenges over the course of 2019/20, which has included ensuring we are financially sound whilst still meeting growing community needs, closing our financial accounts, administrating the pension scheme and consistently applying good risk management practices across the Council. We recognise the need to improve and are determined to do so. We have put action plans in place to address these issues and regularly report progress via the Corporate Leadership Team and relevant Committees.

GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

FINANCIAL TERMS

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

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

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

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

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

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

Actuarial Valuation – Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates. The most recent valuation was in 2016.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contingent Liability - This is a potential "one-off" future liability or loss , but the level of uncertainty is such that the establishment of a provision is not appropriate.

Contingent Asset – This is a potential "one-off" future receipt or acquisition of an asset, but the level of uncertainty is such that the recognition of the gain is not appropriate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of an asset to the lessee.

Financial Instrument - Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Instrument Adjustment Account (FIAA) - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWLB) debt.

General Fund (GF) - The Council's main revenue account from which the cost of providing most of the Council's services is met.

Greater London Authority (GLA) – A strategic Local Authority with a capital-wide role.

Group Accounts – Where a Council has a material interest in a separate entity, the entity's assets and liabilities may need to be incorporated within the council's group accounts.

Heritage asset – An asset with historical, artistic, scientific, technological, geo-physical and/or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Historic Cost – The actual cost of an asset in terms of past consideration as opposed to current value.

Housing Revenue Account (HRA) - A statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

Impairment – A reduction in the valuation of PPE caused either by a change in the market price of the asset or damage/deterioration of the asset in excess of depreciation.

Infrastructure Assets – Inalienable assets, expenditure on which is only recoverable by continued use of the asset created. There is no prospect of sale or alternative use. Examples include roads, bridges, and tunnels.

Intangible Assets – Non-financial long-term assets that do not have physical substance but are identifiable and controlled by the Council i.e. purchased software licences.

Interest Rate Risk – The uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

International Financial Reporting Standards (IFRS) – The set of international accounting standards issued by the International Accounting Standards Board (IASB). Local Authorities are required to produce accounts based on IFRS.

Inventories – The values of, stocks held and work in progress that have not been completed.

Investment Properties – Those properties that are held solely to earn rentals and/or for capital appreciation, rather than for the delivery of services.

Liability – A liability is where the Council owes payment to an individual or another organisation.

Levy – Payments to bodies such as the Environment Agency. The cost of these bodies is funded by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

Long-Term Assets – Assets that yield benefit to the Council and the services it provides for a period of more than one year.

Long-Term Liability – An amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

Major Repairs Reserve – Represents the funds available to meet capital investment in council housing

Materiality - the level (usually expressed in financial terms but not usually expressly stated) below which accountants, auditors, or their clients or employers, consider risks or problems not to be significant.

Medium Term Financial Strategy (MTFS) – The Council's strategic plan surrounding its finances for the next 3 years.

Minimum Revenue Provision (MRP) – The amount that has to be charged to revenue to provide for the redemption of debt. Not applicable to the HRA.

Movement in Reserves Statement – A summary of the Council's reserves at the balance sheet date split between usable and unusable reserves.

National Non-Domestic Rates (NNDR) – Local Businesses contribute to Council expenditure based on a rate in the pound decided by Central Government, this is applied to the rateable value of their premises.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Abbreviations used in Accounts

AGS - Annual Governance Statement

ALMO - Arm's Length Management Organisation (Tower Hamlets Homes)

AVC – Additional Voluntary Contribution

BCF – Better Care Fund

BRS – Business Rates Supplement

BSF - Building Schools for the Future

BVIB – Best Value Improvement Board

CBS – Community Benefit Society

CCG - Clinical Commissioning Group

CFR - Capital Financing Requirement

CIES - Comprehensive Income and Expenditure Statement

CIL - Community Infrastructure Levy

CIPFA - Chartered Institute of Public Finance and Accountancy

CLG – Company Limited by Guarantee

CPB – Corporate Parenting Board

CPI - Consumer Price Index

DfE - Department for Education

DRC – Depreciated Replacement Cost

DSG - Dedicated Schools Grant

EIR - Effective Interest Rate

EUV – Existing Use Value

EUV-SH – Existing Use Value-Social Housing

FIAA – Financial Instruments Adjustment Account

GF - General Fund

GLA - Greater London Authority

HMT – HM Treasury

HRA - Housing Revenue Account

IAS - International Accounting Standard

IFRS - International Financial Reporting Standards

LASAAC - Local Authority (Scotland) Accounts Advisory Committee

LBTH - London Borough of Tower Hamlets

LGA – Local Government Association

LGPS - Local Government Pension Scheme

LOBO - Lender's Option – Borrower's option

LPFA - London Pensions Fund Authority

MHCLG – Ministry of Housing, Communities & Local Government

MRP - Minimum Revenue Provision

MTFS - Medium Term Financial Strategy

NDC - New Deal for the Community

(N)NDR - (National) Non-Domestic Rates

NPV - Net Present Value

PFI - Private Finance Initiative

PMAF – Performance Management and Accountability Framework

PMO – Project Management Office

PPE - Property, Plant and Equipment

PSIAS – Public Sector Internal Audit Standards

PWLB - Public Works Loans Board

REFCUS - Revenue Expenditure Funded by Capital Under Statute

RPI - Retail Price Index

RSG - Revenue Support Grant

SDPS - Surplus or Deficit on the Provision of Services

SEN – Special Educational Needs

SOLACE – Society of Local Authority Chief Executives

TA – Temporary Accommodation

TH - Tower Hamlets

THH - Tower Hamlets Homes

TIB - Transformation & Improvement Board

VFM - Value For Money

This page is intentionally left blank

Non-Executive Report of the: **Audit Committee** 27th January 2022	TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director, Resources	**Classification:** Unrestricted
Progress Report on the Finance Improvement Plan	

Originating Officer(s)	Marion Kelly, Programme Director, Finance Improvement
Wards affected	All wards

Executive Summary

This report outlines progress against Tower Hamlets' Finance Improvement Plan (FIP) which was drawn up in response to the Independent Review of the 2018-19 year-end closure of accounts. The Independent Review was carried out by Worth Technical Accounting Solutions Ltd and reported to the Audit Committee in January 2021.

Recommendations:

The Audit Committee is recommended to:

1. Note the progress against the actions set out in the Finance Improvement Plan (FIP).

1. REASONS FOR THE DECISIONS

1.1 No decisions are required.

2. ALTERNATIVE OPTIONS

2.1 The preparation and audit of the Accounts is a statutory duty set out in the Accounts and Audit Regulations 2015, so the Council must take actions that lead to the completion of the Accounts and External Audit on time (usually 31st July, but for 2020-21, this deadline was revised to 30th September due to Covid). The improvements set out in the FIP need to be made to ensure that the Accounts production process becomes more efficient going forward and that errors are reduced.

3. DETAILS OF THE REPORT

.

3.1 The Accounts and Audit Regulations 2015 require that each Local Authority approve its audited financial statements by the statutory deadline of 31st July each year. Since that target deadline was missed for 2018-19, the former Corporate Director of Resources commissioned an Independent Review into the reasons for that and to review why the quality of the draft accounts did not meet the required standards and to recommend actions that would ensure that the Accounts are delivered on time and of the right quality in future. The Council responded by developing the FIP which was approved by the Audit Committee in January 2021. Please note that there is a report elsewhere on the agenda on the Accounts themselves.

3.2 This report updates the Audit Committee on progress to date on the FIP. Appendix A lists the recommendations with a RAG status. There are 60 actions within the FIP (A-D on the Appendix), 41 of which are now complete shown as blue,12 are on track shown as green, 4 actions have an amber flag and 3 actions have a red flag.

3.3 Almost 90% of the recommendations have either been implemented (two thirds of the recommendations) or are on track.

3.4 A report to CLT on the Accounts timetable for 2021-22 will be discussed on 1st February 2022 and preparation for the 2021-22 Accounts has already commenced and will escalate towards the end of January, which is challenging as the 2020-21 External Audit will also be in progress. CLT have approved resources to support this challenging period of dual running of 2021-22 Accounts preparation and the 2020-21 External Audit.

3.5 The March 2022 Audit Committee report will detail which of the improvements have been successfully sustainably embedded into day to day business and which actions will need additional support to achieve sustainability. However, by exception, the 7 recommendations where actions are not currently on track are discussed below.

3.6 *Amber rated; An initial review of Corporate recharges was completed and budgets centralised. A review of accounting for and the management of overheads, governance and corporate service costs to be commissioned, with the objective of making these fit for purpose whilst being as simple to execute as possible. The Accounts impact will be year 2021-22. (B1d).*

3.7 As previously reported to the Audit Committee, a key Phase 2 workstream is a programme to ensure that as a joint exercise, the Council's budgets are reviewed and realigned where necessary, interdepartmental charges are reviewed and eliminated where possible and that the methodology to allocate central service costs is redesigned (the recharges model).

3.8 This work is ongoing and is scheduled to complete before detailed 2022-23 budgets are approved and uploaded on the ledger. Considerable progress has been made, but the work is complex and involves all budget holders

across the Council, so it is currently amber rated. Any areas that have not been covered before detailed budgets are agreed will be identified and set out in an action plan for DLTs.

3.9 *Amber rated; The Council should confirm that all Agresso ledger codes and disclosure notes are supported by ongoing financial systems and/or year-end work. Arrangements should be put in place to carry out and evidence regular reconciliation work which confirms the accuracy of these balances on a monthly basis rather than relying on year-end work. Where they are key, those to form part of Phase 1 (B2a i).*

3.10 It has been previously reported that there were significant issues with the Council's Payroll reconciliations (improvements to which are part of Phase 1 of the FIP) dating back to 2012 and that the process will need to be reconfigured as it is not sufficiently robust. The Council has now engaged an experienced Payroll specialist who has commenced work, but the action remains amber rated due to the fact that the work is still in its early stages although the work is progressing well.

3.11 *Now red rated (previously amber); All other codes and disclosure notes; arrangements for those will be put in place to ensure that regular reconciliations processes are documented, carried out and reviewed (B2a ii).*

3.12 It had been planned to add more areas of work that had been identified as part of Phase 1 in Phase 2 to extend the detailed review of reconciliations, but the delays to the 2020-21 Accounts have meant that there is not the capacity to do this at present and the primary objective must be to complete the outstanding Accounts, Audits and obtain certificates. This has moved to a red rating as the position on the Accounts has meant that there has been no further progress in this area.

3.13 *Now red rated (previously amber); Feeder systems and regular reconciliation processes should be established to ensure that all income due to the Council is accurately and promptly invoiced, collected and recorded. All other income sources (other than those in Phase 1) to be documented and reconciliation processes reviewed and documented on a prioritised basis (C2b).*

3.14 It had been planned to add more areas of work that had been identified as part of Phase 1 into Phase 2, but the delays to the 2020-21 Accounts have meant that there is not the capacity to do this and, as stated above, the primary objective needs to be to complete the outstanding Accounts, Audits and obtain certificates. This has moved to a red rating as the position on the Accounts has meant that there has been no further progress in this area.

3.15 *Now red rated (previously amber); Ensure that items are not carried forward on the Balance Sheet without a detailed review to confirm accuracy and completeness of audit trail (C1c).*

3.16 As previously reported, a documented line by line review of the Balance Sheet has taken place and any uncertainties addressed with an action plan. This

action was taken into Phase 2 as this review was high level and needs to be taken to a granular level. The delays to the 2020-21 Accounts have meant that there is not the capacity to do this at present and the primary objective needs to be to complete the outstanding Accounts, Audits and obtain certificates. This has moved to a red rating as the position on the Accounts has meant that there has been no further progress in this area.

3.17 *Amber rated; Particular attention should be given to the implementation of IFRS 16 for 2020-21, and project plans for successful implementation put in place as soon as possible (which was delayed due to the 1 year delay nationally in implementation of IFRS16) (B5b)*

3.18 The implementation of IFRS 16 which relates to the way in which leases are accounted for was delayed nationally by a year. However, the Council will need to disclose the potential impacts on its opening balances for 2022-23 in its 2021-22 accounts, so this work does need to commence as soon as is practical. The resourcing of this work has been a key issue, as Finance capacity has been focussed on prior years. It had been intended that this work commenced in November but will now commence in February.

3.19 *New amber action; The Council should aim to set up a monthly monitoring process whereby all schools provide copies of bank reconciliations and budget monitoring statements within 10 days of each month-end, and this information is used to confirm each schools' cash balances, reserves balances and spend to date against DSG allocation. Journal postings can then be made on a regular basis throughout the year to eliminate internal transactions and recharges and post accurate figures for schools' cash balances and reserves to the Balance Sheet (C4)*

3.20 The Independent Review recommended that all schools bank accounts are monitored monthly and that postings are made throughout the year to reflect the schools' financial position. It has been previously reported to the Audit Committee that during the process of correcting errors made in previous years, it eventually became apparent that the extent of accounting error was more widespread than had been initially recognised. Much of the substance of these errors arose in 2017-18, when the schools' bank reconciliations were not performed to a satisfactory standard.

3.21 A separate schools improvement plan was drawn up and a crucial element was that an end-to-end process review of that accounting process has taken place, including using the Accounts Payable system for disbursement to schools, not CHAPs as was the previous payment method, which generated unnecessary work, including a significant volume of journals. All payments to schools have been successfully made using BACs from April 2021, which has simplified the coding, reduced journals and replaced an overly complex and unsatisfactory process. The rest of the schools improvement plan has either been implemented (in almost all instances) or is on track.

3.22 It had been planned to check the schools accounts on a quarterly basis, not a monthly one as recommended by the Independent Review. However, the

quarterly reviews and reconciliations have not been carried out due to delays in the Accounts process and are now a high priority for January 2022. This is the reason why the action is now amber rated.

2018-19 and 2019-20 Pension Fund Accounts

3.23 2020-21 pension fund accounts are now complete and ready for publication. 2018-19 and 2019-20 audit are nearing completion, ISA 260s have been issued for both years.

3.24 The Pension Fund has split the IP into parts – pension finance and pensions administration. 15 areas of development were identified for pensions finance and pensions administration. Although most are nearing completion for reasons mentioned in the October report, 6 have been moved to Phase 2 for completion most of which relate to the ongoing payroll Zellis (the payroll system) issues. It is not expected that these will be resolved by the end of phase 2. Work on the new pension fund chart of accounts is complete and a draft pension fund chart of accounts has been produced. The Agresso Systems team are currently reviewing and new codes and reports are being set up. The draft chart of accounts has also been shared with the Deloitte pension fund audit manager. This is expected to be up and running by April 22.

3.25 3 of the improvements put forward for pensions administration have been moved to Phase 2. Two relate to employer data referred to above and the other to historic HMRC returns which are now nearing completion.

Programme Approach

3.26 As previously reported to the Audit Committee, a programme approach has been taken to manage the FIP, which has now been developed to encompass the wider recommendations made as part of the CFIPFA review and other work deemed essential. All unmet actions from Phase 1 were carried into Phase 2, which has been agreed by CLT as follows:

A Budget Management

- In depth realignment of all Council wide budgets (income and expenditure) to enable more robust monitoring
- Review of the way in which Tower Hamlets accounts for recharges
- Agresso Health Check
- A Council Wide Learning and Development Training offer for Budget Holders and Finance staff and MAR Finance objectives
- A new intranet page designed as a ‘one stop shop’ for Budget Holder information and guidance.

B Pensions Administration and Finance

C Corporate and wider Finance Workstream

- Enhancements to the Tech Forge system (Finance Asset Register)
- Core Process Reviews
- Review of journals
- Further review of control accounts and reconciliations

- VAT review
- Payroll review
- Review of frequency of schools' accounts (currently quarterly)
- Systems enhancements

D Legacy Phase 1 - Agresso

E Legacy Phase 1 – closure of 3 years accounts (2018-19, 2019-20 & 2020-21), the Audit opinion and the KPMG certificates for years 2017-18 and 16-17

F Legacy Phase 1 – other unmet Phase 1 recommendations

Conclusion

3.27 Significant progress has been made towards implementing the FIP, but a small number of important recommendations still need to be met. The drawing to a close of the External Audit of the Accounts for 2018-19 and 2019-20 and the current engagement with KPMG on the certificates for the 2 years previous to that and the successful drafting of the 2020-21 Accounts should allow for focus to return to the outstanding FIP actions, despite the remaining challenge of preparing for the 2021-22 Accounts whilst the Audit is taking place of the Accounts for 2020-21.

4. EQUALITIES IMPLICATIONS

4.1 There are no specific implications arising from this report.

5. OTHER STATUTORY IMPLICATIONS

5.1 The statutory implications are set out in 2.1 (the Accounts and Audit Regulations 2015).

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 The report is financial in nature and, as such, the views of the CFO are incorporated throughout the report. No new considerations arise from this report.

7. COMMENTS OF LEGAL SERVICES

7.1 Regulation 10 of the Accounts and Audit Regulations 2015 requires a local authority to publish their statement of accounts not later than 31 July of the financial year immediately following the end of the financial year to which the statement relates, or, for the financial year starting in 2019, not later than 30 November. These dates have not been kept, as noted in the report.

7.2 Regulation 3 of the Accounts and Audit Regulations 2015 requires a local authority to have a sound system of internal control which ensures that the financial and operational management of the authority is effective.

7.3 Save as mentioned above, the matters set out in this report comply with the above legislation.

Linked Reports, Appendices and Background Documents
Linked Report

- Tower Hamlets' response to the Independent Review of Accounts and reports produced by the Chartered Institute of Public Finance and Accountancy and Grant Thornton

https://democracy.towerhamlets.gov.uk/documents/s183532/Finance%20and%20Governance%20Improvement%20Plans.pdf

Appendices

- Appendix A Independent Review Recommendations - Improvement Plan

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report •

- NONE

Officer contact details for documents:

- N/A

This page is intentionally left blank

Independent Review Recommendations - Improvement Plan **Appendix A**

	Independent Review Recommendations with TH additions in italics		Actions	Responsible Officer	Target Date - RAG (blue complete)	Comments
A	**Leadership, resourcing, planning and closedown delivery**					
A1	Regular and visible input from the Council's s151 officer is necessary to reinforce the fact that closedown is a corporate priority, enable key judgements to be documented and ensure any problems or slippage are promptly identified and resolved.	A1 i	Weekly Accounts meetings to be led by S151 to show a visible presence, allow speedier decision making, oversee documentation and support informed feedback to CLT.	S151		
		A1 ii	S151 to hold an Accounts launch session in week beg 1st Feb; this will launch the I.P., feedback on lessons learned and focus on the timetable for 20/21, as well as update on technical changes.	S151		
		A1 iii	Fortnightly e mail from the S151 to all key staff, including 3rd parties such as THH and identified departmental staff at all levels to brief on progress, celebrate success and identify where more actions are required to remedy delays or address problems.	S151		The fortnightly e mail finished over the summer as Directorate activity came to an end and the Business Partner role was largely complete. Staff are now kept updated by briefings from their Strategic Head of Finance.
A2	Culturally the Council should recognise that year-end close and audit is a corporate priority, and all Corporate Directors should support the Corporate Finance team by: • making staff time available as necessary to assist with closedown work • ensuring that in-year financial information is accurate and up to date • adhering to corporate timetables and guidance on year-end close, especially in key areas such as accruals, cut-off, reconciliation work and the use of reserves • responding promptly to audit queries and internal requests for further information	A2 i	Finance to take regular reports to CLT, starting with the Accounts timetable and fortnightly from week ending Feb 26th so that the CEO and CLT are aware of progress and specifically, what is needed to ensure that the timetable is on track.	CEO		It should be noted that these reports were mainly verbal and become less frequent after directorate involvement has become less significant. Reports are now made on an as and when needed basis.
		A2 ii	Heads of Strategic Finance (HoSFs) to attend DLTs with a regular report to highlight progress and what is needed and from whom both in terms of their own data and specific actions required for the Accounts such as valuations. DLTs to include Accounts related content in newsletters and staff cascades.	CDs/SHOFs		These reports are now made on an as and when basis as directorate involvement has largely been finished.
		A2 iii	Readiness report for each Division to be prepared including a review of what is required for the Accounts and remedial action identified for financial information being accurate and up to date; this to be discussed at DD DLTS reported to Directorates DLTs. Generic template to be provided by Finance.	DDs		
		A2 iv	PDRs (now My Annual Review MARs) to contain an objective on finance to cover budget development, monitoring and the accounts for all relevant staff. This will be carried into Phase 2.	CEOs/CDs		This objective has been agreed with HR and will be included for the 2022/23 MAR cycle.

	Independent Review Recommendations with TH additions in italics		Actions	Responsible Officer	Target Date - RAG (blue complete)	Comments
		A2 v	A Council wide coms plan to be developed in conjunction with Comms so that awareness is heightened and colleagues across the Council understand progress.	DS151		The Comms Plan was in place and delivered until directorate activity was largely closed.
A3	All Finance staff should expect to be involved in year-end work and should be provided with adequate and up-to-date training in this regard. Local authorities who do this most successfully have a programme of short, but regular, training events throughout the year.	A3 i	A series of mandatory briefings and training sessions to be drawn up and diarised in all Finance Calendars. All staff to attend, including S151, except for those detailed briefing sessions centering on one specific subject such as schools accounting.	DS151		
		A3 ii	A wider training needs analysis will be carried out for Finance staff as well as BHs and administrators to identify gaps and develop a suite of training sessions and on line content. This will be carried into Phase 2	DS151		This analysis has been carried out by an external supplier for BHs (by the commercial arm of the Chartered Institute of Finance and Accountancy) and will be reviewed by the Finance Improvement Board in Feb. A review of Finance training needs took place in September 2021 and a plan for the remainder of 2021/22 established.
		A3 iii	A wider training plan to be developed including one off and ongoing training for BH, along with a BH webpage with training content and link to relevant documentation such as the BH Handbook. The training should be mandatory.	DS151		One off and on going training for BHs that covers their responsibilities and how to discharge them in relation to Finance and Agresso skills has been established and is being delivered from November 2021 and then ongoing. The new intranet site has been set up and is being populated. The training is not currently mandatory, but that will be reviewed if needed.
A4	Closedown planning should clarify accountability for all tasks identified and ensure that detailed working papers are prepared to support all core statement and disclosure notes.	A4 i	Review allocation of tasks as part of the timetable review.	CA		
		A4 ii	Templates for detailed working papers to be drawn up eg for accruals	CA		
		A4 iii	PDRs (now My Annual Review) to be clear about individual training needs so staff have the opportunities to be upskilled where individual needs are identified.	DD HR		This objective will be included for the 2022/23 MAR cycle.
A5a	Closedown work should be scheduled to avoid bottlenecks and to ensure that all disclosure notes are completed and reviewed before core statements are prepared.	A5a i	Lessons learned sessions to be held with all staff including an assessment of where bottlenecks occurred and why this was the case. The key bottlenecks experienced for 2019/20 accounts such as schools, the Collection Fund, Leaseholders, payroll reconciliations, bank accounts, energy holding account, suspense and other key reconciliations such as Housing Rents all to have specific plans to avoid a reoccurrence.	DS151		

	Independent Review Recommendations with TH additions in italics		Actions	Responsible Officer	Target Date - RAG (blue complete)	Comments
		A5a ii	A review of strategic priorities and resourcing for Finance to be held to allow more focus on the Accounts. CLT agreed that Finance staff could post a virtual 2 week "out of office" to focus on the Audit.	S151		
		A5a iii	Closing timetable and plan being reviewed for early cut off opportunities where they will add value, where more estimates can be used.	CA		
		A5a iv	A review of who uploads accrual bulk journals and manual journals (service finance team or business support team)to be carried out to avoid bottlenecks	CA		
		A5a v	The Council's current Asset Register is on a spreadsheet. This needs to be put on a system for control purposes and avoid bottlenecks.	CA		This is on track for delivery in the late winter.
A5b	The closedown plan includes columns for actual completion dates and a "traffic light" risk assessment system, which should be used to monitor progress and highlight delays.	A5b	The closedown plan for 19/20 had these columns built in.	CA		
A6	The Council should aim to complete as much closedown work as possible prior to 1 April each year, using budget and Quarter 3 information where possible to draft disclosure notes.	A6	The Timetable will be reviewed to ensure that as many tasks as possible will be completed prior to 31/3/21, including seeking further opportunities to use estimates.	CA		
A7	The Prepared By Client (PBC, information requirements) is one of the key drivers for the audit and the contents of this list should be discussed and agreed well in advance with a view to ensuring that all working papers requested are available at the start of the audit. Checklists, templates and proformas should also be introduced to ensure that working papers are prepared to a consistent standard which meets external audit needs.	A7 i	Earliest sight of PBC requested to discuss with Deloitte and a workshop to be set up to review requirements with them.	CA		
		A7 ii	Detailed briefing sessions on the PBC to be set up with all responsible officers (as in 19/20)	CA		
		A7 iii	Checklists, templates and proformas to be reviewed as part of the Accounts suite of documentation.	CA		
A8	Closedown work should include detailed checks on the draft financial statements, and a full review of year-end working papers, at the pre-audit stage.	A8	To be included as part of the Accounts Timetable (this was in place for 19/20)	CA		
B	**Systems and processes**					
B1a	The Council should, as a priority, address the shortcomings in the current ledger system highlighted by CIPFA in 2017. A project plan should be established to deliver the required improvements within achievable timescales, and subject to regular monitoring by the Audit Committee.	B1a i	A Development Plan is being devised in conjunction with IT that has identified development priorities that will take place before and after a planned upgrade to Agresso before June 21. Benefits include "Rollovers" carried out for the Council, capital budgets loaded to Agresso with new capital reports.	DS151		

	Independent Review Recommendations with TH additions in italics		Actions	Responsible Officer	Target Date - RAG (blue complete)	Comments
		B1a ii	Planned improvements delivered. Items not complete and being carried into Phase 2 are new standard revenue reports.	Chair Agresso Board		The reports will be delivered in early winter and are on track
		B1a iii	A strategic review of corporate systems was to be carried out to decide what financial system should be used. An external analysis of opportunities will be commissioned externally as part of the Review.	S151		CLT have agreed that a "Health check" of the Agresso system will take place in June and the strategic review of Corporate Systems will take place in the Autumn.
B1b	The Council should simplify the current coding structure so that it reflects, with minimal re-analysis, the required layout and format of the Statement of Accounts.	B1b	This has been completed for the 19/20 set of accounts and is in place.	DS151		
B1c	Arrangements should also be put in place to manage the appropriate roll-forward, reversal or re-start of specified ledger codes each year end.	B1c	This forms part of the Agresso Development Plan and has been completed for the Council's Accounts (NB a similar approach will be taken for THH, Client Affairs and the Pensions Fund)	CA		
B1d	The Council should also simplify the presentation of the CIES and underlying processes for the accounting and management of overheads, governance and corporate service costs.	B1d	An initial review of Corporate recharges was completed and budgets centralised. A review of accounting for and the management of overheads, governance and corporate service costs to be commissioned, with the objective of making these fit for purpose whilst being as simple to execute as possible. The Accounts impact will be year 21/22.	DS151		This work has been resourced but is complex and wide ranging; it is still due to be delivered by the end of 2021/22.
B1e	Action should be taken to minimise journal mispostings and coding adjustments, through a combination of staff training and by restricting who can initiate and authorise such transactions.	B1e	A review of the 100,000 plus journals a year will be commissioned to reduce the volumes and secondly, make recommendations on staff that can post journals; currently, departmental staff can post journals as well as Finance staff.	DS151		This review has taken place and the recommendations are being implemented.
B2a	The Council should confirm that all Agresso ledger codes and disclosure notes are supported by ongoing financial systems and/or year-end work. Arrangements should be put in place to carry out and evidence regular reconciliation work which confirms the accuracy of these balances on a monthly basis rather than relying on year-end work.	B2a i	A review of all ledger codes and disclosure notes to take place to establish that each balance/disclosure note has an owner and that a reconciliation is taking place. Where they are key, those to form part of the Technical Plan - Phase 1, so arrangements for those will be put in place to ensure that regular reconciliations processes are documented, carried out and reviewed	DS151		The Council has employed a specialist Payroll Resource, who is now working through the Payroll issues.
		B2a ii	All other codes and disclosure notes; arrangements for those will be put in place to ensure that regular reconciliations processes are documented, carried out and reviewed	DS151/CA		This has been delayed due to a lack of capacity as the 2020/21 Accounts will be delivered later than planned.
		B2a iii	The accounting processes for the Collection Fund will be reviewed and documented by an external resource, LGF and training delivered for relevant staff. This will be carried forward into Phase 2	DS151		This work has been delayed due to the complexity of the accounting framework that was in place . This is now on track for March.

	Independent Review Recommendations with TH additions in italics		Actions	Responsible Officer	Target Date - RAG (blue complete)	Comments
B2b	Good practice is to operate a "dashboard" approach with regular (i.e. monthly) reports to the s.151 officer to provide assurance to him/her that all reconciliations are occurring on time and to identify where they are not so that corrective action can be undertaken in a timely manner.	B2b	The first monthly dashboard has been produced in July.	CA		
B3a	Given the significance of asset valuations to the audit process, tenders and contracts for external valuers should emphasise that all work is carried out to a standard that meets Code and RICS Red Book requirements in full. Contracts should only be awarded to valuers who can demonstrate a proven track record in meeting external audit requirements.	B3a	TH already mandates that all companies used have surveyors that are RICS registered valuers as a condition of the contract, as per RICS requirements https://www.rics.org/uk/upholding-professional-standards/regulation/valuer-registration/ Tower Hamlets' current valuer is RICS registered https://www.wilks-head.co.uk/the-firm/meet-the-team/guy-harbord/ The track record of surveyors is a key factor in contract award; our current contractor is one of the most widely used companies in this field and provides a similar service to over 100 local authorities. NB The Council is in the final year of this contract (The Contract is for 5 years from 1st September 2017 and expires on 31st August 2022, although it can be extended for one or more further periods). A meeting has been diarised for early 2022 to commission a new tender process ensuring that the surveyors have RICS Registered Valuers.	CA/Place DD		
B3b	Valuation processes, including all key estimates and assumptions, should be fully documented with officers undertaking, and evidencing, adequate review and challenge of all valuation reports received	B3b	Tower Hamlets will confirm all the required assumptions with WHE (the Valuers) before the valuation is carried out and document this process and ensure that the valuation reports are reviewed, challenged and that process will be documented. The valuation will be reviewed by the Capital Accountant and nominated member of Asset Management prior to being signed off by The Chief Accountant and Head of Asset Management or Divisional Director of Place.	CA/Place DD		
B4a	The Council should liaise with its actuaries each year end to ensure that officers understand and agree with all key assumptions underpinning IAS 19 valuations and reports, and that evidence can be provided, if necessary, to support the judgements, estimates and assumptions arrived at.		This will be included in the Closedown timetable	DS151		This work has been completed and approved by the Finance Improvement Board.
B4b	Actuaries' reports and correspondence should confirm how they have taken account of recent legal cases and other current developments when assessing year end pension liabilities.		This will be included in the Closedown timetable; this is amber as the reports have only just been delivered - this has been taken into Phase 2	DS151		This work has been completed and approved by the Finance Improvement Board.

	Independent Review Recommendations with TH additions in italics		Actions	Responsible Officer	Target Date - RAG (blue complete)	Comments
B4c	Working papers provided for audit should demonstrate how the accounting implications of any prepayments or deficit funding arrangements have been considered and applied		The working papers to be reviewed and the accounting implications clearly set out	DS151		This work has been completed and approved by the Finance Improvement Board.
B5a	Discussions should be held with the external audit team early in the New Year to identify and agree the basis for: • exercising and disclosing key management judgements and material estimation techniques • implementing new Code requirements and other significant changes to the Statement of Accounts • dealing with any other complex or contentious accounting issues.		A meeting to be set up for this purpose with all key parties.	CA		
B5b	Particular attention should be given to the implementation of IFRS 16 for 2020/21, and project plans for successful implementation put in place as soon as possible. Arrangements should then be made to obtain any additional information from external experts, (e.g. valuation reports, legal advice or formal accounting views) and for officers to prepare briefing papers or Council reports on material items as required.		This implementation has now been deferred nationally - the work on this will be carried out as part of the preparation for 2021/22 Accounts.	CA		This is a substantial project which has yet to commence.
B5c	The template Statement of Accounts should be re-drafted to include updated disclosure notes and revised accounting policies by 31 January, then be presented to auditors and Those Charged with Governance in advance of 31 March each year.		The template will drafted for CLT review, Deloitte and the Audit Committee.	CA		
C	**Errors identified to date**					
C1a	The Council should: • update its approach to revenue recognition in the light of IFRS 15		The approach has been updated and a working paper shared with Deloitte	CA		
C1b	• improve processes for controlling year end cut-off		To be reviewed as part of the closedown timetable.	CA		
C1c	• ensure that items are not carried forward on the Balance Sheet without a detailed review to confirm accuracy and completeness of audit trail		Documented line by line review of the Balance Sheet has taken place and any uncertainties addressed with an action plan. This will be taken into Phase 2 as the action plans need to be developed as it is high level and needs to be taken to a granular level.	Ds151/CA		This has been delayed due to a lack of capacity as the 2020/21 Accounts will be delivered later than planned.

	Independent Review Recommendations with TH additions in italics		Actions	Responsible Officer	Target Date - RAG (blue complete)	Comments
C1d	• ensure that land and buildings valuations meet Code and RICS requirements • improve liaison with spending departments to ensure that the Fixed Asset Register is accurate and up to date.		All land and buildings are valued using Code and RICS requirements. A monthly Assets Group meeting was established in the Autumn of 2020 to jointly review the list of potential surplus assets and assets that are being disposed by a range of stakeholders from Finance and Place. A list of all the assets that will come into operational use and the anticipated year that they will become operational will be drawn up using the Capital Programme and reviewed in detail quarterly by the Assets Group and then reported to the Capital Delivery Board which governs the Capital programme, to further ensure that the fixed asset register can be kept up to date.	CA/Place		
C2	Feeder systems and regular reconciliation processes should be established to ensure that all income due to the Council is accurately and promptly invoiced, collected and recorded.	C2a	All income sources need to be documented and reconciliation processes reviewed and documented. Particular focus for Phase 1 is on CIL, S106 and Leaseholders. Action Plans were agreed and largely delivered and processes have been documented and are now with Internal Audit for Review.	DS151		Processes are being reviewed by Internal Audit.
		C2b	All other income sources to be documented and reconciliation processes reviewed and documented on a prioritised basis.	DS151		This has been delayed due to a lack of capacity as the 2020/21 Accounts will be delivered later than planned.
C3	A consistent approach to accounting for DSG funding deficits should be decided upon, taking account of current DfE and CIPFA guidance, and disclosed as a key management judgement in the Statement of Accounts.		This will be reviewed and the DSG funding deficits accounting treatment disclosed in the Statement of Accounts	CA/Childrens HOSF		
C4	The Council should aim to set up a monthly monitoring process whereby all schools provide copies of bank reconciliations and budget monitoring statements within 10 days of each month-end, and this information is used to confirm each schools' cash balances, reserves balances and spend to date against DSG allocation. Journal postings can then be made on a regular basis throughout the year to eliminate internal transactions and recharges and post accurate figures for schools' cash balances and reserves to the Balance Sheet.		The decision for the need to move to monthly monitoring for schools will be taken at the end of October 2021. A more robust quarterly monitoring process has been implemented as well as further improvements planned in for 2020/21. These include ensuring that DSG budget allocations are made through a monthly BACs payment set up at the beginning of the school year, internal payroll is posted directly, rather than as a year end process which can then be checked and monitored regularly. There is also a consideration to make service level agreement charges an annual in advance invoiced amount and for other school income payments to be made on a quarterly rather than monthly basis. There is a plan in place to record the bank balance more transparently on the ledger to ensure the bank account reconciliation is possible for the council in a simple form.	HOSF - children's		The decision has been taken by the Finance Improvement Board to review quarterly. Please note that the reconciliations process has not been completed due to delays in the 2020/21 Accounts. This will need to be a high priority for January 2022.

	Independent Review Recommendations with TH additions in italics		Actions	Responsible Officer	Target Date - RAG (blue complete)	Comments
C5	Grant income is one of the most significant items in the Statement of Accounts therefore a comprehensive grant claims register should be put in place as soon as possible, and reconciled to ledger records on a monthly basis to better inform budget management and year-end financial reporting		A comprehensive grants register for both capital and revenue to be put in place; the grants register for 2021/22 has been taken into Phase 2	CA		Please note that the Grants register for 2021/22 has not been fully set up and that this will need to be a high priority for January 2022.
C6a	More detailed guidance and training on year-end cut off should be provided to spending departments. In order to minimize the number of year-end postings the Council should implement a de-minimis policy for accruals, say £20-25,000, and suspend payroll and creditor payment runs for 7-10 days over the year end date		More detailed guidance will be sent out to Directorates as per the Closedown plan and it will include the policy on accruals, which is a revenue de minimus of £10,000, unless grants related and a de minimus for capital of £50,000. The closedown timetable does not contain a suspension of payroll and creditor payments. Decision has been made that there is no cut off for 2020/21 closure as there were issues with the use of estimates in 19/20.	CA		
C6b	An "accruals team" should be established to check all accruals over an agreed threshold (say £250,000) and 10% - 15% of accruals below this threshold on a sample basis to confirm the accuracy of the entries in the Statement of Accounts. Alternatively, additional testing of year-end accruals could be provided by Internal Audit.		A review of the resources has taken place, bearing in mind that the Chief Accountant and his team are now permanently staffed. It is proposed that 3 short term interims are secured with a start date of February. Part of the role will be to review all accruals; the team will also provide additional capacity, troubleshoot and support the audit process. Once the 20/21 Accounts have been audited, a review will take place to see what if any short term resource needs to be secured annually. This is work in progress and will be taken through to Phase 2	CA		
D	**External Audit**					
D1	Detailed meetings between the Council and their auditors at the planning stage should have covered not just the logistical arrangements for the audit but also current Code and FRC requirements, the overall approach to the audit and working paper requirements.		A separate meeting will be set up for this purpose with Deloitte.	DS151/CA		
D2a	Processes recently put in place to manage the audit process and to treat completion of the 2018/19 audit as a corporate priority need to be maintained and developed.		The daily updates on timetables and outstanding queries will be continued, as will the weekly minute meetings with Deloitte. The corporate nature of the Accounts will be further emphasised by the actions identified elsewhere in the I.P.	S151		
D2b	Discussions with Deloittes should clarify how best to prioritise outstanding queries and complete the audit of the revised 2018/19 Statement of Accounts by an agreed date which is both realistic and achievable.		Joint Deloitte / CEO meeting took place in January and a joint plan has been agreed.	CEO/Deloitte		
D2c	The s151 officer should reinforce this process by regularly attending progress meetings with the external audit team, providing visible encouragement and leadership and closely monitoring progress against plan.		The S151 meets Deloitte every 2 weeks and in between as required. TH CEO is meeting with Deloitte formally on a quarterly basis.	S151/CEO		

	Independent Review Recommendations with TH additions in italics		Actions	Responsible Officer	Target Date - RAG (blue complete)	Comments
D2d	Reports to Those Charged with Governance should be more detailed and cover audit processes as well as proposed changes to the Statement of Accounts.		More detailed reports will be made to the Audit Committee at each cycle.	DS151		
E	**Other workstreams**					
E	**Pensions**					
E1	Implement proposed staffing structure		Fill vacant positions. 3 pension officer posts, 1 pensions admin Team Leader posts have been filled. Interviews for the senior accountant pensions post is being scheduled for February. Possibility of using external head-hunter services for more senior posts is being considered.	DS151	Ongoing to 31/03/2022	
E2	Ensure 90% of member records are accurate		Improvement in tPR score and Aquila Heywood Annual Data Quality Report in line with guidance notes set out by tPR Audit results - separate detailed action plan. This is ongoing. Missing records receive from council payroll and other employers have been created. This work stream will be completed once Zellis amendments to HR/Payroll system is completed. This will ensure receipt of correct and complete records. A more up to date data quality report has been prepared by Heywood the pensions software provider.	DS151	ongoing to 30/06/22	
E3	To ensure 98% of member records are accurate		Improvement in tPR score and Aquila Heywood Annual Data Quality Report in line with guidance notes set out by tPR Audit results - separate detailed action plan. This is ongoing. Missing records receive from council payroll and other employers have been created. This work stream will be completed once Zellis amendments to HR/Payroll system is completed. This will ensure receipt of correct and complete records.	DS151	ongoing to 30/06/23	
E4	Complete all existing backlog tasks		Performance reports - separate detailed action plan. Clearing of historic backlog for active members and pensioners has been the initial priority to avoid further breach of regulation or Ombudsman complaint. Average age of backlog in this group has further improved from over 24 months to under 5 months. Work is ongoing to continue to clear outstanding historic backlog. Delay in clearing historic back log has been mainly due to resource constraints within the team, backlog due to staff inefficiencies and difficulty in recruiting experienced agency staffs in the interim.	DS151	31/6/2022	

	Independent Review Recommendations with TH additions in italics		Actions	Responsible Officer	Target Date - RAG (blue complete)	Comments
E5a	Developing technology to improve data quality		100% of employers submitting data via i-Connect and taking full ownership of process - separate detailed action plan. Employers forum was held in October 2020 during which employers where informed of the need to adhere to the LGPS and TPR regulations. Since then All employers apart from Tower Hamlets council, Tower Hamlets Homes, Mulberry Academy, St Pauls Way Trust School and East End Homes now submit data via i-Connect.	DS151	31/3/2021 and ongoing	
E5b	Developing technology to streamline process & reduce errors		Implement workflow - separate action plan.	DS151	Completed	
Eb6	Developing technology to streamline process & reduce errors		Implement system generated letters	DS151	Completed	
Eb7	Implementation of new service provider to process monthly pension payments to overseas pensioners		Previous service provider Equinit were unable to process payments to countries like Thailand. A new provider has been procured, use of cheques stopped, review of overseas pensioners took place to ensure that no deceased pensioner was being paid, Overseas pensioners who failed to return Life Certificates have been suspended. All overseas pensioners are now paid using the same provider Western Union. The new system allows officers to download up to date payment reports.	DS151	Completed	
Eb8	Establish dialogue with scheme employers to facilitate joint working		The Fund's employer's forum took place in October 2020. This has significantly improved employer commitment.	DS151	Completed	
Eb9	Review of HMRC returns		A review of HMRC returns took place in January 21. This brought to light outstanding returns dating back to 2014/15. Quarterly returns have now been submitted to Sept 2021, annual returns for overseas pensioners and ill health cases have been submitted to March 2021. Annual returns for Pensions Savings statement have all been uploaded to 2019/20 with 2020 outstanding. Work on annual returns for Life Time Allowance is yet to commence.	DS151	ongoing to 31/03/22	
Eb10	Review Pension Fund Risk Register		A review of the Pension Fund Risk Register was completed, new risks added, redundant risks removed, date of next review introduced for all risk, actions to mitigate risks have also been introduced. The Pensions Board recommended that the review of the Risk Register is a standing agenda on all Board meetings	DS151	Completed	
Eb11	Develop a new chart of accounts to facilitate producing the Pension Fund Accounts		This work stream is nearing completion, draft chart accounts completed and discussed with auditors. Financial systems team in process of setting up required codes and reports. Work is expected to be completed this financial year.	DS151	expected completion 31/03/22	

	Independent Review Recommendations with TH additions in italics		Actions	Responsible Officer	Target Date - RAG (blue complete)	Comments
Eb12	Automation of daily pension fund bank account file upload and direct posting to ledger		A key area of risk, pension Fund bank account entries have been posted directly from bank statement to ledger manually. This created room for error and duplicate posting of statement transactions. Electronic bank statement files are now uploaded in Agresso daily. Conditions are being written to automate direct posting to the pension fund ledger as much as possible.	DS151	Completed	
Eb13	Review of coding of payroll elements for pensioners payroll to align with new chart of accounts		This work stream will not take place following discussions with the financial systems. Work required being huge and impacts payroll.	DS151	N/A	
Eb14	Setting up of pension fund budgets to facilitate monitoring of spend		This work stream will commence in phase 2.	DS151	ongoing to 31/12/2022	

This page is intentionally left blank

AUDIT COMMITTEE WORK PLAN 2021/22

Contact Officer: Email: Telephone: Website: Last updated:	**Farhana Zia** Democratic Services farhana.zia@towerhamlets.gov.uk 020 7364 0842 www.towerhamlets.gov.uk/committee 13th January 2022

AUDIT COMMITTEE WORK PLAN 2021/22

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
27TH JANUARY 2022	**EXTRAORDINARY MEETING**		
1. Deloitte	Standing Item	Jonathan Gooding/Angus Fish	Extraordinary Mtg – Jan 22
2. Statement of Accounts 2018/19, 2019/20 – final approval of audited accounts	The approval of the Annual Statement of Accounts by the Audit Committee.	Kevin Bartle	Extraordinary Mtg – Jan 22
3. Progress Report on the Finance Improvement Plan		Marion Kelly	
4. 2022/23Treasury Management Strategy Statement, Investment Strategy Report and Capital Strategy Report for 2021-22		Nisar Visram /Miriam Adams	
5. Audit Committee Work Plan	Review and agree items on the work plan for the Committee.	Audit Committee Members	
17TH MARCH 2022	**TRAINING DAY**		
	Risk Management	Paul Rock	
24TH MARCH 2022			
1. Deloitte	Standing Item	Jonathan Gooding/Angus Fish	
2. Statement of Account 2020/21 – Approval of Accounts	The approval of the Annual Statement of Accounts by the Audit Committee.	Kevin Bartle	

AUDIT COMMITTEE WORK PLAN 2021/22

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
3. Internal Audit and Anti-Fraud update 2021/22 – Q4 Progress Update	An update on the progress against the delivery of the 2021/22 Annual Internal Audit Plan. Highlights any significant issues since the last report to the Audit Committee.	Paul Rock/Bharat Mehta	
4. Risk Management Report 2021-22 – Q4 Progress Update & Directorate Risk Register	An update of risks on the Corporate Risk Register.	Paul Rock	
5. Annual Internal Audit and Counter-Fraud Strategy & Plan	Draft Internal Audit Plan for 2022/23. For review and approval by the Committee.	Paul Rock	
6. Draft Annual Governance Statement 2021/22	For Review. Approval in July 2022 with Annual Accounts.	Paul Rock	
7. Review of Code of Corporate Governance 2020/21	To report on an annual basis. Monitoring Officer.	Matthew Mannion	
8. RIPA Policy 2021/22	Regulation of Investigatory Powers Act 2000 (RIPA) relates to covert surveillance. A report updating Members on the policy and use of these powers, in accordance with the code of practice. Reviewed Annually.	Agnes Adrien	
9. Draft Terms of reference for 2022-23	Review. To be approved in July 2022	Farhana Zia/Paul Rock	
10. Annual Self-Assessment and report of the Audit Committee	Self –Assessment – March 2022 Report by the Audit Chair to go to Full Council in July 2022	Cllr Whitehead/ Paul Rock/ Charlotte Webster/ Farhana Zia	
11. Audit Committee Work Plan	Review and agree items on the work plan for the Committee.	Audit Committee Members	

This page is intentionally left blank