

Meeting of the

# PENSIONS AND ACCOUNTS COMMITTEE

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Thursday, 15 December 2005 at 6.30 p.m.

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## A G E N D A

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### VENUE

Room M78, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent,  
London, E14 2BG

Members:	Deputies (if any):
Chair: Councillor Richard Brooks	
Councillor Manir U Ahmed Councillor Fanu Miah Councillor Oliur Rahman Councillor Marian Williams	Councillor James Sanderson, (Designated Deputy for Councillor Marian Williams)
<b>[Note: The quorum for this body is 2 Members].</b>	

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

# LONDON BOROUGH OF TOWER HAMLETS

## PENSIONS AND ACCOUNTS COMMITTEE

Thursday, 15 December 2005

6.30 p.m.

### 1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

### 2. DECLARATIONS OF INTEREST

To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992.

#### Note from the Chief Executive

In accordance with the Council's Code of Conduct, Members must declare any **personal interests** they have in any item on the agenda or as they arise during the course of the meeting. Members must orally indicate to which item their interest relates. If a Member has a personal interest he/she must also consider whether or not that interest is a **prejudicial personal interest** and take the necessary action. When considering whether or not they have a declarable interest, Members should consult pages 181 to 184 of the Council's Constitution. Please note that all Members present at a Committee meeting (in whatever capacity) are required to declare any personal or prejudicial interests.

A **personal interest** is, generally, one that would affect a Member (either directly or through a connection with a relevant person or organisation) more than other people in London, in respect of the item of business under consideration at the meeting. If a member of the public, knowing all the relevant facts, would view a Member's personal interest in the item under consideration as so substantial that it would appear likely to prejudice the Member's judgement of the public interest, then the Member has a **prejudicial personal interest**.

#### Consequences:

- If a Member has a **personal interest**: he/she must declare the interest but can stay, speak and vote.
- If the Member has **prejudicial personal interest**: he/she must declare the interest, cannot speak or vote on the item and must leave the room.

When declaring an interest, Members are requested to specify the nature of the interest, the particular agenda item to which the interest relates and to also specify whether the interest is of a personal or personal and prejudicial nature. This procedure is designed to assist the public's understanding of the meeting and is also designed to enable a full entry to be made in the Statutory Register of Interests which is kept by the Head of Democratic Renewal and Engagement on behalf of the Monitoring Officer.

**3. ELECTION OF VICE-CHAIR FOR THE 2005/2006 MUNICIPAL YEAR**

**PAGE  
NUMBER      WARD(S)  
AFFECTED**

**4. UNRESTRICTED MINUTES**

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Pensions and Accounts Committee held on 27<sup>th</sup> July 2005.

**1 - 4**

**5. DEPUTATIONS & PETITIONS**

To receive any deputations or petitions.

**6. UNRESTRICTED REPORTS FOR  
CONSIDERATION**

**6.1 Statement of Accounts 2004-2005 (PA004/056)**

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**All Wards**

**7. EXCLUSION OF THE PRESS AND PUBLIC**

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion:

“That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

**EXEMPT SECTION (Pink Papers)**

The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please hand them to the Committee Officer present.

**PAGE  
NUMBER      WARD(S)  
AFFECTED**

**8. RESTRICTED MINUTES**

To confirm as a correct record of the proceedings the restricted minutes of the ordinary meeting of the Pensions and Accounts Committee held on 27<sup>th</sup> July 2005.

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London Borough of Tower Hamlets  
Meeting of the

**Pensions and Accounts Committee**  
**Wednesday 27<sup>th</sup> July 2005**  
**6.32 pm**

Room M78, Seventh Floor, Town Hall, Mulberry Place,  
5 Clove Crescent, London E14 2BG

**Minutes**  
**(Section One)**

**MEMBERS PRESENT**

Councillors R. Brooks  
Councillor M. Ahmed  
Councillor O. Rahman  
Councillor M. Williams

**OTHER MEMBERS PRESENT**

None.

**OFFICERS PRESENT**

A. Finch	-	Service Head Corporate Finance
J. Ricketts	-	Corporate Accounting Manager
D. Hudson	-	Democratic Services

1. **APOLOGIES FOR ABSENCE**

**RESOLVED** that apologies for absence be received on behalf of J. Gray (UNISON).

2. **DECLARATIONS OF INTEREST**

No declarations of interest were made.

3. **ELECTION OF CHAIR & VICE-CHAIR FOR THE MUNICIPAL YEAR 2005/06**

The clerk sought nominations for the Chair of the Pensions and Accounts Committee for the Municipal Year 2005 – 2006.

Councillor M. Ahmed nominated Councillor R. Brooks as Chair of the Pensions and Accounts Committee and there being no other nominations it was: -

**RESOLVED**

That Councillor R. Brooks be elected Chair of the Pensions and Accounts Committee for the Municipal Year 2005 - 2006.

**COUNCILLOR R. BROOKS IN THE CHAIR**

Nominations were then sought for the position of Vice-Chair and subsequent to Councillor M. Williams declining the position it was **RESOLVED** that this matter be considered at the next meeting.

4. **UNRESTRICTED MINUTES**

**RESOLVED** that the minutes of the meeting held on 14<sup>th</sup> March 2005 be confirmed and signed as a correct record of the proceedings.

5. **TERMS OF REFERENCE**

**RESOLVED** that the Terms of Reference of the Committee be noted as follows:

- To consider pension matters and meet the obligations and the duties of the Council under the Superannuation Act 1972, and the various statutory requirements in respect of investment matters.
- To meet the obligations of the Accounts and Audit Regulations 1996 and the various statutory requirements in respect of the duty to approve the Authority's Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts (as the case may be).

## 6. **DEPUTATIONS & PETITIONS**

None were received.

## 7. **UNRESTRICTED REPORTS FOR CONSIDERATION**

Prior to formal consideration of the reports the Service Head Corporate Finance gave a brief introduction relating to the roles and responsibilities of the Pension and Accounts Committee.

### 7.1 **Premature Retirement 2004/2005 Outturn (PA001/056)**

Subsequent to the Corporate Accounting Manager undertaking a summary of the key elements of the report Members requested that they be provided with details of premature retirements due to ill-health.

**RESOLVED** that

- (i) the report be noted; and
- (ii) Members of the Committee be supplied with details of the ill-health premature retirements for the three-year period ending the 31<sup>st</sup> March 2005.

**ACTION BY: Corporate Accounting Manager (J. Ricketts)**

### 7.2 **Final Accounts 2004/05 (PA002/056)**

The Service Head Corporate Finance introduced the report and advised Members of the auditing and reporting process for the Accounts.

Members raised a number of points in relation to specific matters illustrated in the Accounts and subsequent to undertaking a robust scrutiny of the accounts it was **RESOLVED** that

- (ii) the draft final Statement of Accounts for the financial year ending 31<sup>st</sup> March 2005 be approved; and
- (ii) it be noted that the accounts will now be submitted for audit.

**ACTION BY: Service Head Corporate Finance (A. Finch)**

8. **EXCLUSION OF THE PRESS AND PUBLIC**

The Committee **RESOLVED** to adopt the following motion:

That, under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the Press and Public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government, Act 1972”.

The meeting ended at 7.13 p.m.

**Councillor Richard Brooks**  
**Chair of the Pensions and Accounts Committee**



# Agenda Item 6.1

COMMITTEE <b>Pensions &amp; Accounts Committee</b>	DATE <b>15<sup>th</sup> December 2005</b>	CLASSIFICATION <b>Unrestricted</b>	REPORT NO. <b>(PA004/056)</b>	AGENDA NO.
REPORT OF: <b>Director of Resources</b>		TITLE: <b>Statement of Accounts 2004-2005</b>		
ORIGINATING OFFICER(S): <b>Alan Finch – Service Head, Corporate Finance</b>		Ward(s) affected: N/A		

## 1. SUMMARY

1.1 This report presents the Authority's Statement of Accounts for the financial year ending 31<sup>st</sup> March 2005 following the audit of accounts.

## 2. RECOMMENDATIONS

Pensions and Accounts Committee is recommended to:-

- 2.1 Note the final Statement of Accounts for the financial year ending 31<sup>st</sup> March 2005, and the change resulting from the audit.
- 2.2 Note that the Audit Commission has issued an unqualified opinion and an audit certificate on the accounts.
- 2.3 Note the ongoing discussion with the auditor over the proper treatment for former ILEA debt.

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### LOCAL GOVERNMENT ACT, 2000 (SECTION 97) LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

*Brief description of "background papers"*

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

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

*Les Williams, Ext. 4731  
Les Williams, Ext. 4731  
Les Williams, Ext. 4731  
Barrie Tyson, Ext. 7132  
Jim Ricketts, Ext. 4733*

### **3. BACKGROUND**

- 3.1 On 27<sup>th</sup> July 2005, Pensions & Accounts Committee received and approved the draft Statement of Accounts for the authority.
- 3.2 Subsequently the Council's Accounts have been subjected to external audit and on 28<sup>th</sup> October 2005, the auditor issued an unqualified opinion and audit certificate.
- 3.3 Under legislation any material amendments arising as a result of the audit must be reported back to Pensions and Accounts Committee.

### **4. STATEMENT OF ACCOUNTS 2004-2005**

- 4.1 The formal Statement of Accounts is attached to the report as **Appendix 1**.
- 4.2 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the "Statement of Recommended Practice" published by the Chartered Institute of Public Finance and Accountancy and supported by the Office of the Deputy Prime Minister.
- 4.3 The audit of accounts was undertaken by the Audit Commission and in the course of the audit, the auditor identified an issue requiring a change to the draft approved by the Committee in August. The Accounts & Audit Regulations 2003 (Regulation 18(4)) provides that amendments made to the accounts during audit must be reported back to the same Committee that approved them. It is not necessary for the Committee to approve the accounts again as the audit opinion has now been issued.
- 4.4. The issue relates to provision for the repayment of debt relating to the former Inner London Education Authority transferred to the authority in 1992. The auditor's views are set out in his Report on the 2004/05 Financial Statements to the Audit Panel, which is attached at **Appendix 2**. The matter was discussed at the Audit Panel on 13<sup>th</sup> October 2005.
- 4.5. In essence, the auditor's view is that the Council has not made full accounting provision for the repayment of the former ILEA debt and has advised the authority to make an adjustment to the accounts as if it had been providing for the repayment since 1992. The impact of this would be to reduce General Reserves from those indicated in the draft accounts by around £5.5m, which is around half the total figure.
- 4.6. It is officers' current view that the Council has acted entirely in accordance with the legislation in place between 1992 and 2004, and if there is a statutory liability to provide for the debt, it is inappropriate to adjust for this retrospectively. The matter is currently the subject of ongoing, constructive discussion with the auditors. Other London

Boroughs are currently affected by this issue and liaison is taking place under the auspices of the Society of London Treasurers.

- 4.7. In order to finalise the 2004/05 accounts, the Council and the auditors have agreed that the Council will make a provision in the 2004/05 accounts for £1.1m, amounting to the equivalent of a first year allocation if the £5.5m retrospective provision was to be spread over five years. By making a provision, the authority acknowledges that it has a potential liability, but in the event that the provision is not needed, it would be returned to general balances.
- 4.8. The change is reflected in the Statement presented at Appendix 1 and has the effect that General Fund balances are £1.1m lower than in the draft accounts, at about £9.9m.
- 4.9. The authority will be working with the auditors to resolve the issue of former ILEA debt over the next few months so that it can be reflected in the 2005/06 accounts.

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

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

## **6. RISK MANAGEMENT**

- 6.1 The outcome of ongoing discussions with the auditors will determine the financial impact of the issue of former ILEA debt on the accounts. Officers will seek to minimise that impact, subject to the need to comply with regulatory and accounting requirements.

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

- 7.1. Regulation 18 of the Accounts and Audit Regulations 2003 requires the Director of Resources, as the Responsible Financial Officer, to report to this Committee on any material amendments which are needed to the statement of accounts as a result of the external auditor's report. This report discharges that obligation.

## **8. EQUAL OPPORTUNITY CONSIDERATIONS**

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

## **9. ANTI-POVERTY CONSIDERATIONS**

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

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

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

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## **FINANCIAL FOREWORD OF THE DIRECTOR OF RESOURCES**

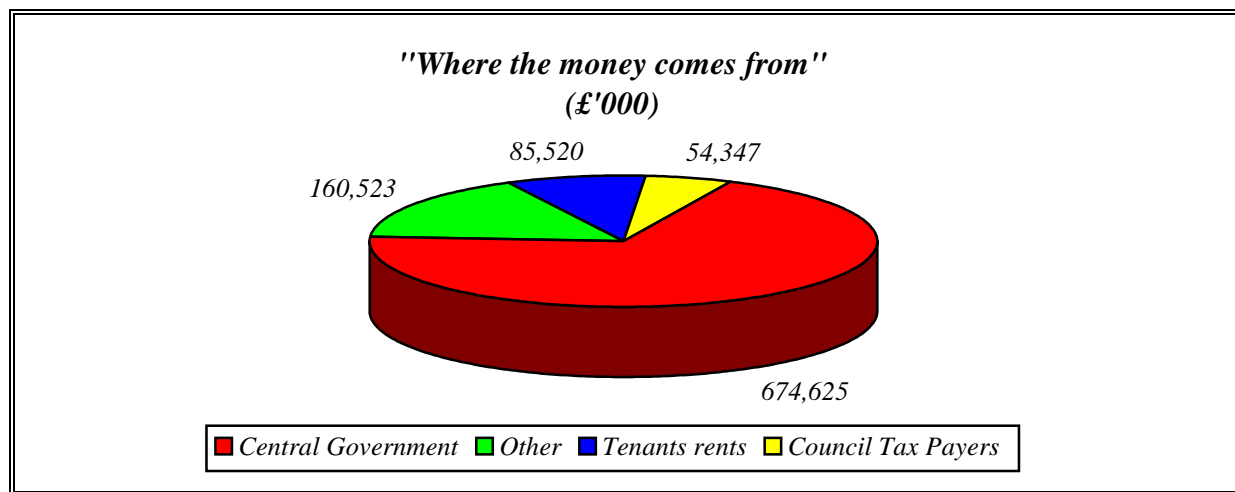
The Authority's accounts for the financial year ended 31<sup>st</sup> March 2005 are set out on pages 19 to 54. They consist of:

- The **Consolidated Revenue Account** – This reports the cost for the year of providing those services for which the Authority is responsible and shows how such costs were financed from the Collection Fund, Central Government and from charges levied by the Authority. This statement and supporting notes can be found on pages 19 to 26.
- The **Housing Revenue Account** - This reflects a statutory obligation to account separately for the provision of all types of Council housing. It shows the major elements of housing revenue expenditure - management, maintenance, rent rebates and capital financing costs - and how these are met by rents, Central Government subsidy and other income. This statement and supporting notes can be found on pages 27 to 30.
- The **Collection Fund** – This account shows the income received from Council Tax and Business Ratepayers and how it is distributed between the Authority and its preceptor, the Greater London Authority. This statement and supporting notes can be found on pages 31 to 32.
- The **Consolidated Balance Sheet** – This is fundamental to the understanding of the Authority's financial position as at 31<sup>st</sup> March 2005. It shows the balances and reserves available to the Authority, its long-term indebtedness, net current assets employed in operational activities and summarised information about fixed assets held. This statement and supporting notes can be found on pages 33 to 44.
- θ The **Statement of Total Movements in Reserves** - This summarises all recognised gains and losses during the year and can be found on pages 45 to 46.
- θ The **Cashflow Statement** - This summarises the inflows and outflows of cash arising from transactions with third parties during the year. This statement and supporting notes can be found on pages 47 to 48.
- The **Pension Fund Accounts** – These show the financial position of the Authority's Pension Fund at the year-end. The statements and supporting notes can be found on pages 49 to 54.

These accounts are supported by the Statement of Accounting Policies on pages 6 to 11.

## WHERE THE MONEY COMES FROM

The Authority's gross revenue income for all funds in the year, net of recharges, was £975 million. This money comes from a number of different sources as demonstrated in the chart below.



Grants from Central Government form the most significant single source of income to the Authority - £674 million (£639 million in 2003/2004). Of these, approximately 48% are grants claimed or received as a subsidy towards the costs of providing specific services. The balance forms income received in respect of the Authority's service provision as a whole.

Income received in the form of rents and other charges from tenants of Council-owned dwellings amounted to £85.5 million (£85.1 million in 2003/2004). "Other" income includes fees and charges levied on users of services provided by the Authority (£117.7 million), and total external interest receipts (£7.9 million).

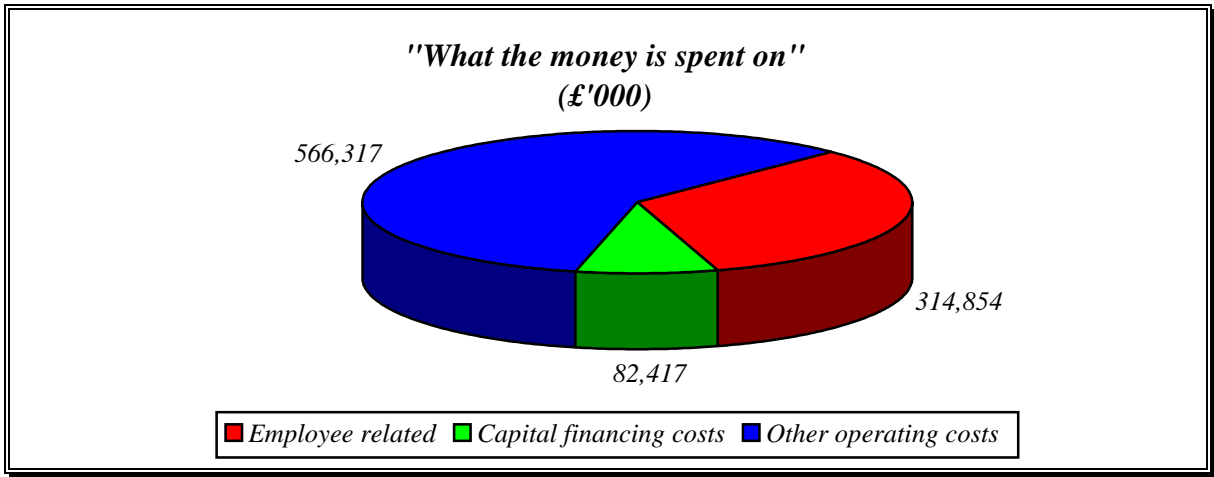
## WHAT THE MONEY IS SPENT ON

Approximately £963 million was spent during the year. The chart overleaf shows what this money was spent on.

Running expenses (such as maintaining the Authority's administrative and operational buildings, operating vehicles and the purchase of supplies and services) accounted for approximately 59% of the Authority's spending. Employees' salaries and wages accounted for a further 33% of total expenditure.

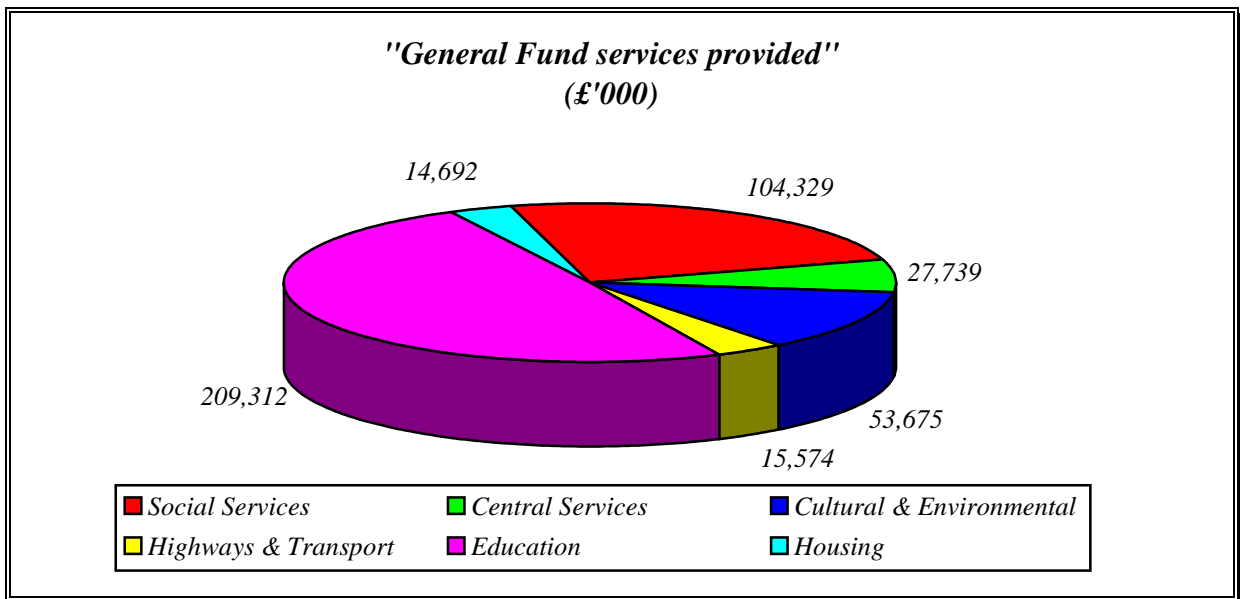
Capital financing, which consists of principal and interest payments on loans, leasing charges and asset rentals comprises the balance.





## GENERAL FUND SERVICES PROVIDED

The Authority's General Fund net service expenditure of £425.3 million is dominated by Education which represents 49% of total expenditure. Social Services accounts for a further 24% of spending on services and Cultural and Environmental Services (including Leisure, Environmental Health, Planning, and Refuse Collection) 13%. A fuller analysis can be found by reference to the Consolidated Revenue Account on page 19.



The net expenditure of £14.7 million on Housing services includes the net cost of housing benefits but excludes those costs incurred in the provision of council housing which are disclosed within the Housing Revenue Account on page 27.

## THE 2004/2005 GENERAL FUND BUDGET

The General Fund revenue budget requirement was agreed at £408.83 million. The main components of the budget, and how they compare with actual costs, are shown below.

The comparison shows a marginal £1.25 million overspend for net operating expenditure. The reported underspend on a service outturn basis was £1.188 million. The difference is principally attributable to the accounting treatment of a number of appropriations to and from reserves which are recognised as service expenditure for management accounting purposes but treated as non service related transactions in the financial accounts. A number of significant contributory service variances are outlined below:

- Corporate – Transfer Payments - £0.3 million overspend. Due to greater than anticipated levels of non-domestic rate relief granted to charities.
- Social Services – Children’s Commissioning - £0.8 million net overspend. Due to the exceptional demand for secured accommodation allied to additional demand for both specialist residential placements for older children and support services for children with disabilities
- Education - Standards Fund - £0.6 million net underspend. Standards Fund receipts accounted for during the financial year have an eligible expenditure period running until the 31 August 2005. As at 31<sup>st</sup> March not all expenditure had been incurred.
- Housing – Benefits – 0.8 million net underspend due primarily to increased levels of grant subsidy for homelessness benefits.

### GENERAL FUND BUDGET SUMMARY 2004/2005

	Revised Budget £m	Actual expenditure £m	Variance £m
Net operating expenditure	408.83	410.08	1.25
Interest on balances	(5.56)	(6.71)	(1.15)
Contribution (from)/to reserves	4.58	4.48	(0.10)
<b>Budget requirement</b>	<b>407.85</b>	<b>407.85</b>	<b>0.00</b>
Financed by:-			
Revenue Support Grant	(293.82)	(293.82)	0.00
NNDR	(57.77)	(57.77)	0.00
Surplus on Collection Fund	(1.91)	(1.91)	0.00
<b>Council Tax requirement</b>	<b>54.35</b>	<b>54.35</b>	<b>0.00</b>

Details of gross expenditure and income arising from the provision of services are set out in the Consolidated Revenue Account on page 19.

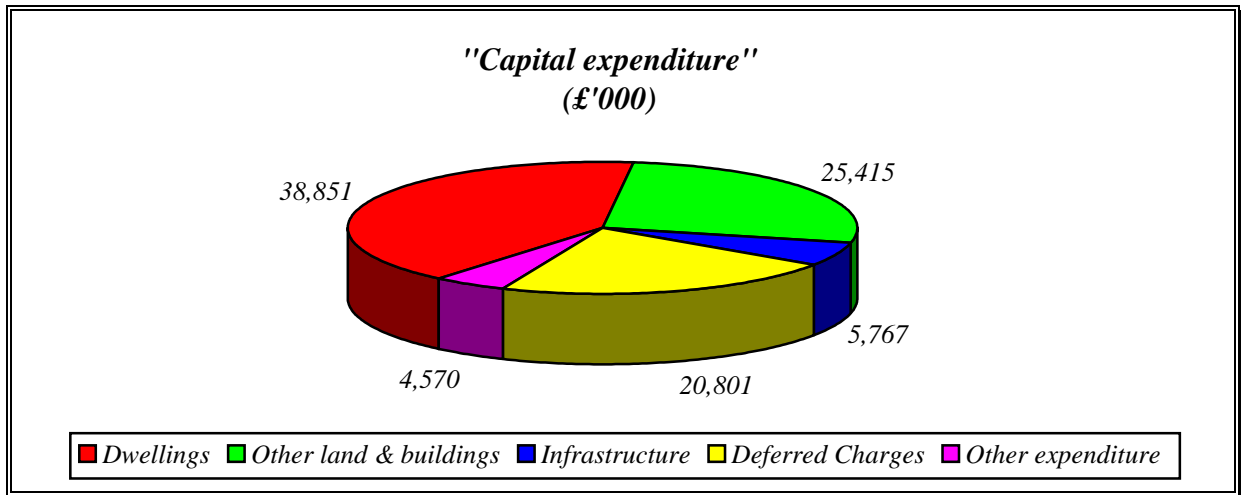
## CAPITAL

Actual capital expenditure during the year amounted to £95.4m (£110.1m in 2003/2004) and was accommodated within the resources available. This expenditure is analysed in the chart below.

Approximately £38.8m (£39.7m in 2003/2004) of capital expenditure for the year was on projects relating to the conversion, improvement and major repair work required to the Authority's existing housing stock.

Capital expenditure on completed other land and buildings projects accounted for £25.4m (£23.9m in 2003/2004). This was primarily spent on the refurbishment, improvement and extension of Schools and the further development of Idea stores within the borough. Expenditure on infrastructure - principally that incurred in improving the existing road system within the borough and the provision of street lighting - accounted for a further £5.8m (£9.5m in 2003/2004).

Deferred charges includes payments made as part of the Education PFI project (£6.0m), expenditure incurred on I.T. development (£3.5m) and the cost of redundancies capitalised by direction of the Secretary of State under Section 40(6) of the Local Government and Housing Act 1989 (£1.3m). It also includes home improvement grants paid to homeowners, grants paid to voluntary organisations and payments to tenants granted under the Home Purchase Incentive Scheme.



### **FURTHER INFORMATION**

Further information about the accounts is available from the Director of Resources, Mulberry Place, 5 Clove Crescent, London, E14 2BG.

## STATEMENT OF ACCOUNTING POLICIES

The following Statement of Accounts has been prepared in accordance with the Statement of Recommended Practice (SORP) on local authority accounting and the Best Value Accounting Code of Practice (BVACOP) both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The relevant Statements of Standard Accounting Practice (SSAP) and Financial Reporting Standards (FRS) have been consulted. Where the adopted financial recording and/or disclosure policies differ from those prescribed, details are included, where appropriate, within the general statements set out below.

### Debtors and Creditors

Transactions are recorded on an accruals basis. Estimated or actual sums due to creditors at 31<sup>st</sup> March 2005 but not paid by that time are recorded in the revenue accounts for the year and shown in the Balance Sheet. In the main, sums due to the Authority are set up in the accounts as they become due. The main exceptions being the following which are accounted for on a cash basis:

- Adults in residential care under the National Assistance Act 1948
- Recovery of overpaid housing benefits in respect of on-going cases

### Provisions for Bad Debts

A provision for bad debts based on total debtors has been included in the accounts. The Authority's policy is to write off debts only when it has exhausted every possible avenue of recovery. Increases/decreases in provisions for debts raised by General Fund services are charged directly to individual service accounts in accordance with the Best Value Accounting Code of Practice

### Pensions

The Authority paid an employer's contribution at an agreed percentage rate (based on superannuable employees' reckonable pay) into various Pension Funds for the benefit of the employees. For 2004/2005, the rates were as follows:

- 13.5% for Teachers (13.5% in 2003/2004);
- 19.30% for Non-teaching education staff (19.30% in 2003/2004);
- 25.99% for all other staff (25.4% in 2003/2004).

The accounts incorporate accounting adjustments required by Financial Reporting Standard 17. The standard is extremely complex but is based on the simple premise that a charge should be made to the relevant accounting period which reflects the true cost of the commitment to pay pensions many years in the future. The current application of the standard records the net of the pension liability and asset in the Authority's balance sheet with a neutral impact on the Council Tax requirement. Full adoption of the standard in future years will require Authorities to contribute sufficient revenue resources to ensure the pension liabilities are fully funded at the end of the financial year.

In 2004/2005 the Authority revised its existing policy by making an FRS17 adjustment within the Housing Revenue Account. The adjustment has a neutral impact on current and future tenants' rents levels charged to the account.

### **Cost of Support Services**

Support Service costs are recharged to "front-line" service accounts in accordance with the reporting requirements of the SORP and BVACOP.

### **Trading Accounts**

The following Trading accounts have been identified and prepared in accordance with the Best Value Accounting Code of Practice (BVACOP) published by CIPFA.

- Vehicle Maintenance – provides fleet management and undertakes the routine servicing and repair to all the Council's vehicles and items of equipment.
- Cleaning and Welfare Catering – comprising three functions;
  - (i) Schools Cleaning – cleaning of schools and other Council buildings,
  - (ii) Schools Catering – providing children's and adult's meals to 107 schools and childrens centres,
  - (iii) Welfare Catering – providing a Meals on Wheels service and meals to Social Services luncheon clubs and day centres.
- Construction Related Services
- Support Services – services provided on behalf of front line services, primarily by the Chief Executive's department, including, Legal, Human Resources Communications, e-Services and Finance.
- Administrative Buildings

Material surpluses/deficits are applied to the accounts in the year they occur, otherwise they are carried forward to the following year to be reflected in revised charges. Expenditure and net surpluses/deficits for each account is shown in note 6 to the Consolidated Revenue Account on page 21. The aggregate net surplus carried forward is included in Earmarked Reserves and is disclosed as item (g) in note 26 to the Consolidated Balance Sheet on page 43.

### **Tangible Fixed Assets**

All expenditure on the acquisition or enhancement of tangible fixed assets is capitalised on an accruals basis. Expenditure on tangible fixed assets is capitalised, provided that the asset yields benefits to the Authority provides for a period of more than one year. The de minimis level above which expenditure on tangible fixed assets must be classified as capital is £50,000. This excludes expenditure on routine repairs and maintenance of tangible fixed assets which is charged direct to service revenue accounts.

Tangible fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). Tangible fixed assets are classified into the groupings required by the SORP. Balance Sheet values are calculated on the following bases:

- land, operational properties and other operational assets are included in the Balance Sheet at the lower of net current replacement cost or net realisable value;
- non operational assets, including investment properties and assets that are surplus to requirements, are included in the Consolidated Balance Sheet at the lower of net current replacement cost or net realisable value. In the case of investment properties this will be open market value;
- infrastructure assets and community assets are included in the Balance Sheet at historic cost.

Adjustments to the value of assets are charged to the fixed asset restatement account. Subsequent revaluations of tangible fixed assets are planned to be carried out no less frequently than every five years on a rolling basis. Material changes to asset valuations will be adjusted in the interim period, as they occur.

Assets acquired under finance leases are also capitalised in the Authority's accounts together with the liability to pay future rentals. Other assets previously acquired under advance and deferred purchase schemes are also recognised as tangible fixed assets.

### **Intangible Fixed Assets**

Capital expenditure which is permissible under the Local Authorities (Capital Finance and Accounting) Regulations 2003, but which does not represent tangible fixed assets, has been classified in the Authority's Accounts as intangible fixed assets. This is usually amortised to revenue in the year in which the expenditure is incurred, with the exception of premiums payable on the premature redemption of long term loans and capital expenditure on PFI schemes, which are amortised to revenue over an appropriate period of time.

### **Capitalised expenditure**

The Authority's policy on the capitalisation of expenditure is in accordance with the requirements of Section 16 of the Local Government Act 2003 and Section 25 of the Local Authorities (Capital Finance and Accounting) Regulations 2003. Expenditure for capital purposes is largely related to tangible fixed assets within the Authority's ownership, which will lengthen the life of the asset, increased its open market value or increased the extent to which it can be used to discharge the Authority's functions. In addition capital expenditure includes costs incurred on intangible fixed assets such as loans, grants or the provision of financial assistance to other persons for approved purposes and the acquisition or preparation of computer programs.

### **Charges to revenue**

General Fund Service Revenue accounts, central support services and statutory trading accounts are charged with a capital charge for all tangible fixed assets used in the provision of services. The total charge covers the annual provision for depreciation plus a capital financing charge determined by applying a specified rate of interest to net asset values. The aggregate charge to individual services is determined on the basis of the latest valuation of capital employed in each service. The charge made to the Housing Revenue Account is an amount equivalent to the statutory capital financing charges.

External interest payable and the provision of depreciation are charged to the Asset Management Revenue Account (AMRA) which is credited with capital charges charged to services. The transfer of the balance of the AMRA to the Consolidated Revenue Account

means that capital charges have a neutral impact on the amounts required to be raised from local taxation.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately as appropriations, on the face of the Consolidated Revenue Account, below net operating expenditure.

### **Capital Charges**

All service revenue accounts are charged with a capital charge for all tangible fixed assets used in the provision of services. The charge covers any provision for depreciation plus a capital financing charge. This is determined by applying a specified notional rate of interest to net asset values as at the 1st April each year. For the financial year 2004/05 the interest rates applied are 3.5% for assets held at current value and 4.8% for assets held at historic cost.

### **Depreciation**

Depreciation on a straight line basis is provided for on all tangible fixed assets, except land and community assets, with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

- Dwellings – assets have been depreciated in line with the Major Repairs Allowance, as this is the amount which central government estimates the Council requires to keep the housing stock in its current state
- Other land and buildings – up to 60 years, individual asset lives are assessed by the Head of Corporate Property as required by Financial Reporting Standard 15 on Tangible Fixed Assets
- Infrastructure – 40 years
- Equipment – 5 years
- Non-operational assets – 30 years

Under the Local Government Act 2003, implemented with effect from 1<sup>st</sup> April 2004, the Authority is no longer required to charge a Minimum Revenue Provision to the Housing Revenue Account. Resource accounting requires that the Authority make a depreciation charge in relation to its assets which may be used either to maintain the useful lives of those assets or repay debt.

### **Leases**

Payments under finance leases are charged to the asset management revenue account. Rentals payable under operating leases are charged to revenue on an accruals basis.

### **Capital contributions deferred**

Grants and contributions used to finance capital expenditure are credited to a Capital Contributions Deferred Account. The balance on the account for those assets which are the subject of depreciation is gradually written-out to revenue over the life of the asset at the same rate and in the same proportion as the asset depreciates.

### **Long Term Contracts**

The Council has entered into two Private Finance Initiatives (PFIs). The first is for a Group of Schools which was signed on the 28<sup>th</sup> March 2002 and financially closed on the 28<sup>th</sup> June 2002. The value of the scheme is £327.03m; services commenced on the 30<sup>th</sup> June 2002 and will end on the 31<sup>st</sup> August 2027.

The second scheme is for Mulberry School and was signed on the 29<sup>th</sup> March 2002 and financially closed on the 17<sup>th</sup> May 2002. The value of the scheme is £63.27m; services commenced on the 31<sup>st</sup> May 2002 and will end on the 31<sup>st</sup> March 2029.

### **Capital Receipts**

When assets are sold or disposed of, the amount of the capital receipt is held in a reserve account, Capital Receipts Unapplied. Since 1 April 2004 under Section 12 of the Local Authorities (Capital Finance and Accounting) Regulations 2003, capital receipts arising from the sale of housing assets (e.g. Right To Buy disposals) are subject to a pooling payment liability. A specified proportion of the sale proceeds (75% for dwellings) must be paid over to central government, the balance of the monies being available to finance capital expenditure within the Authority's approved capital programme.

### **Capital grants and contributions**

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the cash grant or contribution will be received.

### **Capital Reserves**

Under the capital accounting arrangements, the following two reserves appear in the Consolidated Balance Sheet:

- the Fixed Asset Restatement Account, which represents principally the balance of the surpluses or deficits arising on the periodic revaluation of fixed assets;
- the Capital Financing Account, which represents amounts set aside from revenue resources, capital receipts to finance capital expenditure and other capital financing transactions.

### **Debt Redemption**

The Authority pays out long term loans on maturity. In addition to those repayments there is a facility to prematurely redeem debt during the term of the loan. The Authority has utilised this facility. In 2003/2004 loans with a nominal value of £20m were redeemed. In the current financial year, a loan with a nominal value of £1.69m was redeemed as part of the Housing Choice process.

### **Investments**

Investments are shown in the Consolidated Balance Sheet at their original cost.

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

Vehicle maintenance stocks are valued at the latest purchase price.



Work in progress is valued at the lower of cost and net realisable value and is shown net of deposits and payments on account where appropriate.

### **Provisions and Contingent Liabilities**

Provisions are made when a present obligation arises as a result of a past event, it is probable that a transfer of economic benefits will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Details are disclosed in note 18 to the Consolidated Balance Sheet on page 40.

Contingent Liabilities are disclosed in the form of notes to the Consolidated Balance Sheet where potential material future losses or liabilities are identified but, due to uncertainty, there has been no provision made in the accounts. Details are disclosed in note 19 to the Consolidated Balance Sheet on page 40.

### **Insurance Fund**

The Authority has established an Insurance Reserve to finance the element of claims for which commercial insurers are not liable. The Authority has identified claims of £9,236,394 which have been classified as a provision on the basis that the claims are certain but the date and amount are not.

### **Earmarked Reserves**

Revenue resources may be earmarked from general balances to finance specific future expenditure. The Authority follows standard practice in both the accounting treatment and reporting of such reserves. All appropriations to and from Earmarked Reserves are subject to approval by an appropriate committee of the Council. Note 26 to the Consolidated Balance Sheet analyses the Authority's Earmarked Reserves and can be found on page 43.

# Statement of Responsibilities for the Statement of Accounts

## The Authority's responsibilities

The Authority is required:

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

## The responsibilities of the Director of Resources

The Director of Resources is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the SORP, is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year (ended 31<sup>st</sup> March 2005).

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

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

## The Director of Resources has also:

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

Accordingly, I certify that the accounting statements and supporting notes which follow present fairly the financial position of the Authority at 31<sup>st</sup> March 2005 and its income and expenditure for the year.

Martin Smith, CPFA.  
Director of Resources  
28<sup>th</sup> October 2005

Councillor Richard Brooks  
Lead Member - Resources  
28<sup>th</sup> October 2005

# **STATEMENT ON INTERNAL CONTROL**

## **For the period 1 April 2004 to 31 March 2005**

### **SCOPE OF RESPONSIBILITY**

The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control that facilitates the effective exercise of its functions, and which includes arrangements for the management of risk.

### **PURPOSE OF THE SYSTEM OF INTERNAL CONTROL**

The system of internal 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 system of internal control is based on an ongoing process, designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively and economically.

The system of internal control has been in place at the Authority for the financial year ended 31 March 2005, and up to the date of the approval of the annual report and accounts.

### **INTERNAL CONTROL ENVIRONMENT**

The key elements of the internal control environment are the Authority's objectives, the decision making framework, its policies and procedures, its systems for managing resources, and its arrangements for managing risk and monitoring performance.

#### **Establishing and monitoring of the Authority's objectives**

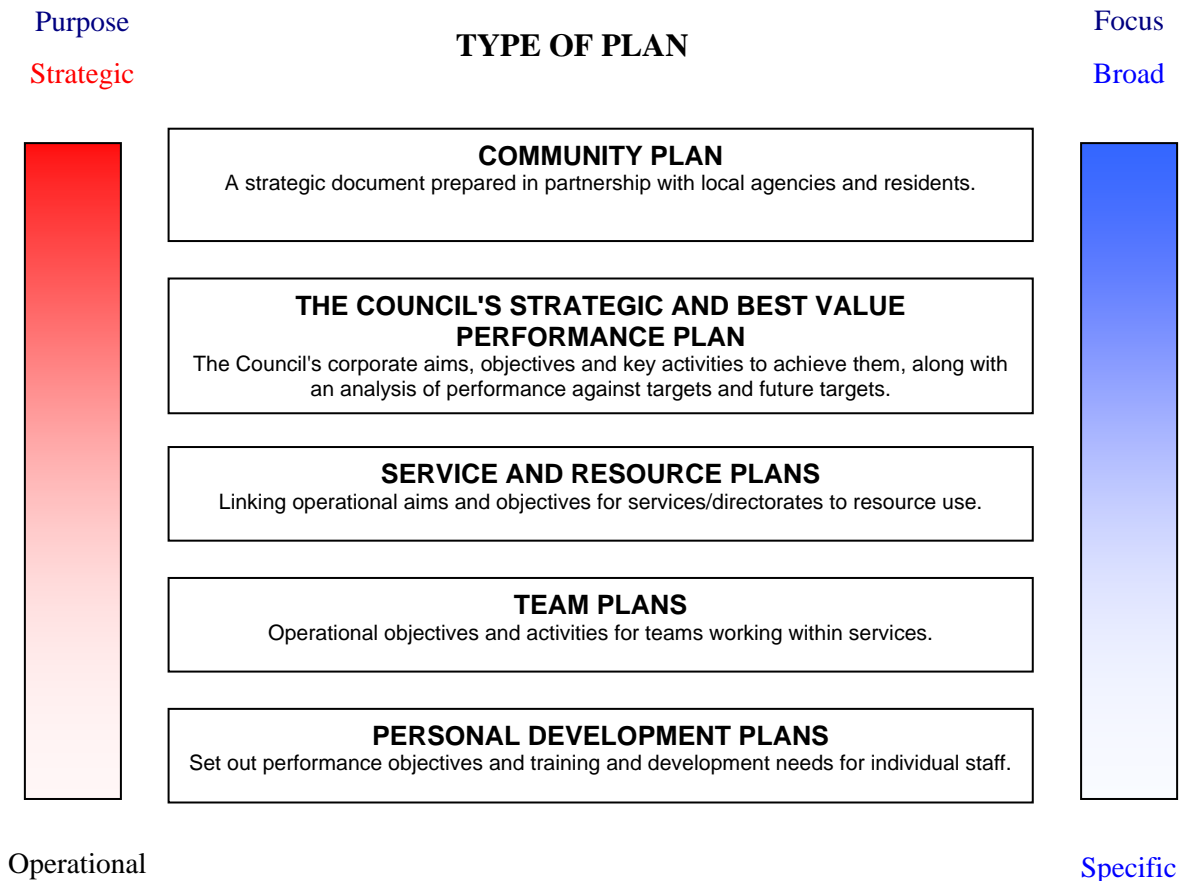
The Authority has a clearly defined set of priorities and supporting objectives designed to achieve the vision, established through the Tower Hamlets' Community Plan, of improving the quality of life of all those who live and work in the borough. The Authority's particular contribution to the implementation of the Community Plan is set out in a Strategic Plan, which defines the Authority's key objectives for the year together with associated activities and progress milestones. A Strategic Plan was in existence for the whole of the year under review.

Progress towards the achievement of those objectives is closely monitored across the organisation including regular reports to the Corporate Management Team, Cabinet Members and the Council's Scrutiny function.

## Performance Management

The Authority operates a comprehensive performance management framework to ensure that strategic priorities are cascaded into service plan, team plans and individual performance development plans; that resources are linked to operational aims and objectives; and that progress against plans and targets is monitored at all levels.

The overall framework is illustrated in the following diagram:-



## The decision making framework

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

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

During 2004/05 the work of the Executive was scrutinised by an Overview & Scrutiny Committee and a number of Scrutiny Panels. A “call-in” procedure allowed Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

### **Compliance with policy, procedures, law and regulations**

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

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

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

Internal Audit is overseen by an Audit Panel comprising Members of the Cabinet, the Chair of the Overview and Scrutiny Committee, the Chief Executive and the Director of Resources. The Audit Panel reviews audit findings and the effectiveness of the internal audit function.

### **Risk Management**

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

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

### **Financial Management**

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

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability.

Ongoing development and maintenance of the various processes is the responsibility of managers within the Authority. The control arrangements in 2004/05 included:

- Comprehensive corporate and directorate budgeting systems;
- An annual budget approved by the Authority that reflects strategic priorities;
- A risk financing strategy;
- Medium-term financial plans and projections;
- Regular reporting of actual expenditure & income against budgets and spending forecasts;
- Targets to measure financial and other performance;
- Clearly defined prudential borrowing framework and indicators;
- Standing meetings of finance managers from across the Authority.

### **The effective and efficient use of resources**

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of best value reviews. During 2004/05, the Authority commenced work on its efficiency programme in line with the principles set out in the Gershon report. An important part of this programme is the work to develop a new procurement strategy.

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

## **REVIEW OF EFFECTIVENESS**

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

The review of the effectiveness of the internal control framework involved the evaluation of the key sources of assurance:-

1. The Authority evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound. A revised Constitution was agreed by full Council in May 2004 and was reviewed in April 2005. Mandatory training for all Councillors on the ethical framework and conflicts of interest was completed in 2004/05.
2. The annual Internal Audit Opinion reported to the Audit Panel in July 2005 expressed the opinion that overall the Authority's system of internal control is adequate and effective.
3. The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.

4. The Authority is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Authority has a reasonable system of internal control. The Authority is rated as 'good' in the Comprehensive Performance Assessment, including a score of four out of four for its use of resources. The results of inspections of individual services were generally positive and showed at least promising prospects. Children's Services received a three star rating in the year, resulting in an overall three star rating for Social Services.
5. Monitoring of performance shows consistent improvement in performance against external measures, the Authority's own targets and in comparison to other authorities. The Authority achieved its target performance for the Tower Hamlets Index, a basket of performance indicators, against two comparator authority groups. This provides a significant level of assurance that the planning and performance systems are effective.
6. The provisional outturn on the 2004/05 budget shows that the financial management systems and processes of the Authority succeeded in keeping expenditure within planned limits.

## **SIGNIFICANT INTERNAL CONTROL ISSUES**

The review of the effectiveness of the system of internal control operating in 2004/05 has identified a number of areas where action is appropriate to enhance the internal control environment and ensure continuous improvement. The areas are set out below. In all cases work is underway to address the action points.

- Embed the strategic audit partnership to ensure the sustained development of the internal audit function;
- Implement the account preparation and grant submission improvement plans;
- Further develop the Assurance Framework by linking risk and internal control reporting;
- Build on the Corporate Governance checklist and action plan, by developing a local code of corporate governance;
- Review and revise the financial scheme of delegation to improve the understanding of delegation and commensurate responsibilities across the Authority;
- Implement the revised structure for the Development & Renewal Directorate to further enhance the control of regeneration partnership risk;
- Establish the necessary controls and systems for the emerging models of local governance.

## **CONCLUSION**

We have been advised on the implications of the review of the effectiveness of the system of internal control by the Authority having regard to the sources of assurance set out in this statement, and we are satisfied that the system of internal control is effective. We are also satisfied that there are appropriate and effective plans in place to address identified weaknesses and to ensure continuous improvement in the system of internal control.

.....  
Chief Executive  
Date: 28<sup>th</sup> October 2005

.....  
Leader  
Date: 28<sup>th</sup> October 2005



# CONSOLIDATED REVENUE ACCOUNT

for year ended 31st March 2005

	2004/2005 Gross Expend're	2004/2005 Gross Income	2004/2005 Net Expend're	2003/2004 Net Expend're
	£'000	£'000	£'000	£'000
<b>GENERAL FUND SERVICES (1)</b>				
Cultural, Environmental and Planning Services (2)	83,306	29,631	53,675	47,255
Central Services	34,397	27,942	6,455	10,684
Education Services	294,264	84,952	209,312	192,634
Highways, Roads and Transport Services (3/5)	27,043	11,469	15,574	12,263
Housing Services	219,147	204,455	14,692	16,941
Social Services	129,789	25,460	104,329	93,510
Corporate and Democratic Core (4)	23,748	7,575	16,173	11,737
Unapportionable Central Overheads	6,218	1,107	5,111	8,693
	<b>817,912</b>	<b>392,591</b>	<b>425,321</b>	<b>393,716</b>
<b>HOUSING REVENUE ACCOUNT SERVICES</b>	219,847	200,932	18,915	7,564
<b>NET COST OF SERVICES</b>	<b>1,037,759</b>	<b>593,524</b>	<b>444,236</b>	<b>401,280</b>
Total net deficit/(surplus) on Trading Accounts (6)			123	(1,224)
Transfer from Asset Management Revenue A/c (7)			(20,104)	(17,108)
Contribution to Housing Pooled Capital receipts			59,387	0
Amounts due to levying authorities (8)			1,503	2,455
Interest and investment income			(7,842)	(5,168)
Pensions interest cost and expected return on pension assets (14)			27,501	23,778
<b>NET OPERATING EXPENDITURE</b>			<b>504,804</b>	<b>404,013</b>
Surplus transferred to HRA balances			2,120	(8,634)
Contribution to/(from) school balances			1,339	4,723
Transfer to/(from) other earmarked reserves			9,963	23,605
Contribution to capital reserves:-				
Financing of capital expenditure			3,817	4,379
Capital contributions deferred			11,901	11,916
Provision for repayment of external loans (9)			(29,332)	(27,350)
Deferred Charges			(14,766)	(23,301)
Contribution from FRS17 pensions liability reserve (14)			(20,391)	(12,777)
Contribution from Housing Pooled Capital receipts			(59,387)	0
<b>AMOUNT TO BE MET FROM GOVERNMENT</b>				
<b>GRANT AND LOCAL TAXPAYERS</b>			<b>410,068</b>	<b>376,574</b>
Council Taxpayers			(54,347)	(50,277)
Collection Fund surplus			(1,905)	(1,905)
Revenue Support Grant			(293,823)	(267,301)
Contribution from non-domestic rate pool			(57,776)	(57,567)
<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>			<b>2,217</b>	<b>(476)</b>
General Fund			9,918	12,135
Schools			17,681	16,342
<b>TOTAL BALANCES AT 31st MARCH</b>			<b>27,599</b>	<b>28,477</b>

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 1. GENERAL FUND SERVICE ANALYSIS

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

### 2. PLANNING SERVICES: BUILDING REGULATIONS CHARGING ACCOUNT

It is required by Local Authority Building Control Regulations that the Authority disclose information regarding the setting of charges for the administration of the Council's Building Control function. The statement below shows the total cost of the building control function divided between chargeable and non-chargeable activities.

	2004/2005			2003/2004		
	Chargeable £'000	Non Chargeable £'000	Total Outturn £'000	Chargeable £'000	Non Chargeable £'000	Total Outturn £'000
<b>Expenditure</b>						
Employee costs	1,152	583	1,735	1,312	754	2,066
Transport	23	10	33	26	7	33
Supplies and services	158	59	217	178	24	202
Support services	100	318	418	62	33	95
<b>Total Expenditure</b>	<b>1,433</b>	<b>970</b>	<b>2,403</b>	<b>1,578</b>	<b>818</b>	<b>2,396</b>
<b>Income</b>						
Building Regulation Fees	1,343	180	1,523	1,315	71	1,386
Other Income	0	0	0	0	27	27
<b>Total Income</b>	<b>1,343</b>	<b>180</b>	<b>1,523</b>	<b>1,315</b>	<b>98</b>	<b>1,413</b>
<b>Deficit/(Surplus) for the year</b>	<b>90</b>	<b>790</b>	<b>880</b>	<b>263</b>	<b>720</b>	<b>983</b>

### 3. CONTROLLED PARKING ACCOUNT

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

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

	2004/2005 £'000	2003/2004 £'000
<b>Expenditure</b>		
Employee costs	3,383	3,030
Premises	279	124
Transport	119	108
Supplies and services	1,396	1,170
Third party payments	999	1,095
Support services	1,592	1,776
Capital financing	32	33
Increase in provision for bad debts	0	0
<b>Total Expenditure</b>	<b>7,800</b>	<b>7,336</b>
<b>Income</b>		
Fees and charges	9,050	9,438
Decrease in provision for bad debts	155	51
<b>Total Income</b>	<b>9,205</b>	<b>9,489</b>
<b>Surplus for the year</b>	<b>(1,405)</b>	<b>(2,153)</b>
Balance at 1st April	2,281	3,029
Surplus for year	1,405	2,153
Funding of General Fund service initiatives.	(2,638)	(2,901)
<b>Earmarked Reserve balance at the 31st March</b>	<b>1,048</b>	<b>2,281</b>

#### 4. MEMBERS' ALLOWANCES

Total allowances paid to council members were £785,940 in 2004/2005 (£710,410 in 2003/2004).

#### 5. ECONOMIC DEVELOPMENT

The Local Government (Promotion of Economic Development) Regulation 1990 requires authorities to disclose any financial assistance given to relevant bodies in the form of a loan with a rate of interest at less than the market rate.

At 31st March 2005 the Authority had no outstanding loan agreements of this nature.

#### 6. TRADING ACCOUNTS

The following accounts have been designated as "Trading Accounts" in 2004/2005 in accordance with Best Value criteria.

	Surplus/ Expenditure (Deficit)		Surplus/ Expenditure (Deficit)	
	2004/2005		2003/2004	
	£'000	£'000	£'000	£'000
Vehicle Maintenance	6,366	198	6,094	237
Cleansing and Welfare Catering	9,011	(186)	8,710	(206)
Building and Property Services	1,578	(198)	1,425	(154)
Support Services	34,488	(633)	33,188	1,172
Administrative Buildings	20,968	696	19,476	154
Head of Street Services	0	0	1,360	21
<b>TOTAL TRADING ACCOUNTS</b>	<b>72,411</b>	<b>(123)</b>	<b>70,253</b>	<b>1,224</b>

#### 7. ASSET MANAGEMENT REVENUE ACCOUNT

This account is charged with both the notional costs charged to service revenue accounts, to reflect the use of assets in service delivery, and the actual capital financing costs incurred by the Authority during the year. The difference between the two is transferred back to the Consolidated Revenue Account, "below" the Net Cost of Services, to ensure that the notional charges for capital do not impact on the level of Council Tax.

	2004/2005 £'000	2004/2005 £'000	2003/2004 £'000
Provision for depreciation of fixed assets		34,687	38,912
External interest payable:-			
Finance leases	2,506		4,317
Other loans	45,711		48,729
		48,217	53,046
		<b>82,904</b>	<b>91,958</b>
Capital charges to services			
General Fund		(33,969)	(37,072)
Housing Revenue a/c		(57,138)	(60,078)
Capital contributions deferred a/c		(11,901)	(11,916)
		(103,008)	(109,066)
<b>Balance transferred to Consolidated Revenue A/c</b>		<b>(20,104)</b>	<b>(17,108)</b>

#### 8. LEVIES

The amounts levied against the Authority in 2004/2005 for services received comprised the following:-

	2004/2005 £'000	2003/2004 £'000
Lee Valley Regional Park Authority	197	184
Environment Agency	120	1,050
London Pensions Fund Authority	1,186	1,221
<b>Total levies</b>	<b>1,503</b>	<b>2,455</b>

## 9. MINIMUM REVENUE PROVISION

	2004/2005			2003/2004		
	General		Total	General		Total
	Fund	HRA		Fund	HRA	
	£'000	£'000	£'000	£'000	£'000	£'000
Non housing	5,355	0	5,355	2,700	0	2,700
Housing	0	0	0	0	8,862	8,862
<b>Total Minimum Revenue Provision</b>	<b>5,355</b>	<b>0</b>	<b>5,355</b>	<b>2,700</b>	<b>8,862</b>	<b>11,562</b>
Depreciation charged in year	11,168	23,519	34,687	14,265	24,647	38,912
<b>Net charge to revenue a/c</b>	<b>(5,813)</b>	<b>(23,519)</b>	<b>(29,332)</b>	<b>(11,565)</b>	<b>(15,785)</b>	<b>(27,350)</b>

The Minimum Revenue Provision charged to the Consolidated Revenue Account includes a commutation adjustment. The impact of this adjustment on the comparative figure for 2003/2004 was significantly greater since it included a backdated calculation for previous financial years.

Under the Local Government Act 2003, implemented with effect from 1st April 2004, the Authority is no longer required to charge a Minimum Revenue Provision to the Housing Revenue Account.

## 10. PRIVATE FINANCE INITIATIVE PROJECTS

The projected payments with regards to the Education PFI projects are as follows:

	2004/2005		2003/2004	
	Mulberry	Mulberry	Grouped	Grouped
	School	School	Schools	Schools
	£'000	£'000	£'000	£'000
Contracted payments due within 1 year	3,542	3,437	10,203	12,323
Contracted payments due within the following 5 years	10,189	11,807	60,073	57,733
Contracted payments after year ending 31st March 2011	41,782	42,259	226,902	229,061

## 11. OFFICERS EMOLUMENTS

The numbers of employees whose remuneration, excluding pension fund contributions, was equal to or in excess of £50,000 were, in bands of £10,000;-

Remuneration Band £	2004/2005		2003/2004	
	Teaching Staff	Other Staff	Teaching Staff	Other Staff
50,000 - 59,999	95	88	74	80
60,000 - 69,999	39	22	22	15
70,000 - 79,999	6	11	7	13
80,000 - 89,999	7	8	3	6
90,000 - 99,999	2	2	1	3
100,000 - 109,000	-	4	-	2
110,000 - 119,000	-	2	-	1
120,000 - 129,000	-	-	-	-
130,000 - 139,000	-	-	-	-
140,000 - 149,000	-	-	-	-
150,000 - 159,000	-	1	-	1
<b>Total employees</b>	<b>149</b>	<b>138</b>	<b>107</b>	<b>121</b>

## 12. PUBLICITY

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

	2004/2005 £'000	2003/2004 £'000
Personnel (mainly recruitment advertising)	977	1,463
Media and public relations	897	912
Other	2	8
<b>Total expenditure</b>	<b>1,876</b>	<b>2,383</b>

### 13. AUDIT FEES

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

	2004/2005	2003/2004
	£'000	£'000
Core audit in accordance with s.5 of Audit Commission Act 1998	415	458
Statutory inspections in accordance with s.10 of the AC Act 1998	81	85
Audit of grant claims	353	310
<b>Total expenditure</b>	<b>849</b>	<b>853</b>

### 14. PENSION FUND : CONTRIBUTION RATES

The Authority participates in a number of defined benefit pension schemes which require employer contributions to be made.

#### (i) Sundry employees

In 2004/2005 the Authority paid £30.8m (£28.6m:2003/2004) into the Pension Fund representing 25.99% (25.44%) of pensionable pay.

The contribution rate was determined by the Fund Actuary based on the triennial actuarial revaluation undertaken on the 31st March, 2004. The revaluation calculated the deficit to be £192m and the contribution rate envisages recovering this over a twenty year period. The future service contribution rate and the rate necessary to recover the deficit are set out as below: -

	2004/2005	2003/2004	2004/2005	2003/2004
	£'000	£'000	Pensionable Pay %	
Future service rate	15,645	14,832	13.20	13.20
Past Service rate	24,677	22,395	20.82	20.82

The Code of Practice on Local Government Accounting requires that the Authority discloses the capital costs of any discretionary increases in pensions payments agreed. The relevant costs are as follows:-

	2004/2005	2003/2004
	£'000	£'000
In year	739	589
Earlier years for which payments are still being made	4,396	2,246
	<b>5,135</b>	<b>2,835</b>

#### (ii) Education Employees

The Authority pays contributions into the Teacher's Pension Scheme and the London Pensions Fund Authority for pension provision relating to education employees. In 2004/2005 the relevant sums were: -

	2004/2005	2003/2004	2004/2005	2003/2004
	£m	£m	Pensionable Pay %	
London Pensions Fund Authority	0.46	0.45	19.30	19.30
Teacher's Pension Scheme	8.02	7.58	13.50	13.50
	<b>8.48</b>	<b>8.03</b>		

In addition the Authority is responsible for all pension payments relating to added years benefits which it has awarded with related increases. In 2004/2005 the relevant amounts are as follows: -

	2004/2005	2003/2004	2004/2005	2003/2004
	£m	£m	Pensionable Pay %	
Annual pension payments	0.205	0.205	0.37	0.37
Lump sum payments on retirement	0.011	0.011	0.02	0.02
	<b>0.216</b>	<b>0.216</b>		

The Teachers' Pension Scheme is a defined benefit scheme, administered by the Teachers Pensions Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities (LEAs). However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme.

#### 14. PENSION FUND CONTRIBUTIONS (cont...)

The London Borough of Tower Hamlets Pension Fund is a funded scheme, meaning that the Authority and employees pay contributions into the Fund, calculated at a level estimated to balance the pension liabilities with investment assets. It is a defined benefit scheme.

As part of the terms and conditions of employment it offers to its employees, the Council provides retirement benefits. Although these benefits will not be payable until the employee retires, the Council's liability to make these future payments must be disclosed at the time the employee accrues these entitlements.

The Authority allows employees to participate in 2 pension schemes:-

the Local Government Pension Scheme administered by the Council under the provisions of the Local Government Pension Scheme Regulations 1997, and,

a scheme administered by the London Pension Fund Authority (LPFA) under the provisions of the Local Government Pension Scheme Regulations 1997.

The costs of retirement benefits are disclosed in the Net Costs of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. The charge that the Council is required to make against Council Tax is based upon the cash payable in the year so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account after net operating expenditure. The following transactions have been made in the account for the year:

	LBTH		LPFA		Total	
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Net Cost of Services</b>						
Current service costs	20,578	12,336	540	442	21,118	12,778
Impact of settlements and curtailments	1,238	1,562	0	(215)	1,238	1,347
<b>Net Operating Expenditure</b>						
Expected return on assets in the scheme	5,641	10,998	220	599	5,861	11,597
Actuarial losses	111,420	(48,181)	8,430	(1,122)	119,850	(49,303)
Interest costs	0	0	0	0	0	0
Movement on Pension Reserve	(111,912)	46,647	(8,654)	712	(120,566)	47,359
<b>Employers contribution to scheme</b>	<b>26,965</b>	<b>23,362</b>	<b>536</b>	<b>416</b>	<b>27,501</b>	<b>23,778</b>

The Consolidated Revenue Account contains details of the Council's participation in schemes administered under the Local Government Pensions Regulations 1997.

The underlying assets and liabilities for retirement benefits attributable to the Council at 31st March are as follows:-

	LBTH		LPFA		Total	
	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004
	£'000	£'000	£'000	£'000	£'000	£'000
Estimated liabilities in scheme	(821,355)	(651,626)	(48,591)	(42,513)	(869,946)	(694,139)
Estimated assets in scheme	513,500	454,921	36,620	38,968	550,120	493,889
Attributable to the HRA	0	953	0	37	0	990
<b>Net assets/(liability)</b>	<b>(307,855)</b>	<b>(195,752)</b>	<b>(11,971)</b>	<b>(3,508)</b>	<b>(319,826)</b>	<b>(199,260)</b>

The liabilities show the commitments the Council has in the long term to pay retirement benefits. The total liabilities have been assessed on an actuarial basis using the projected unit method, an estimation of the pensions that will be payable in future years on assumptions about mortality rates, salary levels etc. Both the Council's scheme and that of the London Pensions Fund Authority have been assessed by Hymans Robertson and Co., an independent firm of actuaries. Estimates for both funds are based on the latest full valuation of the Fund as at the 1st April 2004. The Pension Fund deficit of £319.83m represents the actuary's assessment of the gross deficit (£321.1m) reduced by the additional contribution paid into the fund by the Authority after the actuary completed the valuation (£1.273m).

**14. PENSION FUND CONTRIBUTIONS (cont...)**

The main assumptions used in their calculations has been:

	<b>LBTH</b>		<b>LPFA</b>	
	<b>2004/2005</b>	<b>2003/2004</b>	<b>2004/2005</b>	<b>2003/2004</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Rate of inflation	2.9	2.9	2.9	2.9
Rate in increase in salaries	4.4	4.7	4.4	4.4
Rate in increase in pensions	2.9	2.9	2.9	2.9
Rate for discounting scheme liabilities	5.4	6.5	5.4	6.5

Assets in both funds are valued at fair-value, principally market value for investments and comprise the following categories, by proportion of the total assets held by the Funds.:

	<b>LBTH</b>			<b>LPFA</b>		
	<b>Long Term</b>			<b>Long Term</b>		
	<b>Return</b>	<b>2004/2005</b>	<b>2003/2004</b>	<b>Return</b>	<b>2004/2005</b>	<b>2003/2004</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Equity investments	7.7	54.4	55.6	7.7	15.0	13.2
Bonds	4.8	30.7	30.3	4.8	77.0	82.1
Property	5.7	11.8	11.9	5.7	*	0.0
Cash	4.8	3.0	2.2	4.8	8.0	4.7

	<b>LBTH</b>		<b>LPFA</b>	
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
Differences between the actual and expected return on assets	19,911	3.9	184	0.5
Differences between the actuarial assumptions about liabilities and actual experience	2,802	0.3	(1,327)	(3.3)
Changes in the demographic and financial assumptions used to estimate liabilities	(1,341)	(0.3)	0	0

**15. RELATED PARTY TRANSACTIONS**

The Code of Practice on Local Authority Accounting requires disclosure of additional information regarding transactions between the Authority and related parties on accordance with the Financial Reporting Standard 8. Material transactions with related parties not disclosed elsewhere in this Statement of Accounts are detailed below;

**(i) Partnerships**

Details of the transactions with Cityside Regeneration Ltd, Leaside Regeneration Partnership Ltd, NBNS Partnership Ltd and Bromley-by-Bow Centre Partnership Ltd are disclosed in note 14 to the Balance on page 39. The Authority also has partnership arrangements with the following organisations:

- TS 2K
- NDC (New Deal for the Community)
- Cultural Industries Development Agency (CIDA)

**(ii) Pension Fund**

The Authority borrows from the Pension Fund. The year end balance is shown in note 12 to the Consolidated Balance Sheet on page 38. The Pension Fund accounts are presented on pages 49 to 54 of this Statement.

## 15. RELATED PARTIES (cont...)

### (iii) Membership of other organisations

Council members and chief officers have made declarations of their interests in the following organisations:

		<b>Payments by the Authority £'000</b>
Account 3 Women's Consultancy Services Ltd	Cllr H. Rahman	46
Apasenth	Cllr M.A. Salique	971
Bangladesh Welfare Association	Cllr M. U. Ahmed	33
Bangladesh Youth Movement	Cllr F. Miah	51
Bethnal Green & Victoria Park. H. A.	Cllr J. Gardiner	240
Bow North Youth Club	Cllr R. Gipson	7
Bromley-by-Bow Centre	Cllr H. Rahman	749
	Cllr M.Uz-Zaman	
Collective of Bangladeshi School Governors	Cllr M. G. Mortuza	10
	Cllr A. A. Sardar	
	Cllr M. Uz-Zaman	
Council of Mosques	Cllr A. A. Sardar	15
East End Homes	Cllr L. Alexander	302
Eastside Arts	Cllr D. Jones	12
Eastside Books Ltd	Cllr D. Jones	20
Golden Moon Youth Project	Cllr F. Miah	7
Greenwich and Docklands Festivals	Cllr L. Alexander	65
Half Moon Young Peoples Theatre	Cllr D. Jones	39
Keen Students School	Cllr H. Rahman	22
LABO Housing	Cllr A. Shukur	125
Oxford House in Bethnal Green	Cllr S. Ullah	690
Spitalfields Farm Association Ltd	Cllr L. Alexander	31
Spitalfields Housing Association	Cllr H. U. Abbas	5
St. Hilda's East Community Centre	Cllr A. Matin	104
Stitches in Time	Cllr J. Gardiner	5
Swanlea School	Cllr J. Gardiner	41
Tower Hamlets Community Transport (THCT)	Cllr R. Gipson	119
	Cllr A. R. Khan	
Tower Hamlets Law Centre	Cllr M.A. Salique	208
Tower Hamlets Parents' Centre	Cllr M. G. Mortuza	41
Tower Hamlets Sports Council	Cllr R. Gipson	13
	Cllr A. R. Khan	
	Cllr H. Rahman	
	Cllr K. Morton	
Toy House Libraries Association	Cllr H. Rahman	152

## 16. POOLED BUDGETS

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

- Integrated Community Equipment Service (ICES)
- Services for Adults with Learning Difficulties (LDSA)
- Integrated Services for Disabled Children in the Children's Trust Pathfinder (DCPT)
- Commissioning Health and Social Care Services for Adults with Learning Disabilities (CLDSA)
- Child and Adolescent Mental Health Services (CAMHS)

A summary memorandum Income and Expenditure Account for each pooled budget is shown below. The Council's contribution (see item (i) below) to each pool is included in the Social Services gross expenditure figure disclosed in the Consolidated Revenue Account on page 19.

	<b>ICES £'000</b>	<b>LDSA £'000</b>	<b>DCPT £'000</b>	<b>CLDSA £'000</b>	<b>CAMHS £'000</b>
<b>Funding</b>					
The Council (i)	741	1,138	4,145	12,279	355
Tower Hamlets Primary Care Trust	554	1,409	1,108	1,913	56
Learning Disabilities Development Fund	0	0	0	103	0
Child and Adolescent Health Service	0	0	0	0	1,127
	1,295	2,547	5,253	14,295	1,538
<b>Expenditure</b>	1,295	2,547	5,253	14,295	1,538
<b>Surplus/Deficit for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



## HOUSING REVENUE ACCOUNT

for year ended 31st March 2005

The Housing Revenue Account deals with the provision, maintenance and sales of all types of council housing. There is a statutory requirement to keep this account separate from those for other housing activities.

	2004/2005 £'000	2003/2004 £'000
<b>INCOME</b>		
<b>Gross Rental Income</b>		
Rents of dwellings (2/3)	85,520	85,134
Non dwelling rents	5,340	4,416
<b>Charges for services and facilities</b>		
Heating charges	1,421	1,306
Leaseholder charges	10,006	7,796
Other charges	1,168	1,298
<b>HRA Subsidy receivable (including MRA)</b>		
General	26,524	38,320
Rent rebate (5)	0	46,906
MRA (6)	21,399	22,172
<b>Contributions towards expenditure</b>	2,416	310
<b>Decrease in Provision for bad debts</b>	0	699
<b>TOTAL INCOME</b>	<b>153,794</b>	<b>208,357</b>
<b>EXPENDITURE</b>		
<b>Repairs, maintenance and management</b>		
Repairs and maintenance	36,418	27,309
Supervision and management	49,362	49,189
<b>Rents, rates, taxes and other charges</b>	3,411	3,034
<b>Rent rebates (2/5)</b>	6,299	54,977
<b>Increase in Provision for bad debts</b>	134	0
<b>Cost of capital charge (8)</b>	65,214	54,936
<b>Depreciation on Fixed Assets (8)</b>		
On dwellings	21,399	22,172
On other assets	2,120	2,475
<b>Debt management costs</b>	129	151
<b>TOTAL EXPENDITURE</b>	<b>184,486</b>	<b>214,243</b>
<b>NET COST OF SERVICES</b>	<b>30,692</b>	<b>5,886</b>
<b>Transfer from Asset Management Revenue A/c (8)</b>	<b>(31,562)</b>	<b>(18,901)</b>
<b>Pensions Interest Cost and Expected Return on Pension Assets (14)</b>	<b>4,006</b>	<b>0</b>
<b>Transfers from General Fund (as directed by Secretary of State)</b>	<b>(1,614)</b>	<b>(1,593)</b>
<b>Interest receivable</b>	<b>(1,129)</b>	<b>(679)</b>
<b>NET OPERATING EXPENDITURE</b>	<b>393</b>	<b>(15,287)</b>
<b>APPROPRIATIONS</b>		
<b>HRA share of contributions to Pension Reserve (14)</b>	<b>(3,279)</b>	<b>0</b>
<b>Revenue Contributions to Capital</b>	<b>2,886</b>	<b>1,534</b>
<b>Housing Minimum Revenue Provision</b>	<b>0</b>	<b>8,862</b>
<b>Transfer to/(from) Major Repairs Reserve (8)</b>	<b>(2,120)</b>	<b>(2,475)</b>
<b>Transfer to Earmarked Reserve (15)</b>	<b>0</b>	<b>16,000</b>
<b>DEFICIT/(SURPLUS) FOR YEAR</b>	<b>(2,120)</b>	<b>8,634</b>
<b>Balance at the beginning of the year</b>	<b>4,900</b>	<b>13,534</b>
<b>BALANCE AT THE END OF THE YEAR</b>	<b>7,020</b>	<b>4,900</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

1. The Account has been compiled in accordance with the principles of Resource Accounting

### 2. RENT REBATES

During the year 71% of tenants were in receipt of some form of Housing Benefit in comparison to the figure of 69% in 2003/2004.

### 3. RENT ARREARS

	2004/2005	2003/2004
Gross rent arrears at 31st March (£)	6,484	6,283
Arrears as % of rent receivable	7.6	7.4
Provision made for bad debts (£)	4,694	4,393

### 4. AVERAGE RENTS OF DWELLINGS

	2004/2005 Weekly (£)	2003/2004 Weekly (£)
<b>Flats:</b>		
- 1 bedroom	62.49	60.72
- 2 bedrooms	72.22	69.97
- 3 bedrooms	81.43	79.64
<b>Houses:</b>		
- 1 bedroom	70.91	71.13
- 2 bedrooms	85.48	82.35
- 3 bedrooms	97.28	94.22

### 5. HOUSING SUBSIDY RECEIVABLE - RENT REBATES

Under the Local Government Act 2003, responsibility for the administration of rent rebates was transferred from the Office of the Deputy Prime Minister to the Department of Work and Pensions. Consequently from 1st April 2004, both rent rebate transfer payments and the related government subsidy receivable are to be charged to the General Fund (included in Housing Services on page 19).

6. MAJOR REPAIRS ALLOWANCE	2004/2005 £'000	2003/2004 £'000
Balance at 1st April	0	0
MRA due	21,399	22,172
MRA applied	(21,399)	(22,172)
<b>BALANCE AT 31st MARCH</b>	<b>0</b>	<b>0</b>

### 7. FIXED ASSETS

The balance sheet value of assets within the Authority's HRA were as follows:

	2004/2005 £'000	2003/2004 £'000
Dwellings	1,716,995	1,467,570
Other land and buildings	16,806	17,993
Other assets	8,246	1,451
<b>Operational Assets</b>	<b>1,742,047</b>	<b>1,487,014</b>
Non-operational assets	43,192	47,620
<b>TOTAL NET BOOK VALUE</b>	<b>1,785,239</b>	<b>1,534,634</b>

The vacant possession value of dwellings within the Authority's HRA was £3,520m in 2004/2005 (£3,205m in 2003/2004). This represents the value of the dwellings if they were available to be sold on the open market as vacant properties.

## 8. CAPITAL CHARGES

The figure for capital charges of £88.7 million (£79.6 in 2003/2004) comprises of 2 items:

- 1) A charge for the cost of capital based on 3.5% of the value of assets amounting to £65.2 million (£55.0 in 2003/2004 when the charge was statutorily set as 3.5% of the value of assets).
- 2) A depreciation charge of £23.5 million (£24.6 in 2003/2004) made up of £21.4 million (£22.2 in 2003/2004) in respect of council houses and £2.1 million (£2.4 in 2003/2004) in respect of other housing assets. In the case of Council Housing, assets have been depreciated in line with the Major Repairs Allowance as this is the amount (based on a 30 year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an acceptable measure of depreciation. Other housing assets have been depreciated using a 40 year life cycle. An analysis of the depreciation charges is set out below.

	2004/2005 £'000	2003/2004 £'000
<b>Operational Assets</b>		
Council dwellings	21,399	22,172
Other land and buildings	517	614
Equipment	335	149
Infrastructure	5	5
<b>Non-Operational Assets</b>		
Investment Properties	1,263	1,707
Community Assets	0	0
<b>TOTAL DEPRECIATION</b>	<b>23,519</b>	<b>24,647</b>

The capital charges are subject to an adjusting entry in order to comply with the statutory requirement to charge the HRA with the actual capital financing charges. For 2004/2005 this was £31.5m (£18.9m in 2003/2004).

## 9. MAJOR REPAIRS RESERVE

	2004/2005 £'000	2004/2005 £'000	2003/2004 £'000	2003/2004 £'000
<b>Balance at 1st April</b>		0		0
Transfer from reserve				
Council dwellings	21,399		22,172	
Other land and buildings	517		614	
Other fixed assets	1,603		1,861	
		23,519		24,647
MRA applied		(21,399)		(22,172)
Transfer from reserve		(2,120)		(2,475)
<b>BALANCE AT 31st MARCH</b>		<b>0</b>		<b>0</b>

## 10. CAPITAL EXPENDITURE and FINANCING

	Dwellings £'000	Other land & buildings £'000	Other £'000	Total £'000
<b>Expenditure</b>	38,851	5,083	8,169	52,103
<b>Sources of finance</b>				
Credit approvals	11,980	1,087	2,083	15,150
Capital grants	3,587	3,996	2,086	9,669
Capital receipts			3,000	3,000
Major repairs allowance	21,399	0	0	21,399
Revenue contribution	1,885	0	1,000	2,885
<b>TOTAL CAPITAL FINANCING</b>	<b>38,851</b>	<b>5,083</b>	<b>8,169</b>	<b>52,103</b>

<b>11. HOUSING STOCK</b>	<b>2004/2005</b>	<b>2003/2004</b>
Low rise flats (1-2 storeys)	741	786
Medium rise flats (3-5 storeys)	12,104	12,741
High rise flats (6 or more storeys)	7,981	8,535
Houses and bungalows	1,391	1,429
<b>TOTAL HOUSING STOCK AT 31st MARCH</b>	<b>22,217</b>	<b>23,491</b>

Housing stock movements in the year can be analysed as follows:

<b>Total housing stock at 1st April 2004</b>		<b>23,491</b>
<b>less demolitions and disposals</b>		
Demolitions: Bradley House	54	
Right to Buy sales	866	
Stock transfers in year:		
Tarling Estate	74	
Crossways Estate	258	
Knock House	6	
Total transfers	338	
<b>Total demolitions and disposals</b>		<b>1,258</b>
<b>additions and adjustments</b>		
Buybacks		5
In year adjustments		(21)
<b>TOTAL HOUSING STOCK at 31st March 2005</b>		<b>22,217</b>

## 12. POST BALANCE SHEET EVENT

Further to the disposals detailed above, 944 properties were transferred to East End Homes in April 2005. Initial staffing and other running costs incurred by East End homes are being financed by the Council until July 2005 when the estimated cumulative costs of £1.3 million are due to be reimbursed. As at the 31st March, costs amounting to £931,476 had been incurred, this amount being included in the sundry debtors total disclosed within note 11 to the Consolidated Balance Sheet on page 38.

## 13. CAPITAL RECEIPTS

Capital receipts in 2004/2005 from the disposal of fixed assets within the HRA amounted to £85.36 million: in 2004/2005 (£59.86m in 2003/2004) and are analysed as follows:

	<b>2004/2005</b>	<b>2003/2004</b>
	<b>£'000</b>	<b>£'000</b>
Dwellings	81,033	59,221
Other land and buildings	3,626	99
Other assets	697	540
<b>TOTAL CAPITAL RECEIPTS</b>	<b>85,356</b>	<b>59,860</b>

## 14. PENSION FUND CONTRIBUTIONS

The Authority has revised its accounting policy in 2004/2005 and applied the principles of FRS17 to the HRA. The HRA share of the adjustment is shown on the face of the revenue account. The aggregate adjustment for the Authority as a whole is disclosed in note 14 to the Consolidated Revenue Account on page 24.

## 15. HOUSING REVENUE EARMARKED RESERVE - PLANNED RESERVE

The Planned Reserve is in accordance with the Housing Business Plan approved by Cabinet on 6th August 2003. It was created because of the potential disposal of a significant amount of the Council's housing stock as part of Housing Choice. This could result in timing differences between the loss of income; in respect of dwelling rents, service charges and subsidy, and expenditure reductions. In addition there remain uncertainties regarding housing subsidy as central government has changed the management and maintenance allowance within its calculation. The reserve has been established so that both the timing differences and subsidy uncertainty can be properly managed. This will ensure the Authority has the ability to adjust financing to avoid significant future fluctuations in the Housing Revenue Account and thereby maintain overall financial stability.

## COLLECTION FUND INCOME & EXPENDITURE ACCOUNT

### for year ended 31st March 2005

	2004/2005	2004/2005	2003/2004
<b>Income</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Council Taxpayers (2)	50,438		45,653
Transfers from General Fund Council Tax Benefits	22,988		20,747
		73,426	
Non domestic rates (3)		199,482	174,230
Adjustment for previous years Community Charges (4)		0	0
Distribution of prior year surplus on Collection Fund		(2,489)	(2,422)
<b>TOTAL INCOME</b>		<b>270,419</b>	<b>238,208</b>
<b>Expenditure</b>			
Precepts and demands			
London Borough of Tower Hamlets	54,347		50,277
Greater London Authority	17,107		15,408
		71,454	
Non domestic rates:			
Payment to National Pool	198,562		173,356
Cost of collection allowances	920		874
		199,482	
Provision for bad debts		509	139
<b>TOTAL EXPENDITURE</b>		<b>271,445</b>	<b>240,054</b>
<b>INCREASE/(DECREASE) IN FUND BALANCE</b>		<b>(1,026)</b>	<b>(1,846)</b>
Balance at the beginning of the year		4,987	6,833
(Deficit)/Surplus for the year		(1,026)	(1,846)
<b>BALANCE AT THE END OF THE YEAR</b>		<b>3,961</b>	<b>4,987</b>

## NOTES TO THE INCOME & EXPENDITURE ACCOUNT

### 1. GENERAL

These accounts represent the transactions of the Collection Fund which is a statutory fund separate from the main accounts of the Authority. The Collection Fund accounts independently for income from Council Tax and non domestic rates on behalf of those bodies (including the Authority's own General Fund) for whom the income has been raised. The costs of administering the Collection Fund are accounted for in the General Fund (see page 19).

### 2. COUNCIL TAX

Council Tax income derives from the charges raised according to the value of residential properties which are classified into 8 valuation bands estimated at 1st April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Authority and other Preceptors for the forthcoming year and dividing this by the Council Tax base ( the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discount, amounts to 70,885 for 2004/2005 (68,664: 2003/2004). This basic amount of Council Tax for a Band D property, £1,008.02 in 2004/2005 (£956.62 in 2003/2004), is multiplied by the proportion specified for that particular band to give an individual amount due.

## 2. COUNCIL TAX (cont.)

Council Tax bills were based on the following proportions for bands A to H:

	<b>Proportion of Band D charge</b>	<b>Properties equiv. Band D</b>
Band A	0.67	816
Band B	0.78	15,863
Band C	0.89	22,761
Band D	1.00	10,512
Band E	1.22	11,733
Band F	1.44	7,150
Band G	1.67	3,650
Band H	2.00	592

The income of £73.5m for 2004/2005 (£66.4m in 2003/2004) is receivable from the following sources:

	<b>2004/2005 £'000</b>	<b>2003/2004 £'000</b>
Billed to Council Tax Payers	50,525	45,652
Council Tax Benefits	22,988	20,748
<b>Total Council Tax</b>	<b>73,513</b>	<b>66,400</b>

## 3. NATIONAL NON DOMESTIC RATES (NNDR)

NNDR is organised on a national basis. The Government specifies an amount (45.6p in 2004/2005 and 44.4p in 2003/2004) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Authority is responsible for collecting rates due from the ratepayers in its areas but pays the proceeds into a NNDR "pool" administered by the Government. The Government redistributes the sums paid into the "pool" back to local authorities General Funds on the basis of a fixed amount per head of population. The NNDR income after reliefs and provisions of £184.1m in 2004/2005 (£174.2m: 2003/2004) was based on an average rateable value for the Authority's area of £570.6m for the year (£520.6m: 2003/2004).

## 4. ADJUSTMENTS FOR PRIOR YEARS COMMUNITY CHARGES

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

## 5. PROVISION FOR IRRECOVERABLE COUNCIL TAX DEBTS

Contributions are made from the Collection Fund Income and Expenditure Account to a provision for bad debts. During 2004/2005 £0.510m was contributed to the Council Tax bad debt provision and £0.833m of irrecoverable debts were written off.

# CONSOLIDATED BALANCE SHEET

as at 31st March 2005

	2004/2005 £'000	2004/2005 £'000	2003/2004 £'000
<b>Fixed Assets (1-6)</b>			
<b>Operational assets</b>			
Dwellings	1,761,995		1,467,570
Other land and buildings	468,288		451,191
<b>Infrastructure assets</b>			
Equipment	71,021		67,089
Community assets	4,355		3,196
<b>Non-operational assets</b>			
Investment properties	35,903		33,656
	<u>64,827</u>		<u>63,732</u>
		2,406,389	2,086,434
<b>Intangible Assets (7)</b>		23,635	18,718
<b>Long Term Debtors (8)</b>		8,064	9,363
<b>Total Long Term Assets</b>		<b>2,438,088</b>	<b>2,114,515</b>
<b>Current Assets</b>			
Stocks and Works in Progress (9)	3,900		3,910
Debtors (11&14)	80,008		89,082
Investments (10)	136,320		137,937
Cash and Bank	14,368		10,005
	<u>234,596</u>		<u>240,934</u>
<b>Current liabilities</b>			
Short Term Borrowing (12)	25,627		41,580
Creditors (13 & 14)	132,679		121,668
	<u>158,306</u>		<u>163,248</u>
<b>Total Assets less Current Liabilities</b>		<b>2,514,378</b>	<b>2,192,201</b>
Long Term Borrowing (16 & 17)	499,198		524,515
Deferred Liabilities (15)	1,177		1,766
Capital Contributions Deferred	122,835		102,626
Provisions (18)	18,581		14,310
Liability related to defined benefit pension scheme (24)	319,826		199,260
		<u>961,617</u>	<u>842,477</u>
<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>1,552,761</b>	<b>1,349,724</b>
<b>Representing</b>			
Fixed Asset Restatement Account (20)		1,354,175	1,073,547
Capital Financing Account (21)		385,313	366,373
Capital Receipts and Grants Unapplied (22)		28,060	11,031
Deferred Capital Receipts (23)		1,217	6,888
Pensions Reserve (24)		(319,826)	(199,260)
Collection Fund (see page 31)		3,961	4,987
Street Trading Account (25)		(2)	(229)
<b>Balances:-</b>			
General Fund (see page 19)		9,918	12,135
Housing Revenue Account (see page 27)		7,020	4,900
Sundry Earmarked Balances (26)		82,925	69,352
<b>TOTAL EQUITY</b>		<b>1,552,761</b>	<b>1,349,724</b>

**Martin Smith CPFA**  
**Director of Resources**  
**28th October 2005**

## NOTES TO THE BALANCE SHEET

### 1. TANGIBLE FIXED ASSETS

	Council Dwellings £'000	Other Land & Buildings £'000	Infrastructure £'000	Equipment £'000	Community £'000	Non-Operational £'000	Totals £'000
<b>Value as at 1st April 2004</b>	<b>1,574,563</b>	<b>518,924</b>	<b>79,174</b>	<b>24,522</b>	<b>33,656</b>	<b>70,649</b>	<b>2,301,488</b>
Additions	38,851	25,415	5,767	2,323	2,247	0	74,603
Disposals	(74,657)	0	0	0	0	(2,740)	(77,397)
Transfers	0	424	0	0	0	(424)	0
Revaluations	351,630	765	0	0	0	5,630	358,025
<b>Value at 31 March 2005</b>	<b>1,890,387</b>	<b>545,528</b>	<b>84,941</b>	<b>26,845</b>	<b>35,903</b>	<b>73,115</b>	<b>2,656,719</b>
<b>Depreciation as at 1st April 2004</b>	<b>106,993</b>	<b>67,733</b>	<b>12,085</b>	<b>21,326</b>	<b>0</b>	<b>6,917</b>	<b>215,054</b>
Depreciation for the year	21,399	9,507	1,835	1,164	0	1,371	35,276
<b>Depreciation as at 31st March 2005</b>	<b>128,392</b>	<b>77,240</b>	<b>13,920</b>	<b>22,490</b>	<b>0</b>	<b>8,288</b>	<b>250,330</b>
<b>TOTAL NET BOOK VALUE at 31st March 2005</b>	<b>1,761,995</b>	<b>468,288</b>	<b>71,021</b>	<b>4,355</b>	<b>35,903</b>	<b>64,827</b>	<b>2,406,389</b>

Capital expenditure on dwellings relates principally to the conversion, improvement and enhancements to existing stock.

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

	Council Dwellings £'000	Other Land & Buildings £'000	Infrastructure £'000	Equipment £'000	Community £'000	Non-Operational £'000	Totals £'000
Housing Revenue Account	1,716,995	8,245	171	1,457	15,177	43,192	1,785,237
General Fund	0	460,043	70,850	2,898	20,726	21,635	576,152
<b>TOTAL NET BOOK VALUE at 31st March 2005</b>	<b>1,716,995</b>	<b>468,288</b>	<b>71,021</b>	<b>4,355</b>	<b>35,903</b>	<b>64,827</b>	<b>2,361,389</b>

### 2. FIXED ASSET VALUATION

	Council Dwellings £'000	Other Land & Buildings £'000	Infrastructure £'000	Equipment £'000	Community £'000	Non-Operational £'000	Totals £'000
<b>Analysis of Revaluations of Fixed Assets</b>							
Valued at historic cost	0	0	71,021	0	35,903	0	106,924
Valued at current value in:							
current year: dwellings, other land and buildings and PFI	1,716,995	765	0	4,355	0	16,916	1,739,031
previous year: schools, leisure and PFI assets		301,733	0	0	0	0	301,733
2002/2003: offices, community buildings	0	38,688					38,688
2001/2002: part of commercial properties portfolio	0	0	0	0	0	47,317	47,317
2000/2001: full fixed assets portfolio	0	127,102	0	0	0	594	127,696
<b>Value at 31 March 2005</b>	<b>1,716,995</b>	<b>468,288</b>	<b>71,021</b>	<b>4,355</b>	<b>35,903</b>	<b>64,827</b>	<b>2,361,389</b>



## 2. FIXED ASSET VALUATION (cont...)

The freehold and leasehold properties which comprise the Authority's property portfolio have been valued by the Head of Corporate Property Services, a member of the Royal Institution of Chartered Surveyors.

### General Fund Property Valuation

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

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

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

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

### Housing Revenue Account Property Valuation

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

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

### Depreciation

Depreciation on a straight line basis is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation). The base adopted for each type of asset is disclosed in the Statement of Accounting Policies on page 9.

## 3. LEASING

### Finance Leases

The Authority has undischarged liabilities under finance leases relating to property. These are included in Fixed Assets and Deferred Liabilities at a value of £1.2m (£1.8m 2003/2004). The payments in 2004/2005 on these leases amounted to £2.5m (£4.3m: 2003/2004). The movements in value in 2004/2005 are shown below:

<b>Asset held under finance leases - Other land and buildings</b>	<b>£'000</b>
Balance at 1st April 2004	1,765
Additions/Revaluations	0
Depreciation	(588)
Disposals	0
<b>Balance at 31st March 2005</b>	<b>1,177</b>

### Operating Leases

The Authority has no outstanding obligations under operating lease and no payments were made during the financial year. In 2003/2004 payments of £0.03 million were charged directly to the revenue accounts. The related assets are not included in the Consolidated Balance Sheet.

#### 4. CAPITAL EXPENDITURE and FINANCING

The following table shows how capital expenditure was financed in 2004/2005.

	2004/2005 £'000	2003/2004 £'000
<b>Opening Capital Financing Requirement</b>	562,606	586,404
<b>Capital Investment</b>		
Operational Assets	74,603	76,057
Non-operational Assets	0	0
Intangible Assets	20,801	34,016
Other Long Term Liabilities	0	1,410
<b>Sources of Finance</b>		
Capital Receipts and Contributions	(51,874)	(55,433)
Major Repairs Reserve	(21,399)	(22,172)
Direct Revenue Funding	(3,661)	(3,003)
Net Revenue Provision	(13,374)	(11,552)
Capital receipts Set Aside	0	(43,111)
<b>Closing Capital Financing Requirement</b>	<b>567,702</b>	<b>562,616</b>
<b>Explanation of movements in the year</b>		
Increase/(decrease) in underlying need to borrow (supported by Government financial assistance)	4,939	(23,798)
Increase in underlying need to borrow (unsupported by Government financial assistance)	157	0
<b>TOTAL CAPITAL FINANCING</b>	<b>5,096</b>	<b>(23,798)</b>

In addition to the expenditure incurred on capital projects, the Authority obtained a direction, under the provisions of the Local Government and Housing Act 1989, Part IV, Section 40(6) :Treatment of costs as Capital Expenditure, which enabled the capitalisation of staff redundancy costs.

#### 5. CAPITAL COMMITMENTS

The Authority had contractually binding capital commitments, in excess of £1.00m, totalling £18.16 million at 31st March 2005. This total includes the payments due to be made in 2005/2006 in respect of creditors provision made in the 2004/2005 accounts. The main committed capital schemes are outlined below:-

	Committed sum £m	Costs to 31/3/2005 £m	2005/2006 onwards £m
Mulberry PFI	8.90	7.30	1.60
Mile End stadium	15.03	8.65	6.38
Whitechapel IDEA Store	17.17	10.69	6.48
York Hall	4.48	2.73	1.75
Chrisp Street IDEA Store	4.98	3.03	1.95
<b>TOTAL CAPITAL COMMITMENTS</b>	<b>50.56</b>	<b>32.40</b>	<b>18.16</b>

## 6. ANALYSIS OF FIXED ASSETS

In accordance with the CIPFA SORP the number of fixed assets of the Authority are analysed below:-

	2004/2005	2003/2004
<b>Land &amp; buildings</b>		
Dwellings	22,217	23,491
Administrative buildings	51	51
Commercial properties	834	848
Depots	10	10
Cemeteries	2	2
Public mortuary	1	1
Recreation and leisure facilities	59	59
Schools	53	53
Social services establishments - Residential Homes, Day Centres etc.	33	33
Other	79	68
<b>Parks and open spaces (hectares)</b>	236	236
<b>Infrastructure</b>		
Principal built up roads (km)	13.9	13.9
Other built up roads (km)	217.3	217.3

## 7. INTANGIBLE ASSETS

These are created when expenditure has been incurred on items that are not capitalised as tangible fixed assets, but have been financed from capital resources. Intangible assets are subsequently written down to the revenue account over an appropriate period. The following table shows the movements in 2004/2005.

	Balance at 1/4/2004 £'000	Capital advances in year £'000	Writedown & adjusts £'000	Balance at 31/3/2005 £'000
Improvement grants	0	1,396	(1,396)	0
PFI Education schemes (i)	18,718	5,965	(1,048)	23,635
Capitalised redundancies	0	1,257	(1,257)	0
Grants to voluntary organisations	0	981	(981)	0
Church schools	0	417	(417)	0
Home purchase incentive scheme	0	1,119	(1,119)	0
I.T. development	0	3,534	(3,534)	0
Other	0	6,132	(6,132)	0
<b>TOTAL NET BOOK VALUE at 31st March 2005</b>	<b>18,718</b>	<b>20,801</b>	<b>(15,884)</b>	<b>23,635</b>

(i) The balance relating to PFI schemes reflects the Council's capital contribution to refurbishment and improvement works to schools included in the PFI contract, which will be amortised to revenue over the period of the contract life.

## 8. LONG TERM DEBTORS

	Balance at 1/4/2004 £'000	Advances £'000	Income and other adjust's £'000	Balance at 31/3/2005 £'000
Mortgages				
Housing associations	265	0	(2)	263
Right to buy	1,578	124	(487)	1,215
Housing act advances	9	0	(9)	0
<b>TOTAL MORTGAGES</b>	<b>1,852</b>	<b>124</b>	<b>(498)</b>	<b>1,478</b>
Premature loan redemption	6,235	0	(849)	5,386
Sundry loans	1,276	587	(663)	1,200
<b>TOTAL LONG TERM DEBTORS</b>	<b>9,363</b>	<b>711</b>	<b>(2,010)</b>	<b>8,064</b>

<b>9. STOCK AND WORK IN PROGRESS</b>	<b>2004/2005</b>	<b>2003/2004</b>
	<b>£'000</b>	<b>£'000</b>
Works in progress: rechargeable works	3,892	3,903
Stocks	8	7
<b>TOTAL STOCKS AND WORKS IN PROGRESS</b>	<b>3,900</b>	<b>3,910</b>

#### 10. TEMPORARY INVESTMENTS

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

<b>11. DEBTORS AND PAYMENTS IN ADVANCE</b>	<b>2004/2005</b>	<b>2003/2004</b>
	<b>£'000</b>	<b>£'000</b>
Government	14,290	27,371
Inland Revenue/Customs and Excise	12,528	8,783
Other authorities	0	19
Rates, Community Charge and Council Tax payers	18,963	20,060
Rents: sundry tenants	6,484	6,283
Rents: homeless families	8,510	6,850
Employees	681	170
Payments in advance	2,272	1,805
Sundry other	58,426	62,217
<b>TOTAL DEBTORS</b>	<b>122,154</b>	<b>133,558</b>
<b>Provisions for bad debts</b>		
Rents: sundry tenants	(4,694)	(4,393)
Rents: homeless families	(8,251)	(6,676)
Controlled parking fees	(8,617)	(13,421)
Rates, Community Charge and Council Tax payers	(8,675)	(7,871)
Sundry debtors	(11,909)	(12,115)
<b>TOTAL PROVISIONS FOR BAD DEBTS</b>	<b>(42,146)</b>	<b>(44,476)</b>
<b>TOTAL NET DEBTORS</b>	<b>80,008</b>	<b>89,082</b>

<b>12. SHORT TERM BORROWING</b>	<b>2004/2005</b>	<b>2003/2004</b>
	<b>£'000</b>	<b>£'000</b>
Borrowing payable within 1 year	17,887	22,140
Pension fund (see page 52)	7,740	19,440
<b>TOTAL SHORT TERM BORROWING</b>	<b>25,627</b>	<b>41,580</b>

<b>13. CREDITORS AND RECEIPTS IN ADVANCE</b>	<b>2004/2005</b>	<b>2003/2004</b>
	<b>£'000</b>	<b>£'000</b>
Government	48,148	45,856
Inland Revenue/Customs and Excise	6,355	5,813
Other authorities	221	179
Rates, Community Charge and Council Tax payers	17,747	14,244
Rents: sundry tenants	1,162	1,514
Rents: homeless families	259	174
Employees	0	74
Receipts in advance	1,290	6,523
Sundry other	57,497	47,291
<b>TOTAL CREDITORS</b>	<b>132,679</b>	<b>121,668</b>

#### **14. SINGLE REGENERATION BUDGET**

The totals for both debtors and creditors include balances relating to the following companies and their activities within the Authority's Single Regeneration Budget.

##### **Cityside Regeneration**

The Cityside Regeneration Ltd was incorporated on 3rd June 1997 as a company limited by guarantee. Its mission being to deliver economic regeneration in the western part of the borough. The programme ended in 2003/2004. The Company's Board comprised 17 members representing public, private, voluntary and community sector interests with two members on the board representing Tower Hamlets. In 2003/2004 Central Government provided Single Regeneration Budget grant of £3.2 million to fund projects managed by the Cityside company. This grant was administered by Tower Hamlets and is reflected in the Authority's accounts.

##### **New Beginning New Settlements (NBNS)**

NBNS Partnership Ltd was incorporated on 23rd November 2000 as a company limited by guarantee. The scheme aimed to support and enhance the activity of Black Minority and Ethnic (BME) voluntary organisations working in Tower Hamlets by establishing "settlements" to act as bases for delivering programmes and activities to areas of greatest need. The Company Board had 17 members, none being a direct representative of the Authority. The programme ended in 2003/2004 and Central Government provided £0.05 million to cover administration costs.

##### **Leaside Regeneration**

The Leaside Regeneration Ltd was incorporated in 1998 as a company limited by guarantee. Its mission is to deliver economic regeneration in the eastern part of the borough. The Company's board has 44 members representing public, private, voluntary and community sector interests, 4 Members of the Council sit on the Board. In 2004/2005 Central Government provided £3.3m (£5.12m: 2003/2004) in Single Regeneration Budget grant for projects managed by the Leaside company. This grant was administered by Tower Hamlets and is reflected in the Authority's accounts. The company is managing two project programmes; SRB4 concluded in 2004/2005 and SRB6 is due to end in 2005/2006.

##### **Bromley-by-Bow**

Bromley-by-Bow was incorporated on 17th June 1994 as a private company limited by guarantee. The company's purpose was to promote and improve health, housing and education and reduce crime via community led regeneration, which will release potential of local people and promote self reliance and community involvement. The Company Board had 12 members representing public, private, voluntary and community sector interests. One Member of the Tower Hamlets Council represented the Authority. 2003/2004 was the last year of the project and Central Government provided £0.27m in Single Regeneration Budget grant.

#### **15. DEFERRED LIABILITIES**

Deferred Liabilities represent the principal element of finance leases.

<b>16. LONG TERM BORROWING</b>	<b>Int. rate</b>	<b>2004/2005</b>	<b>2003/2004</b>
<b>Source of loan:-</b>	<b>payable %</b>	<b>£'000</b>	<b>£'000</b>
Public Works Loans Board	2.5 - 11.9	499,198	524,515
Other		0	0
<b>TOTAL LONG TERM BORROWING</b>		<b>499,198</b>	<b>524,515</b>

<b>17. LOANS MATURITY SCHEDULE</b>	<b>2004/2005</b>	<b>2003/2004</b>
	<b>£'000</b>	<b>£'000</b>
1-2 Years	22,069	17,887
2-3 Years	24,002	22,069
3-4 Years	21,457	24,002
4-5 Years	21,362	21,457
5-6 Years	10,929	21,362
6-10 Years	116,359	107,149
10-15 Years	197,434	187,571
15+ Years	85,586	123,018
<b>TOTAL LOANS OUTSTANDING</b>	<b>499,198</b>	<b>524,515</b>

<b>18. PROVISIONS</b>	<b>B/f</b>		<b>Increase/</b>	<b>C/f</b>
	<b>1/4/2004</b>	<b>Expend're</b>	<b>(Decrease )</b>	<b>31/3/2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Insurance Fund (a)	10,005	0	(769)	9,236
Single Status/Minimum Wage (b)	899	0	206	1,105
Asylum Seekers (c)	1,250	0	0	1,250
Administrative Bldgs Lease Equalisation (d)	0	0	3,475	3,475
Ex-ILEA Debt (e)	0	0	1,100	1,100
Customer Services: sundry	248	0	231	479
Social Services: sundry	668	12	0	656
Education: sundry	865	0	40	905
Chief Executive: sundry	375	0	0	375
<b>TOTAL PROVISIONS</b>	<b>14,310</b>	<b>12</b>	<b>4,283</b>	<b>18,581</b>

Significant individual balances provide specifically as follows

- (a) to cover a range of self-insured risks including personal accident cover for staff, motor car credit guaran insurance and miscellaneous items of property
- (b) for additional costs resulting from the single status agreement which changed employees conditions of service, An element of uncertainty exists regarding amounts and timing as negotiations are still ongoing.
- (c) as cover for repayment of Asylum Seekers Grant
- (d) relates to the leases of Mulberry Place and Anchorage House. The provision spreads the economic benefits of the initial rent free period or preverse premium over the term of the lease. Payments will be incurred over the 15 years period of the lease. An element of uncertainty exists regarding amounts as interest rates and future uplift levels cannot be predicted with accuracy over the extended period.
- (e) relates to repayment of debt resulting from a debt commutation exercise in 1990 and the transfer of ex-ILEA debt to the Authority in 1992.

#### **19. CONTINGENT LIABILITIES**

##### **Poplar Housing and Regeneration Community Association (HARCA) and Tower Hamlets Community Housing (THCH)**

Between March 1998 and March 2005 the Authority transferred tenanted and leasehold properties, 4,974 to the the Poplar HARCA and 1,625 to THCH. The Authority has to offer warranties to provide the Funders with a level of comfort in relation to their loans. The giving of such warranties means that there is a potential liability to the Authority.

## 19. CONTINGENT LIABILITIES (cont...)

### Other Stock Transfers

A number of Large Scale Voluntary Transfers of Council Housing Estates are taking place over the next few years which require environmental warranties to be given for land on the estates. These potential liabilities are being covered by taking out insurance as cover for the first 10 years. Although some liability may occur to the Authority after year 10, most if not all of the potential for claims will occur in the first 5 years following transfer when the major works will be carried out.

### Investigation into Financial Irregularities

Investigations into the activities of a number of organisations in receipt of public funding for which the Council is the Accountable Body have identified financial irregularities. In view of the seriousness of the findings, and the potential for criminal proceedings, the Council has referred the matter to the Metropolitan Police. The investigation has potential financial consequences for the Council, but until the police investigation and the results of any civil or criminal action are concluded it is not clear whether any liability will arise.

20. FIXED ASSET RESTATEMENT ACCOUNT	2004/2005 £'000	2003/2004 £'000
Balance at 1st April	1,073,547	943,710
Surplus on revaluation and restatement	358,025	185,405
Disposal of fixed assets (net)	(77,397)	(55,568)
<b>BALANCE AT 31st MARCH</b>	<b>1,354,175</b>	<b>1,073,547</b>

This reserve is charged with the deficits or surpluses arising on the revaluation of assets and is written down by the net book value of assets as they are disposed of (see note 1 to the Consolidated Balance Sheet on page 33)

21. CAPITAL FINANCING ACCOUNT	2004/2005 £'000	2003/2004 £'000
Balance at 1st April	366,373	320,808
Capital Receipts set aside	0	43,111
Capital Financing:-		
Capital receipts	19,609	16,700
Capital grants	11,901	11,916
Direct revenue financing:-		
General Fund	775	1,469
Housing Revenue Account	2,886	1,534
Planning Gains	155	1,376
Major repairs allowance	21,399	22,172
Minimum revenue provision (net of depreciation)	(21,901)	(27,350)
Premature redemption of PWLB Loan	0	(1,996)
Write down of Deferred Charges	(15,884)	(23,367)
<b>BALANCE AT 31st MARCH</b>	<b>385,313</b>	<b>366,373</b>

The Capital Financing Account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

## 22. CAPITAL RECEIPTS AND GRANTS UNAPPLIED

	Housing £'000	Other £'000	Capital Grants £'000	Total £'000
<b>Balance at 1st, April, 2004</b>	<b>5,241</b>	<b>1,998</b>	<b>3,792</b>	<b>11,031</b>
Receipts from sales of assets	85,358	3,286	0	88,644
Other receipts	0	0	39,491	39,491
<b>Total receipts for year</b>	<b>85,358</b>	<b>3,286</b>	<b>39,491</b>	<b>128,135</b>
Receipts paid to central government	(59,387)	0	0	(59,387)
Receipts applied to finance capital expenditure (see page 36)	(19,609)	0	(32,110)	(51,719)
<b>BALANCE AT 31st MARCH 2005</b>	<b>11,603</b>	<b>5,284</b>	<b>11,173</b>	<b>28,060</b>

Unapplied capital receipts and grants are, respectively, amounts arising mainly from the sale of fixed assets and other external sources which have not yet been used to finance capital expenditure.

## 23. DEFERRED CAPITAL RECEIPTS

This balance represents amounts due to the Authority which will be received in instalments over an agreed period of time. It includes £1.2m (£1.5m : 2003/2004) of principal repayments due for mortgages raised from the sale of council dwellings. In comparative figure in 2003/2004 also included £5.4m of income due from Right to Buy Leaseholders for works undertaken to their dwellings within the Council's capital programme. In 2004/2005 this balance was fully transferred to the Capital Receipts and Grants Unapplied Account (see note 22 above).

## 24. PENSION RESERVE and LIABILITY RELATED TO DEFINED BENEFIT PENSION SCHEME

The Pension Reserve and corresponding liability represent an independent actuary's assessment of the share of the deficit on the Local Government Pension Scheme administered by this Council and that administered by the London Pension Fund Authority (LPFA). (see also note 14 to the Consolidated Revenue Account on pages 23 to 25).

## 25. STREET TRADING ACCOUNT

	2004/2005 £'000	2004/2005 £'000
<b>Expenditure</b>		
Employee costs	725	600
Refuse collection and disposal	637	637
Support services	433	391
Other expenditure	174	110
Increase in provision for bad debts	0	3
<b>Total Expenditure</b>	<b>1,969</b>	<b>1,741</b>
<b>Income</b>		
Street trading charges	2,180	2,152
Other income	5	1
Decrease in provision for bad debts	11	0
<b>Total Income</b>	<b>2,196</b>	<b>2,153</b>
<b>Deficit/(surplus) for the year</b>	<b>(227)</b>	<b>(412)</b>
Balance at 1st April	(229)	(641)
Deficit for the year	227	412
<b>BALANCE AT 31st MARCH</b>	<b>(2)</b>	<b>(229)</b>

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



<b>26. EARMARKED RESERVES</b>	<b>2004/2005</b>	<b>2003/2004</b>
	<b>£'000</b>	<b>£'000</b>
Insurance Fund (a)	14,411	10,953
Schools delegated balances (b)	17,681	16,342
Housing Revenue Earmarked Reserve (c)	16,000	16,000
Parking Control (d)	1,048	2,281
Planning Obligations (e)	7,741	5,100
Miscellaneous IT projects (f)	380	380
Trading Account net balances (g)	855	978
Directorates/Departments other - specific		
Education:-		
Unapplied Rate Rebate Monies (h)	1,975	2,363
Customer Services:-		
Administration Buildings Dilapidations (i)	4,411	4,154
Housing:-		
HPD Dilapidations (j)	322	322
Corporate:-		
Housing Choice (k)	10,500	5,500
Community use of buildings (l)	698	578
Directorates/Departments other		
Education	928	45
Customer Services	64	67
Housing	852	852
Social Services	21	17
Chief Executive	1,441	1,441
Corporate (m)	3,597	1,979
<b>TOTAL EARMARKED RESERVES AT 31st MARCH</b>	<b>82,925</b>	<b>69,352</b>

- (a) The Authority is self insured for most liability and property risks.
- (b) This represents as yet unapplied revenue resources held by the Authority on behalf of schools with delegated spending authority.
- (c) See note 15 to the Housing Revenue Account on page 30.
- (d) See note 3 to the Consolidated Revenue Account on page 20.
- (e) These represent monies received under Section 106 of the Town and County Planning Act 1990. The agreement specifies the purpose to which the monies can be applied and the sums are held in an interest bearing accounts until such a time as they are required.
- (f) Earmarked for various I.T. projects to be carried out with a view towards developing Best Value within the Authority and meeting nationally set targets for e-government.
- (g) This balance represents the accumulated net (deficits)/surpluses due to (under)/over recovery on Trading accounts as at the 31st March (see also note 6 to the Consolidated Revenue Account on page 21),
- (h) This represents income from backdated NNDR rebates earmarked for Education use.
- (i) against potential dilapidation claims from lessors of administrative buildings utilised by the Authority,
- (j) against potential dilapidation claims from landlords of premises utilised by the Homeless Persons Unit,
- (k) the Authority is currently considering the transfer of its housing stock, if agreed by tenants. The balance represents the accumulated amount set aside towards meeting the anticipated future corporate cost to the General Fund of making the transfer.
- (l) for backdated lease liability on rent grants.
- (m) This balance includes the accumulated General Fund underspends allocated to Directorates/Central Departments to fund specific service provision in 2005/2006.

## 27. TRUST FUNDS

The Authority administers a number of Trust Funds, the principal ones being shown below. It should be noted that the statement on page 33 does not include all Trust Fund assets and liabilities and so does not comply fully with relevant accounting standards.

	<b>B/f</b>			<b>C/f</b>
	<b>1/4/2004</b>	<b>Expend're</b>	<b>Income</b>	<b>31/3/2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Welfare Savings (a)	403	173	162	392
King Bequest Fund (b)	11	0	1	12
Childrens Trust Funds (c)	36	12	19	43
Social Services Trust Funds: sundry other (d)	52	146	171	77
Tower Hamlets Further Education Trust (e)	482	119	36	399
Globe Town Picture Fund (f)	145	9	6	142
Millwall Park Compensation Fund (g)	409	40	19	388
Sundry Other	5	0	1	6
<b>Total Trust Funds</b>	<b>1,543</b>	<b>499</b>	<b>415</b>	<b>1,459</b>

- (a) This Fund represents monies held by Social Services residential establishments on behalf of residents in their care. It is used to finance the purchase of goods and services on request of residents.
- (b) This Fund was established with a legacy from the Will of a former resident of the borough. The terms of the Will restrict expenditure to specific activities which enhance the environment of the local community.
- (c) These Funds represent monies held and/or invested by the Authority on behalf of children in care.
- (d) These Funds represent monies held by the Authority on behalf of any residents of the borough (including those in private accommodation) who are unable to manage their own personal affairs.

The Authority also holds a number of deposits relating to Trust Funds administered by the Authority. The funds are held in an interest bearing account maintained by the Authority. The account is excluded from the financial statements relating to the Authority. The relevant Trusts and transactions during the financial year ended 31st March 2005 may be summarised as follows:-

- (e) This was established by the Authority in conjunction with Canary Wharf Ltd with the objective of "the advancement of education and training for the residents of the London Borough of Tower Hamlets". The Authority is the sole Trustee and the Trust is registered with the Charities Commission (No. 1002772). Accounts relating to the Trust have been deposited with the Charities Commissioners.
- (f) This Fund was established with the proceeds of the sale of a painting by the Authority.
- (g) Funds received from the Docklands Light Railway to reinstate and improve Millwall Park following construction works.

**STATEMENT OF TOTAL MOVEMENTS ON RESERVES**  
for year ended 31st March 2005

	2004/2005 £'000	2004/2005 £'000	2003/2004 £'000	2003/2004 £'000
<b>Surplus/(deficit) for the year:</b>				
General Fund				
Housing Revenue Account	(2,217)		475	
add back movements on specific revenue reserves	2,120		(8,634)	
<b>Total increase/(decrease) in revenue resources</b>	<u>11,302</u>	<u>11,205</u>	<u>28,328</u>	<u>20,169</u>
Appropriation from Pensions Reserve	(716)		(1,944)	
Actuarial gains and losses relating to Pensions	(119,850)	(120,566)	49,303	47,359
<b>Total increase/(decrease) in realised capital resources (1)</b>	<u>9,648</u>	<u>17,029</u>	<u>372</u>	<u>2,344</u>
Increase/(decrease) in useable capital receipts	7,381		1,972	
Increase/(decrease) in unapplied capital grants				
<b>Total increase/(decrease) in realised capital resources (1)</b>	<u>358,025</u>	<u>358,025</u>	<u>185,405</u>	<u>185,405</u>
Gains/(losses) on revaluation of Fixed assets	0	(77,397)	0	(55,568)
Impairment losses on Fixed Assets due to general changes in prices				
<b>Total increase/(decrease) in unrealised value of fixed assets (2)</b>	<u>0</u>	<u>(77,397)</u>	<u>0</u>	<u>(55,568)</u>
<b>Value of assets sold, disposed of or decommissioned (3)</b>				
Capital receipts set aside	19,609	39,149	59,811	71,005
Revenue resources set aside	(12,570)	227,445	(26,162)	270,714
Net movement on Government Grants Deferred	32,110		37,356	
<b>Total increase/(decrease) in amounts set aside to finance capital investment (4)</b>	<u>39,149</u>	<u>227,445</u>	<u>71,005</u>	<u>270,714</u>

**NOTES TO THE STATEMENT OF TOTAL MOVEMENTS ON RESERVES**

	2004/2005 £'000	2004/2005 £'000	2003/2004 £'000	2003/2004 £'000
<b>1. Movements in realised capital resources</b>				
Amounts receivable	88,644	39,491	60,183	39,329
Amounts applied to finance new capital investment	(19,609)	(32,110)	(59,811)	(37,357)
Receipts paid to Central Government	(59,387)	0	0	0
<b>Total increase/(decrease) in realised capital resources</b>	<u>9,648</u>	<u>7,381</u>	<u>372</u>	<u>1,972</u>
Balance brought forward at 1st April	7,239	3,792	6,867	1,820
<b>Balance carried forward at 31st March</b>	<u>16,887</u>	<u>11,173</u>	<u>7,239</u>	<u>3,792</u>

Information in respect of defined benefit schemes is disclosed in note 14 to the Consolidated Revenue Account on pages 23 to 25.



# CASH FLOW STATEMENT

for year ended 31st March 2005

	2004/2005 £'000	2004/2005 £'000	2003/2004 £'000	2003/2004 £'000
<b>REVENUE ACTIVITIES</b>				
<b>Expenditure</b>				
Cash paid in respect of employees	314,842		336,082	
Other operating costs	520,287		467,897	
Housing Benefit paid out	61,774		55,735	
Payments to NNDR Pool	206,659		150,319	
Payments of precepts	17,107		15,408	
Payments to Capital Receipts Pool	59,387		0	
		<b>1,180,056</b>		<b>1,025,441</b>
<b>Income</b>				
Rents (after rebates)	(34,629)		(37,907)	
Receipts from Council Tax payers	(50,036)		(45,403)	
Receipts from NNDR Pool	(57,776)		(57,567)	
Non domestic rate income	(205,701)		(176,111)	
Receipts from Community Charge payers	(1)		(6)	
Revenue Support Grant	(293,823)		(267,301)	
DSS grants for rent allowances	(60,284)		(56,419)	
Other Government grants (2)	(277,046)		(281,045)	
Other revenue income	(213,449)		(211,336)	
		<b>(1,192,745)</b>		<b>(1,133,095)</b>
<b>NET CASH INFLOW FROM REVENUE ACTIVITIES (1)</b>		<b>(12,689)</b>		<b>(107,654)</b>
<b>SERVICING OF FINANCE</b>				
Expenditure: interest paid	45,919		49,798	
Lease rentals	2,506		4,317	
Income: interest received	(7,880)		(7,320)	
<b>NET CASH OUTFLOW FROM THE SERVICING OF LOANS</b>		<b>40,545</b>		<b>46,795</b>
<b>CAPITAL ACTIVITIES</b>				
<b>Expenditure:</b>				
Purchase of fixed assets	74,211		75,960	
Advances to long term debtors	0		732	
Deferred charges	20,800		34,016	
		<b>95,011</b>		<b>110,708</b>
<b>Income:</b>				
Sale of fixed assets	(88,644)		(59,571)	
Other capital cash payments/(income)	(70,343)		(84,011)	
Receipts from long term debtors	(465)		(1,659)	
		<b>(159,452)</b>		<b>(145,241)</b>
<b>NET CASH INFLOW FROM CAPITAL ACTIVITIES</b>		<b>(64,441)</b>		<b>(34,533)</b>
<b>NET CASH INFLOW FROM ALL ACTIVITIES BEFORE FINANCING</b>		<b>(36,585)</b>		<b>(95,392)</b>
<b>MANAGEMENT OF LIQUID RESOURCES</b>				
Short Term Investments	(1,617)		(19,811)	
Short Term Borrowing	15,953		48,428	
		<b>14,336</b>		<b>28,617</b>
<b>FINANCING</b>				
Repayments of amounts borrowed	17,886		45,611	
New loans raised	0		0	
<b>NET CASH OUTFLOW FROM THE REPAYMENT OF LOANS</b>		<b>17,886</b>		<b>45,611</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS (3)</b>		<b>(4,363)</b>		<b>(21,164)</b>

## NOTES TO THE CASH FLOW STATEMENT

	2004/2005	2003/2004
	£'000	£'000
<b>(1) Reconciliation of Revenue Cash Flow</b>		
Net General Fund Revenue Expenditure (see page 19)	2,217	(475)
Net Housing Revenue Account Expenditure (see page 27)	(2,120)	8,634
Net Statutory Street Trading Account Expenditure (see note 25 page 42)	(227)	(413)
Net Collection Fund Revenue Expenditure (see page 31)	1,026	1,846
Deduct interest paid	(48,425)	(54,115)
Deduct Minimum revenue provision	(5,355)	(11,562)
Deduct Revenue Contributions		
to Capital	(3,817)	(4,379)
Payments to Capital Receipts Pool	59,387	0
(Increase)/decrease in revenue creditors	6,355	(25,121)
Increase/(decrease) in stocks	(10)	(109)
Add interest received	7,880	7,320
Deduct contributions to Reserves		
& Provisions (net)	(17,844)	(29,496)
Increase/(decrease) in revenue debtors	(11,756)	216
<b>Revenue net cash flow</b>	<b>(12,689)</b>	<b>(107,654)</b>

	£'000	£'000
<b>(2) Other Government Revenue Grant</b>		
Alcohol and Drug Misuse	1,639	1,858
HIV/Aids	280	467
Asylum Seekers Accommodation	2,573	4,749
Promoting Independence	1,091	861
Preserved Rights	1,714	1,876
Childrens' Services	882	7,820
Dept of Health: Other	6,684	4,200
Other Social Services	3,581	1,694
DSS: Benefits: Administration	3,649	3,451
DSS: Benefits: Prior Years	3,698	3,758
DSS: Benefits: Council Tax	22,561	18,963
DSS: Benefits: Rent Rebates	78,204	20,106
ODPM: Housing Subsidy	45,486	114,549
ODPM : Single Regeneration Grant	7,914	6,447
ODPM: Home Insulation & Improvement Grants	272	310
Home Office: Civil Defence	93	93
Standards Fund	24,950	27,350
Mandatory Awards	0	(84)
FEFC Access	510	340
Education maintenance allowances	2,731	1,743
Learning Schools Council - sundry	11,107	10,419
Other Education and Training	11,377	11,273
Nursery and other childrens grants	4,038	3,919
European Regional Development Grants	69	91
European Social Grants	1,150	949
New Deal	6,270	3,916
Neighbourhood Renewal Fund	13,647	10,624
Supporting People	16,088	15,539
Connexions	639	416
Bed and Breakfast Action Plan	1,354	1,174
Other Revenue Grants	2,795	2,174
<b>Total other revenue grant</b>	<b>277,046</b>	<b>281,045</b>

(3) Movement in cash equivalent:	31/3/05	31/3/04	Net movts	31/3/04	31/3/03	Net movts
	£'000	£'000	£'000	£'000	£'000	£'000
Cash overdrawn	(22,846)	(23,026)	180	(23,026)	(33,978)	10,952
Other cash and officer balances	37,214	33,031	4,183	33,031	22,819	10,212
<b>Net increase in cash and cash equivalent</b>	<b>14,368</b>	<b>10,005</b>	<b>4,363</b>	<b>10,005</b>	<b>(11,159)</b>	<b>21,164</b>

## PENSION FUND ACCOUNTS for year ended 31st March 2005

### DEALINGS WITH MEMBERS ACCOUNT

	2004/2005 £'000	2004/2005 £'000	2003/2004 £'000
<b>Income</b>			
Contributions receivable:-			
Employees (6)		7,112	6,743
Council's related (6)		30,811	28,590
		37,923	35,333
Transfer values receivable		4,842	4,310
<b>Total income</b>		<b>42,765</b>	<b>39,643</b>
<b>Expenditure</b>			
Property expenses		0	124
Benefits payable (8)		23,813	23,440
Transfer values payable		4,604	3,345
Payments to leavers: repayment of contributions		90	100
Administration (9)		797	771
Other expenses		(7)	21
<b>Total expenditure</b>		<b>29,297</b>	<b>27,801</b>
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>13,468</b>	<b>11,842</b>

### RETURN ON INVESTMENTS

	2004/2005 £'000	2004/2005 £'000	2003/2004 £'000
Investment income (7)		13,001	11,656
Change in market value: Realised	21,361		3,196
Change in market value: Unrealised	10,180		57,811
		31,541	
Investment management expenses (9)		(1,084)	(1,678)
Net Return on Investments		43,458	70,985
Net assets brought forward		457,659	374,832
New money available for investment		13,468	11,842
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>514,585</b>	<b>457,659</b>

### NET ASSETS STATEMENT

	2004/2005 £'000	2003/2004 £'000
Investments Assets		
Fixed interest securities:- Public Sector	51,185	6,452
Fixed interest securities:- Private Sector	21,903	53,186
Index Linked Securities	85,994	74,888
Equities - UK	160,620	129,298
Equities - Overseas	46,882	65,902
Managed and Unitised Funds - Property	61,145	48,655
Managed and Unitised Funds - Other - UK	0	10,533
Managed and Unitised Funds - Other - Overseas	0	44,194
	427,729	433,108
Other Net Assets		
Debtors less Creditors (14/15)	1,596	963
Cash	85,260	23,588
<b>TOTAL NET ASSETS</b>	<b>514,585</b>	<b>457,659</b>

## NOTES TO THE PENSION FUND

1. The financial statements have been prepared in accordance with guidelines issued by the Chartered Institute of Public Finance and Accountancy and Statement of Recommended Practice No.1 (the "SORP").

The accounts have been prepared on an accruals basis.

### 2. ACTUARIAL REVALUATION

The accounts summarise the transactions and net assets of the scheme. They do not take account of liabilities to pay pensions and other benefits in the future.

The statutory triennial revaluation undertaken by the actuary (Watson Wyatt Partners) in 2004 calculated the deficit on the Fund to be approximately £192 million and the funding level to be 73%. This compares to a deficit at the previous revaluation of £68m and a corresponding funding level of 88%. The revaluation incorporated the following assumptions: -

	2004	2001
Investment returns (Equities)	6.7%	6.8%
Pay increases	4.4%	4.8%
Price inflation	2.9%	2.5%

The actuary has discretion to phase in recovery of the deficit and recommended that employee's contributions be increased in line with inflation and that the employer's contribution be set at the following level:

	£m
2005/2006	9.4
2006/2007	10.7
2007/2008	12.0

In addition the actuary has specified that the future service rate, ie, the rate to fund the cost of pensions accruing in the year, be increased from 13.2% to 14.5% of the payroll. The revised Regulations also provide that the full valuation be undertaken every three years and consequently the next valuation date will be the 1st April 2007.

### 3. ACCOUNTING POLICIES

#### Inclusion of income and expenditure

- (i) Contribution income - Ordinary contributions relating to wages and salaries earned in the financial year are included on an accruals basis. The contribution rate for employees is determined by the Secretary of State and that of the employers by the Consultant Actuary.
- (ii) Transfers to and from other schemes - Transfer values represent the amounts receivable and payable during the year for members who have either joined or left the scheme. Provision is made for amounts receivable or payable based on actual receipts and payments in the subsequent financial year when the relevant individual has left or joined in previous years.
- (iii) Investment income - Dividends are credited to income on an accruals basis. Dividends and interest are grossed up for the amount of any taxation recoverable. Purchases and sales of investments are accounted for on an accruals basis
- (iv) Benefits payable - Benefits payable represent all valid benefit claims in respect of the scheme year.
- (v) Foreign currency translation - Foreign income is translated into sterling at the rate ruling on the date the income is received. Investments and current assets and liabilities denominated in foreign currencies are translated using the sterling rate of exchange ruling at the year end. Exchange gains and losses arising on translation of investments are included as part of the change in market value of investments



### 3. ACCOUNTING POLICIES (cont...)

- (vi) Rents receivable - rental income is incorporated into the accounts on an accruals basis.
- (vii) Fees - these comprise investment managers fees and internal management fees. The external managers fees are based on the value of the funds under management. The internal fees are based on an apportionment of employees salaries and relate to the monitoring of performance and administration of the investment panel.

### 4. VALUATION OF INVESTMENTS

Investments are included in the net assets statement at their market values at 31st March, which are determined as follows:-

- (i) UK listed securities and foreign securities quoted on a recognised stock exchange are stated at mid-market values ruling at the year end;
- (ii) Managed fund investments are stated at the average of the latest bid and offer prices quoted by the trust managers prior to the 31st March;
- (iii) Unlisted securities are stated at the trustees' valuation based on the advice of the scheme's investment managers;

### 5. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Contributors have the right to make additional contributions (AVCs) to enhance their pension. The Council provided a facility through Equitable Life until that company announced it was closed to new business in 2000/2001. The Council now provides a facility to enable members to pay AVCs through Norwich Union.

### 6. CONTRIBUTIONS RECEIVABLE

	2004/2005			2003/2004		
	Admin. Authority £'000	Admitted Bodies £'000	Total £'000	Admin. Authority £'000	Admitted Bodies £'000	Total £'000
From members						
Ordinary contributions	7,032	80	7,112	6,679	64	6,743
From employers						
Ordinary contributions	15,334	67	15,401	14,334	82	14,416
Additional contributions	15,410		15,410	14,174		14,174
	30,744	67	30,811	28,508	82	28,590
<b>Total contributions</b>	<b>37,776</b>	<b>147</b>	<b>37,923</b>	<b>35,187</b>	<b>146</b>	<b>35,333</b>

### 7. INVESTMENT INCOME

	2004/2005 £'000	2003/2004 £'000
Dividends from equities	12,657	11,103
Interest on loans and mortgages	2,592	1,274
Underwriting commission	(36)	(72)
Transfer value interest	(2,212)	(963)
Rents	0	314
<b>Total investment income</b>	<b>13,001</b>	<b>11,656</b>

## 8. BENEFITS PAYABLE

	2004/2005			2003/2004		
	Admin.	Admitted	Total	Admin.	Admitted	Total
	Authority	Bodies		Authority	Bodies	
	£'000	£'000	£'000	£'000	£'000	£'000
Pension payments to retired members	21,824	0	21,824	21,109	0	21,109
Lump sums paid on retirement	1,781	0	1,781	1,884	0	1,884
Death grants	208	0	208	447	0	447
<b>Total benefits payable</b>	<b>23,813</b>	<b>0</b>	<b>23,813</b>	<b>23,440</b>	<b>0</b>	<b>23,440</b>

9. ADMINISTRATIVE EXPENSES	2004/2005	2003/2004
	£'000	£'000
Pension administration costs	797	771
Investment management fees	1,084	1,678
<b>Total administrative expenses</b>	<b>1,881</b>	<b>2,449</b>

## 10. GROSS PURCHASES AND SALES OF INVESTMENTS

Gross purchases of investments were £256.6m (£254.0m :2003/2004) and sales were £272.2m (£179.3m: 2003/2004)

The change in investment market values reflects both those on investments sold during the year as well as movements in the value of investments still held at the year end arising from both changes in their market values and foreign exchange rates.

## 11. INVESTMENT ASSETS AT MARKET VALUES

	2004/2005			2003/2004		
	U.K	Foreign	Total	U.K	Foreign	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed interest securities:-						
Public sector	51,185	0	51,185	6,452	0	6,452
Other	21,904	0	21,904	53,186	0	53,186
Equities:-						
Listed	160,459	46,882	207,341	129,113	65,902	195,015
Unlisted	161	0	161	185	0	185
Index linked securities	85,994	0	85,994	74,888	0	74,888
Managed funds:-						
Property	61,145	0	61,145	48,655	0	48,655
Other	0	0	0	10,533	44,194	54,727
	<b>380,848</b>	<b>46,882</b>	<b>427,730</b>	<b>323,012</b>	<b>110,096</b>	<b>433,108</b>
Direct property investments						
Freehold	0	0	0	0	0	0
Leasehold	0	0	0	0	0	0
Cash deposits						
Temporary loan to Authority (see note 12 on page 38)	7,740	0	7,740	19,440	0	19,440
Managers' cash	77,520	0	77,520	4,147	0	4,147
<b>Total investments at market value</b>	<b>466,108</b>	<b>46,882</b>	<b>512,990</b>	<b>346,599</b>	<b>110,096</b>	<b>456,695</b>

## 12. CONCENTRATION OF INVESTMENTS

The scheme complies with the investment requirements of Part P of the Local Government Superannuation Regulations 1986. No individual investment constitutes more than 12% of the total Fund.

## 13. INVESTMENT MANAGERS

The fund currently employs the following investment managers: -

	2004/2005	2004/2005	2003/2004	2003/2004
	£'000	%	£'000	%
<b>Balance Fund Managers</b>				
Schroders	343,535	67.0	255,489	55.9
Deutsche	161,527	31.5	181,585	39.8
<b>Property Managers</b>				
Royal London Asset Managers	147	0.0	140	0.0
<b>Residual Funds with Former Manager</b>				
Guinness Flight	40	0.0	41	0.0
<b>Other</b>	7,740	1.5	19,440	4.3
<b>Total investments at market value</b>	<b>512,989</b>		<b>456,695</b>	

## 14. DEBTORS

	2004/2005	2003/2004
	£'000	£'000
Dividends receivable	1,890	1,637
Income tax recoverable	0	201
Interest receivable	0	11
Investment receipts	1,531	2,896
Rents	0	0
Miscellaneous	1	1
<b>Total debtors</b>	<b>3,422</b>	<b>4,746</b>

## 15. CREDITORS

	2004/2005	2003/2004
	£'000	£'000
Administration	309	304
Benefits payable	30	18
Investment payments	1,486	3,459
Property expenses	0	0
<b>Total creditors</b>	<b>1,825</b>	<b>3,781</b>

## 16. CONTINGENT LIABILITIES

The accounts do not take account of liabilities to pay pensions and other benefits in the future. On that basis, in the opinion of the trustees the scheme had no contingent liabilities at the end of the year.

## 17. TAX STATUS

The scheme is an exempt approved scheme under the provisions of chapter 1 of Part XIV of the Income and Corporation Taxes Act 1988. It is therefore exempt from U.K. income and capital gains taxes.

## 18. RELATED PARTY TRANSACTIONS

The Authority has not entered into any related party transactions.

## 19. FUND MEMBERSHIP

The Funds membership as at the 31st March comprised the following:-

	2004/2005	2003/2004
Contributors	5,437	5,279
Pensioners	3,480	3,453
<b>Total membership</b>	<b>8,917</b>	<b>8,732</b>

## 20. REGULATIONS

The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 1999 requires administering authorities to publish a Statement of Investment Principles. This document was approved by the Council on the 22nd March 2000 and is published on the Authority's website.

## 21. ADMITTED BODIES

The Council has admitted the following bodies into the Pension Fund;

Tower Hamlets Community Housing  
Redbridge Community Housing Ltd  
Greenwich Leisure Ltd

**Martin Smith CPFA**  
**Director of Resources**  
**28th October 2005**

## **GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS**

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

### **FINANCIAL TERMS**

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

## **FINANCIAL TERMS (cont...)**

<b>Precept</b>	The precepting authorities' council tax. This is collected by billing authorities c behalf of the precepting authorities.
<b>Precepting Authorities</b>	Those authorities which are not billing authorities, i.e. do not collect the council tax and non-domestic rate. The Council bills and collects on behalf of the Greater London Authority.
<b>Private Finance Initiative</b>	Contracts whereby private sector suppliers provide services and/or capital investment in return for unitary payment; subject to agreed performance targets
<b>Provisions</b>	Amounts set aside to meet probable "one-off" future liabilities or losses but where exact dates and amounts are uncertain.
<b>Revenue Expenditure</b>	This is the routine day to day cost of providing the Council services.. Under the Local Government & Housing Act 1989, all expenditure is regarded as revenue unless it is specifically classified as Capital.
<b>RSG</b>	Revenue Support Grant – a grant paid by central government to support local authority services in general, as opposed to specific grants, which may only be used for a prescribed purpose.
<b>Support Services</b>	Professional, technical and administrative activities, such as Finance, Information Technology and Human Resources, which support the provision of front line services

## **ABBREVIATIONS**

<b>AMRA</b>	Asset Management Revenue Account
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>DFES</b>	Department of Education and Skills
<b>FRS</b>	Financial Reporting Standard
<b>GLA</b>	Greater London Authority
<b>HRA</b>	Housing Revenue Account
<b>LGPS</b>	Local Government Pension Scheme
<b>LPFA</b>	London Pensions Fund Authority
<b>MRP</b>	Minimum Revenue Provision
<b>NNDR</b>	National Non-Domestic Rates
<b>ODPM</b>	Office of the Deputy Prime Minister
<b>PFI</b>	Private Finance Initiative
<b>PWLB</b>	Public Works Loans Board
<b>RSG</b>	Revenue Support Grant
<b>SORP</b>	Statement of Recommended Practice
<b>SRB</b>	Single Regeneration Budget
<b>SSAP</b>	Statement of Standard Accounting Practice

## **Independent Auditor's Report to the London Borough of Tower Hamlets**

I have audited the statement of accounts on pages 6 to 48 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 6 to 11 and the Pension Fund accounts, on pages 49 to 54, which have been prepared in accordance with the accounting policies applicable to pension funds set out on pages 50 to 51.

This report is made solely to the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

### **Respective Responsibilities of the Chief Financial Officer and Auditors**

As described on page 12 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My responsibility, as independent auditor, is established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly:

- the financial position of the Council and its income and expenditure for the year,
- the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I review whether the statement on internal control on pages 13 to 18 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

**Opinion**

In my opinion the statement of accounts presents fairly the financial position of the London Borough of Tower Hamlets as at 31 March 2005 and its income and expenditure for the year then ended.

In my opinion the financial statements present fairly the financial transactions of the London Borough of Tower Hamlets Pension Fund during the year ended 31 March 2005, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

**Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: .....  .....

Date: ..... 28 October 2005 .....

Name: Steve Lucas.....

Audit Manager  
Audit Commission  
First Floor  
Millbank Tower  
Millbank  
London  
SW1P



# **Report on the 2004/05 Financial Statements to the Audit Panel**

**London Borough of Tower Hamlets**

**Audit 2004-2005**

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

### **Status of our reports to the Council**

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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## Introduction

- 1 Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':
  - expected modifications to the audit report;
  - unadjusted non-trifling misstatements;
  - material weaknesses in accounting and internal control systems;
  - qualitative aspects of accounting practice and financial reporting;
  - matters required by other auditing standards to be reported to those charged with governance; and
  - other matters that we wish to draw to your attention.
- 2 We have agreed with the Council that the communications required under these auditing standards would be with the Audit Panel. This report sets out the matters arising from the audit of the financial statements for 2004/05 that we have brought to the attention of the Audit Panel.

## Status of the audit

- 3 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 31 October 2005 (a draft report is attached at Appendix 1).

## Matters to be reported to those charged with governance

- 4 We have the following matter to draw to the Audit Panel's attention.

### Unadjusted misstatements

- Our audit has identified what we consider to be a non-trifling misstatement in the financial statements that the Council has decided not to adjust in relation to the transfer of ex-Inner London Education Authority (ILEA) debt.

- In 1992/93, the liabilities for some £14 million of PWLB loans in relation to ILEA were transferred to the Council. In our view amounts were required to be set aside from revenue to finance the repayment of these loans over their life. The final loan was set to redeem in 2015. As a result of changes to capital accounting requirements, a reconciliation in relation to 'adjustment A' that was required to be prepared this year has identified that the Council has not set aside money from revenue to finance the loans to date. If the amount was financed similar to capital expenditure (4 per cent reducing balance per year) then approximately £5.5 million would have been charged to the General Fund up to 31 March 2004 and another £350,000 for the 2004/05 financial year.
- The Council is currently of the view that it has acted in accordance with the legislation applying over the period concerned and was not required to set aside amounts from revenue to finance the loans during this period, although it accepts provision will be required in the future. We have discussed the position with the Council's Director of Resources and in view of the lack of clarity, and to safeguard its position, the Council has provided £1.1 million in 2004/05. It plans to revisit this provision in 2005/06 and consider an appropriate period to finance the balance. We will continue to work with the Council to resolve the uncertainty and have accepted that should the full provision be required, this could be spread over five years.
- However, this means that in our view, at 31 March 2005 potentially the General Fund Reserve is overstated by £4.75 million, the Capital Financing Reserve is understated by £5.85 million and provisions are overstated by £1.1 million.

## Next steps

- 5 We have drawn this matter to the Audit Panel's attention to enable it to be considered before the financial statements are approved and certified.
- 6 An extract from the draft minutes of the Audit Panel of 13 October 2005 relating to this item are appended to this report.

## Appendix 1 – Independent Auditor’s Report to London Borough of Tower Hamlets

I have audited the statement of accounts on pages A to F which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages X to Y and the Pension Fund accounts, on pages H to L, which have been prepared in accordance with the accounting policies applicable to pension funds set out on pages V to W.

This report is made solely to the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

### **Respective responsibilities of the Chief Financial Officer and Auditor**

As described on page x the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession’s ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly:

- the financial position of the Council and its income and expenditure for the year; and
- the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund’s assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I review whether the statement on internal control on page x reflects compliance with CIPFA’s guidance ‘The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003’ published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Council’s corporate governance procedures or its risk and control procedures.

My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

## **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

## **Opinion**

In my opinion the statement of accounts presents fairly the financial position of the London Borough of Tower Hamlets as at 31 March 2005 and its income and expenditure for the year then ended.

In my opinion the financial statements present fairly the financial transactions of the London Borough of Tower Hamlets Pension Fund during the year ended 31 March 2005, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

## **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature:.....

Date:.....

Name:.....

Address:.....

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