

Meeting of the

PENSIONS AND ACCOUNTS COMMITTEE

Thursday, 29 June 2006 at 7.30 p.m.

A G E N D A

VENUE

Committee Room, 1st Floor, Town Hall, Mulberry Place, 5 Clove
Crescent, London, E14 2BG

Members:	Deputies (if any):
Chair: Councillor Ahmed Adam Omer Vice-Chair:(none)	
Councillor Louise Alexander Councillor M. Shahid Ali Councillor Timothy Archer Councillor Lutfa Begum Councillor Marc Francis Councillor Joshua Peck	Councillor Rajib Ahmed, (Representing Councillor Louise Alexander) Councillor Shahed Ali, (Representing Councillor Lutfa Begum) Councillor Shirley Houghton, (Representing Councillor Tim Archer) Councillor Ann Jackson, (Representing Councillors Ahmed Omer, M. Shahid Ali, Marc Francis and Clair Hawkins) Councillor Oliur Rahman, (Representing Councillor Lutfa Begum)

[Note: The quorum for this body is not less than a third of the membership ie 2 Members].

LONDON BOROUGH OF TOWER HAMLETS
PENSIONS AND ACCOUNTS COMMITTEE

Thursday, 29 June 2006

7.30 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.

	PAGE NUMBER	WARD(S) AFFECTED
3. ELECTION OF VICE-CHAIR FOR THE MUNICIPAL YEAR 2006/07		
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 16 th March 2006.	1 - 4	
5. PENSIONS AND ACCOUNTS COMMITTEE TERMS OF REFERENCE REPORT	5 - 8	
6. DEPUTATIONS & PETITIONS		
To receive any deputations or petitions.		
7. UNRESTRICTED REPORTS FOR CONSIDERATION		
7 .1 Pensions Fund Investment Panel	9 - 16	All Wards
7 .2 Statement of Internal Control	17 - 38	All Wards
7 .3 Statement of Accounts 2005/06	39 - 114	All Wards
8. EXCLUSION OF 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”.		
<u>EXEMPT/CONFIDENTIAL SECTION (PINK)</u>		
The Exempt/Confidential (Pink) 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.		
8 .1 Pension Fund Management Arrangements	115 - 122	All Wards

This page is intentionally left blank

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS AND ACCOUNTS COMMITTEE

HELD AT 6.35 P.M. ON THURSDAY, 16 MARCH 2006

**COMMITTEE ROOM, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG**

Members Present:

Councillor Richard Brooks (Chair)

Councillor Kevin Morton
Councillor Marian Williams

Other Councillors Present:
(none)

Officers Present:

Anant Dodia	– (Pensions Manager)
Alan Finch	– (Service Head, Corporate Finance)
Jim Ricketts	– (Manager, Corporate Accounting)
Guy Butterworth	– (Democratic Services)
Mike Dodsworth	– (Democratic Services)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received on behalf of Councillor M. Ahmed.

2. DECLARATIONS OF INTEREST

No declarations of interest were made.

3. UNRESTRICTED MINUTES

RESOLVED:

That the minutes of the meeting held on 15th December 2005 be confirmed and signed as a correct record of the proceedings.

4. DEPUTATIONS & PETITIONS

None were received.

5. UNRESTRICTED REPORTS FOR CONSIDERATION

5.1 Pension Fund: Further Review of Asset Allocation

The report was introduced by Jim Ricketts, Manager, Corporate Accounting, who explained that the recommendation to diversify the investment portfolio resulted from a review of current asset allocation by the Council's investment advisors.

In response to questions from Members in relation to the shift of 5% of the fund into private equity, officers explained that private equity could recover over long periods, it reduced volatility of returns, that the risk had been reduced through the adoption of a funder, and a number of managers had been allocated to work with this change.

RESOLVED:

- (i) That a private equity investment portfolio with a target allocation of 5% of the fund be established;
- (ii) That a currency-hedging programme be implemented to a proportion of the fund, the details to be determined in discussion with the investment advisors;
- (iii) That the Director of Resources be authorised to appoint advisors to administer the manager selection process on the advice of the Chair of the Investment Panel;
- (iv) That a Selection Panel be appointed comprising the following members to consider the presentations by prospective managers:
 - Chair of the Investment Panel
 - Independent Investment Advisor
 - Chair of Pension and Accounts Committee or nominee.
 - A Member of the Minority Group
 - Director of Resources or representative;
- (v) That one Trade Union representative be authorised to attend each appointment interview as an observer; and
- (vi) That the Director of Resources be authorised to appoint the managers on the recommendation of the Selection Panel.

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

5.2 Communication and Governance Policy Statement

The report was introduced by Jim Ricketts, Manager, Corporate Accounting, who advised that in order to comply with new legislation the Council was required to publish a Communications Policy Statement and a Governance Policy Statement by 1st April 2006.

He then explained that advice had not been received from the Council's independent pensions advisor until relatively late in the process and consequently there had been limited opportunity for consultation. Therefore it was proposed that a further report be submitted to incorporate the results of further necessary consultation.

In response to questions from Members, officers explained that the policies being considered were applicable to the Council, and other bodies, including housing associations. Members were also assured that had sufficient time been available, union representatives would have been consulted.

RESOLVED:

- (i) That the Communications Policy Statement as set out in Appendix 1 of the report be adopted, subject to further consultation;
- (ii) That the Communications Policy Statement as set out in Appendix 1 of the report be adopted, subject to further consultation; and
- (iii) That officers consult with the Trade Unions and prepare a further report for the next meeting of the Committee.

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

None was raised.

7. RESTRICTED MINUTES

RESOLVED:

That the restricted minutes of the meeting held on 15th December 2005 be confirmed and signed as a correct record of the proceedings.

The meeting ended at 6.47 p.m.

Chair, Councillor Richard Brooks
Pensions and Accounts Committee

This page is intentionally left blank

Agenda Item 5

Committee: Pensions and Accounts	Date: 29 th June 2006	Classification: Unrestricted	Report No:	Agenda Item No:
Report of: Head of Democratic Renewal and Engagement		Title: Pensions and Accounts Committee Terms of Reference Report		
Originating Officer		Wards Affected: N/A		

1. Summary

- 1.1 This report sets out the terms of reference of the Pensions and Accounts Committee for the Municipal Year 2006/2007, for Members' information.

2. Recommendation

- 2.1 That the Pensions and Accounts Committee note its Terms of Reference, as set out in Appendix A to this report.

3. Background

- 3.1 The Council, at its meeting on 24th May 2006, appointed the Pensions and Accounts Committee and Councillor A. Omer as Chair of the Committee, with the terms of reference and membership as set out in Appendix A to this report.
- 3.2 The Committee's meetings for the remainder of the year are as follows:

14th December 2006
29th March 2007

4. Observations of the Chief Financial Officer

There are no specific observations arising from the recommendations in the report.

5. Concurrent report of the Assistant Chief Executive (Legal)

- 5.1 The Committee is recommended to note the terms of reference for the current municipal year.

6. Equal Opportunities Implications

There are no specific equalities considerations arising from the recommendations in the report.

7. Anti Poverty Implications

There are no specific anti poverty implications arising from the recommendations in the report.

8. Risk Management Implications

There are no specific risk management implications arising from the recommendations in the report.

10. Sustainable Action for a Greener Environment

There are no specific risk management implications arising from the recommendations in the report.

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

Brief description of "background papers"	Tick if copy supplied for register	If not supplied name and telephone number of holder
Report to Council 24 May 2006 "REVIEW OF PROPORTIONALITY AND APPOINTMENT TO COMMITTEES/PANELS OF THE COUNCIL."		Steve Cutting Senior Committee Officer 020 7364 4651

Appendix A

PENSIONS AND ACCOUNTS COMMITTEE TERMS OF REFERENCE

Terms of Reference:

- 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).

Membership:

Members	Deputies
Councillor A. Omer (Chair)	Councillor A. Asad
Councillor M. Shahid Ali	Councillor A. Jackson
Councillor J. Peck	
Councillor L. Begum	Councillor Shahed Ali
	Councillor O. Rahman
Councillor T. Archer	Councillor S. Houghton
Councillor L. Alexander	Councillor R. Ahmed

The quorum of the Pensions and Accounts Committee is no less than one third of the voting membership of the committee, i.e. two Members.

This page is intentionally left blank

Agenda Item 7.1

COMMITTEE: Pensions and Accounts Committee	DATE: 29TH June 2006	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Director of Resources ORIGINATING OFFICER(S): Investment Panel		TITLE: Composition of the Pension Fund Investment Panel Ward(s) affected: N/A		

1. SUMMARY

- 1.1. This report informs Members of the current arrangements for the provision of Investment advice to this Committee and recommends that these arrangements continue.
- 1.2. It also sets out potential changes to the Regulations to require Member training and alternative arrangements for the meetings of the Panel. It is recommended that the Director of Resources prepare a further report to a future meeting of this Committee on these issues.

2. RECOMMENDATIONS

- 2.1 Members are recommended to :
 - 2.1.1 To establish an Investment Panel.
 - 2.1.2 That membership of the Investment Panel comprise:-
 - All Members of the Pensions and Accounts Committee or their designated deputies.
 - A Investment Professional as Chair
 - An Independent Financial Advisor
 - The Director of Resources or nominee
 - 2.1.3 Provide that up to two Trade Union representatives (or their designated deputies) as nominated by the Staffside Secretary attend the Investment Panel as observers.
 - 2.1.4 To establish terms of reference for the Investment Panel as set out in Appendix 1.
 - 2.1.5 To instruct the Director of Resources to prepare a further report of the provision of training on investment issues to Members of the Investment Panel and arrangements for meetings.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Myners Compliance Document

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

Jim Ricketts Ext. 4733
Mulberry Place, 5th Floor.

3. BACKGROUND

- 3.1 The Pension Fund Regulations require the Council to establish arrangements for monitoring the investment activities of the professional fund managers and ensuring that proper advice is available on investment issues.
- 3.2 This role is currently undertaken by the Investment Panel the composition and terms of reference of which were established by this Committee on the 28th July 2004.
- 3.3 The terms of reference satisfy the Regulations, which require a formal statement of the responsibilities of the different parties involved in the investment process. In addition there is currently an increased emphasis on the provision of training to Members involved in the investment process.

4. THE REGULATIONS

- 4.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 require Councils to invest pension fund cash, which is not immediately required to pay pensions.
- 4.2 The Regulations require that Councils when undertaking such investment take proper advice at reasonable intervals and consider the need for diversification of investments.
- 4.3 The Regulations enable Councils to appoint one or more investment managers but in these circumstances are required: -
 - To take proper advice
 - To consider at least every three months the investments undertaken by the manager.
 - To periodically review the managers appointment
- 4.4 To satisfy the requirement to obtain proper advice the Council has engaged an investment professional to act as chair of the investment panel and a firm of investment consultants to advise on the technical issues.
- 4.5 In addition the Council employs an independent performance measurement service to provide an analysis of individual managers performance on a quarterly basis.
- 4.6 The Regulations have been supplemented by guidance on best practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in response to the Myners report, an independent review of pension investment, which reported in 2001
- 4.7 The CIPFA best practice guidance sets out the responsibilities of the different parties involved in the investment process and requires that a periodic review be made of these arrangements and of the performance of the individual parties.

5. CURRENT ARRANGEMENTS

- 5.1 Currently the Council is advised on investment issues by a Investment Panel which holds morning meetings on a quarterly basis and comprises the following members :-

- An independent Chair (Raymond Haines)
 - All Members of the Pensions and Accounts Committee or their designated deputies.
 - An independent advisor (Hymans Robertson & Co.)
 - The Director of Resources
 - One observer from the Trade Unions.
- 5.2 The terms of reference of the Investment panel were established by this Committee on the 28th July 2004 and satisfy the requirements of the Regulations.
- 5.3 It should be noted that the Investment Panel is purely advisory and has no executive powers. It advises this Committee on investment issues and this Committee decides on the basis of this advice what action is appropriate.
- 5.4 Although the formal constitution of the Panel permits only one Trade Union observer, by custom and practice two observers have been permitted to attend. Is it therefore proposed to change the formal arrangements so that up to two Trade Union observers can attend.

6. POTENTIAL DEVELOPMENTS

- 6.1 The arrangements for the investment of the Pension Fund's assets are becoming increasingly sophisticated and complex. In addition the Myners report identified that "Trustees lack the necessary investment expertise to act as strong and discerning customers of the investment consultants and fund managers who sell them services".
- 6.2 To address this deficiency the Myners report and the subsequent report on progress have emphasised the need for training of Trustee's on investment issues and it is envisaged that future Regulations will require a formal training strategy.
- 6.3 Currently the Director of Resources notifies Members of training opportunities provided by Fund Managers and arranges briefings by the professional advisors on topics, which Members are considering.
- 6.4 It is proposed that the Director of Resources in conjunction with the Chair of this Committee devises an appropriate training programme and that this be presented to a future meeting of this Committee.
- 6.5 Meetings of the Investment Panel are currently during the mornings. The Council's professional investment advisor has indicated that it is the practice amongst a number of other London Boroughs to hold these meetings during the evenings to maximise participation and to minimise the inconvenience to elected Members.
- 6.6 It is recommended that the Director of Resources in conjunction with the Chair of the Investment Panel prepare a report on the alternative arrangements for the meetings of the Investment Panel.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 7.1. The comments of the Director of Resources have been incorporated into the report.

8. RISK MANAGEMENT IMPLICATIONS

- 8.1 There is inevitably a relatively high degree of risk associated with investment in financial markets.
- 8.2 The Regulations attempt to mitigate this risk by ensuring that arrangements are in place to monitor the activities of investment managers and proper advice is taken.

9. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 9.1 This report recommends the continuation of the current arrangements for an Investment Panel to advise the Committee on the matters specified in Appendix 1.
- 9.2 It is proposed that the Panel should include officers and two independent financial advisors. The Panel will be non-executive and advisory only.
- 9.3 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 require Councils, which administer Pension Funds to invest contributions until such time as they are required to pay pensions.
- 9.4 The Regulations also require Councils to have arrangements to ensure that proper advice is taken. This report sets out this Council's arrangements to satisfy this requirement.

10. ANTI-POVERTY IMPLICATIONS

- 10.1 There is no specific anti poverty implications.

11. EQUAL OPPORTUNITIES IMPLICATIONS

- 11.1 There are no equality implications.

12. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 12.1 There are no Sustainable Action for A Greener Environment implications.

APPENDIX 1: INVESTMENT PANEL TERMS OF REFERENCE

The Investment Panel is responsible for monitoring all aspects relating to the investment of the assets of the Scheme. Its specific responsibilities are as follows: -

- The Investment Panel will formally review the Scheme's asset allocation at least every three year's taking account of any changes in the profile of Scheme liabilities and will assess any guidance regarding tolerance of risk. It will recommend changes in asset allocation to the Pensions Committee.
- The Investment Panel will consider and monitor the Quarterly Reports produced by their Investment Managers and independently produced performance measurement reports. The contents and formats of the reports will be specified by the Investment Panel.
- The Investment Panel will formally review annually each manager's mandate, and its adherence to its expected investment process and style. The Investment Panel will ensure that the explicit written mandate of each of the investment managers is consistent with the Scheme's overall objectives and is appropriately defined in terms of performance target, risk parameters and timescale.
- The Investment Panel will consider the need for any changes to the Scheme's investment manager arrangements (e.g. replacement, addition, termination) at least annually and make recommendations to the Pension and Accounts Committee if necessary.
- In the event of a proposed change of managers, the Investment Panel will evaluate the credentials of potential managers and make recommendations to Pension and Accounts Committee
- The Investment Panel will consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism and recommend revisions to the Pension Committee.
- The Investment Panel will review the Scheme's AVC arrangements annually. If it considers a change is appropriate, it will make recommendations to the Pensions Committee.
- The Investment Panel will assess the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually.
- The Investment Panel will consider and conclude the negotiation of formal agreements with managers, custodians and other investment service providers on behalf of the Pensions Committee.
- The Investment Panel is able to take such professional advice, as it considers necessary in order to fulfil its responsibilities.
- The Investment Panel will keep Minutes and other appropriate records of its proceedings, and circulate these minutes to the Pensions and Accounts Committee.

- The Investment Panel may also carry out any additional tasks delegated to it by the Pensions and Accounts Committee.

This page is intentionally left blank

Agenda Item 7.2

REPORT TO: Pension & Accounts Committee	DATE 29 June 2006	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Director of Resources ORIGINATING OFFICER(S): Service Head Risk Management – Richard Ellis	Statement on Internal Control for the 2005/06 accounts Ward(s) Affected: N/A			

1 Summary

- 1.1 The report sets out the framework for reviewing and reporting on the Council's system on internal control in line with the Accounts and Audit Regulations 2003. The purpose of the review is to provide assurance that the accounts are underpinned by adequate internal controls.
- 1.2 It presents the resulting Statement on Internal Control for approval. The statement forms part of the statement of accounts.

2 Recommendation

- 2.1 Members are invited to approve the Statement on Internal Control 2005/06 in appendix three.

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

Brief description of "background papers"

Statement on Internal Control 05/06 audit file

Name and telephone number of holder
And address where open to inspection
Richard Ellis ext 0738

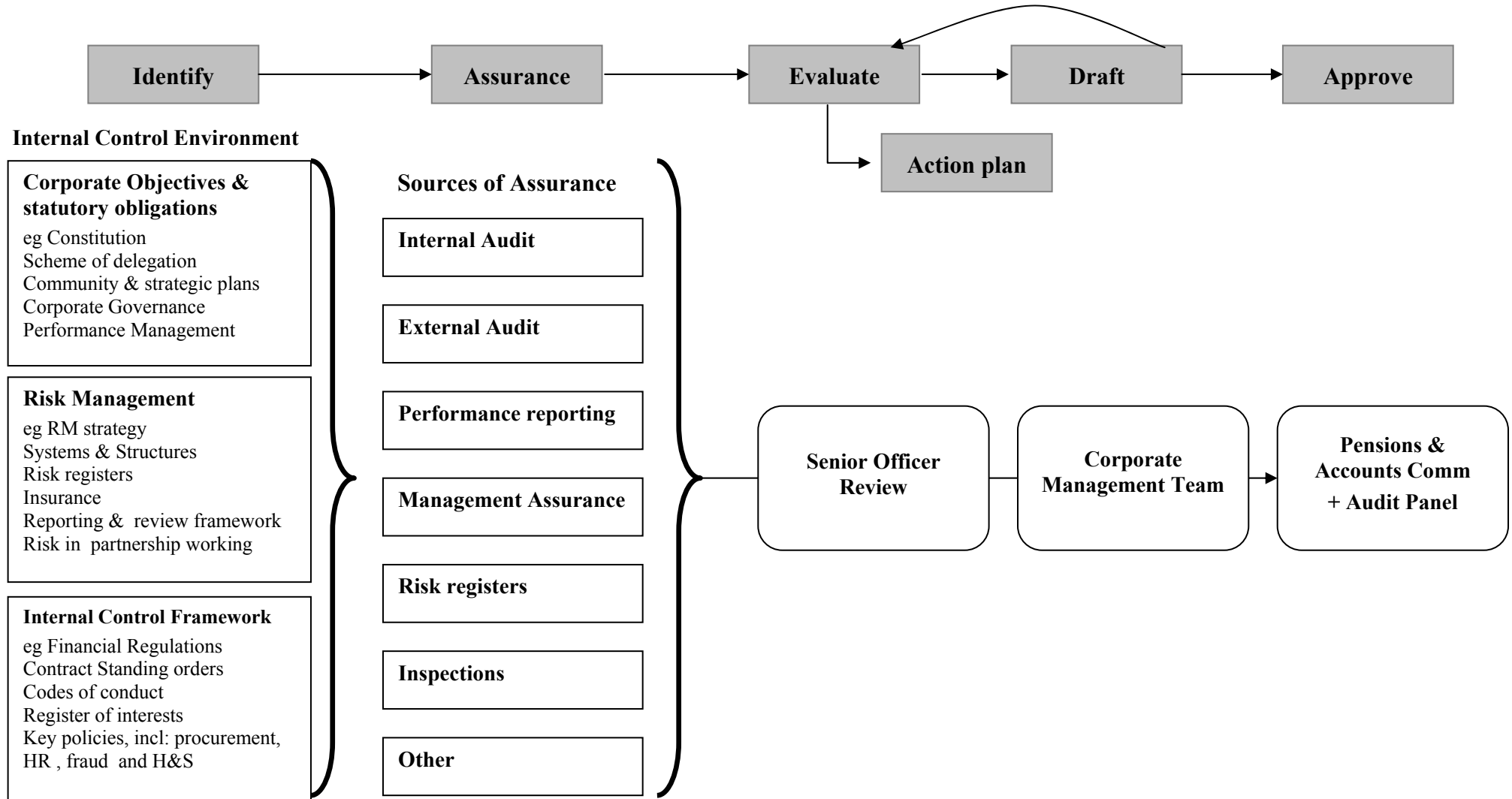
3 Background

- 3.1 The Accounts and Audit Regulations 2003 require the Council to conduct an annual review of its systems of internal control and to publish a statement on internal control (SIC) with the published financial statements. The Statement of Recommended Practice 2005 requires that the SIC be approved by the committee approving the accounts, in Tower Hamlets the Pension & Accounts Committee.
- 3.2 The statement should be signed by the Chief Executive and the Leader. In order to sign the SIC they will need to be satisfied that that statement accurately reflects the control environment and is backed by sufficient evidence. The statements needs to be finalised and signed to meet the deadline for the publication of the accounts.

4 Reviewing the internal control environment

- 4.1 CIPFA guidance sets out a process for gathering assurance on the system of internal control. This Assurance Framework is shown diagrammatically below. The key stages are:
- Identify & review the internal control environment;
 - Obtain assurances on the effectiveness of those controls;
 - Evaluate those assurances and identify gaps in controls;;
 - Plan actions to rectify those gaps;
 - Draft the statement on internal control.
- 4.2 The principal risks, controls and sources of assurance have been identified and evaluated a group of senior officers. The key findings from that evaluation are set out as follows:
- Review of the internal control environment
 - Review of the Sources of Assurance
 - Draft Statement on Internal Control including review of issues raised in the 2004/05 statement.

Assurance Framework and the production of the Statement on Internal Control



5 Internal Control environment

- 5.1 An internal control checklist was developed based on CIPFA guidance. This set out three key layers in the internal control environment:
- ◆ The processes for establishing statutory obligations and organisational objectives;
 - ◆ The processes for identifying the risks to the achievement of those objectives;
 - ◆ The key controls to manage those risks.
- 5.2 A list of key policies and processes were identified for each area based on the guidance. These are set out in appendix 1 below. Evidence has been gathered to demonstrate that these exist. The findings are summarised below.
- 5.3 No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which has been reviewed, and the revised version approved in March 2006. This included a revised Scheme of Management, including financial delegations. Legal Services have maintained their LEXCEL accreditation and an internal audit review of the identification and dissemination of new legislation gave a full assurance.
- 5.4 The Council has Strategic Plan that reflects the priorities of the Community Plan. The Council has an effective performance management framework, including regular reports to the Corporate Management Team and lead members.
- 5.5 No gaps were identified in the arrangements for identifying the **principal risks to achieving objectives**. The Council has embedded a risk management strategy.
- 5.6 No gaps were found in the arrangements for **identifying key controls to manage principal risks**. The Council has a robust system of internal control. Business Continuity arrangements have recently been revised. The Corporate Procurement Strategy is being revised,
- 5.7 Overall, the review found that the Council has all of the principal elements of an internal control framework.

6 Sources of Assurance

6.1 Having identified that the internal control framework contains the principal elements and that these can be evidenced, the principal sources of assurance were identified and evaluated. The sources of assurance and the key findings are summarised below

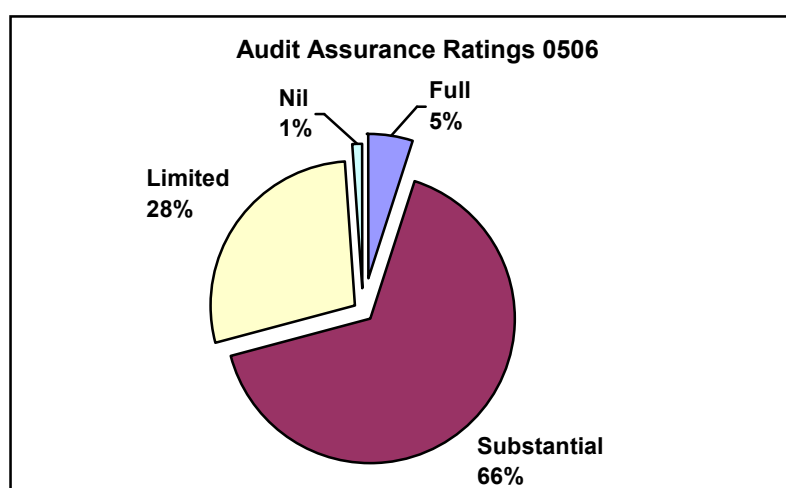
Internal Audit

6.2 2005/06 was the first year of the Internal Audit partnership with Deloitte & Touche. The arrangements has strengthen internal audit and provided a greater range of skills, especially in computer audit. The annual audit plan was 96% complete as at 31st March 2006.

6.3 Internal Audit has reviewed its work for the year 2005/06. The Head of Internal Audit opinion provides a positive assurance that the internal control framework is effective.

6.4 Internal Audit work shows that Tower Hamlets has an adequate and effective internal control framework with identified areas for improvement. In general, the key controls are in place and are operational. There is ownership of internal control at all management levels, which is evidenced by the positive response to recommendations.

6.5 During 2005/06, internal audit reports were given one of four assurance ratings. The chart below shows the breakdown of those ratings. 69% were given a rating of Substantial or Full. Substantial Assurance means that there were effective controls in place, but some opportunities for enhancements. Limited Assurance means that some weaknesses were found. Only one report was given a rating of Nil, which related to a school. A follow-up audit later in the year revised this to Limited after management action was taken.



6.1 Deloitte's advise that this represents a good performance for a large and complex organisation like the council, particularly as only one system was assigned nil assurance in the financial year.

- 6.6 None of the issues raised in Internal Audit work raise any concerns over the soundness of key financial systems or the statement of accounts. Recommendations made are routinely followed-up, and 88% were fully implemented at the point of follow-up. Internal Audit maintain a database of outstanding recommendations and follow these up periodically.

External Audit & Inspection

- 6.7 Reports produced by the Audit Commission in or pertaining to the year 2005/06 and those produced by the main inspection agencies have been reviewed. The reports reviewed are shown in appendix 2.
- 6.8 Some of the key Audit Commission reports regarding the 2005/06 financial year are not yet due. However, the reports relating to 2004/05 were produced in 2005/06 and reflect the external auditors in year opinion. Overall, the external audit opinion is positive.
- 6.9 In previous years, Audit Commission reports have highlighted weaknesses in working papers in support of the statement of accounts and performance information. During 2005/06, they have acknowledged progress in improving the timeliness and quality of submissions for audit. However, they have also noted the need to continue this improvement to ensure consistency across all directorates and that routine reconciliations are completed.
- 6.10 The Information Governance review (April 2005) noted good progress but highlighted the need to develop and Information Management & Governance Strategy. Action has since been taken to strengthen Information Governance and to develop a strategy.
- 6.11 The Second Review of Housing Choice (July 2005) noted the progress made, but highlighted the ongoing high level of risk relating to corporate implications. A Corporate Implication Group chaired by the Director of Resources is taking these issues forward.
- 6.12 The Benefit Fraud Inspectorate report (April 2006) gave a positive overall assurance but highlighted the opportunity to reduce fraud risk by fully implementing the Verification Framework.
- 6.13 Positive assurance can be obtained from the review and annual reports on Children's Social Care, Education, Adults Social Care, User Focus, Supporting People and the joint inspection of the Youth Offending Team.

Performance Management

- 6.14 The Council's Performance Management Framework consists of the following key elements:
- ◆ A vision;
 - ◆ A structured set of plans;
 - ◆ A set of performance indicators;
 - ◆ Regular monitoring of progress;
 - ◆ Performance review & challenge.

- 6.15 The planning framework consists of the Community Plan, a Local Area Agreement, the Council Strategic Plan, Directorate Service Plans, Team Plans and Personal Development Plans.
- 6.16 The Council has identified a key set of corporate performance indicators, known as the Tower Hamlets Index. In addition each directorate has its own performance indicators.
- 6.17 The key aspects of our performance and financial monitoring and reporting are:
- ◆ annual reporting to demonstrate progress and accountability to key stakeholders – national bodies, local residents etc.
 - ◆ in-year monitoring by Members, senior managers, services and teams to ensure progress is being made and take action when performance has slipped
 - ◆ a comprehensive risk management framework through which key risks are monitored
 - ◆ comparative monitoring of performance compared to other local authorities and partners through annual league tables
- 6.18 There are a range of review and challenge processes, including the Continuous Improvement Programme, Scrutiny, Best Value Reviews, Peer Review, the Annual Resident’s Survey and external audit and inspection.
- 6.19 The Council was assessed as 3 star and improving well in the 2005 Comprehensive Performance Assessment. The CPA scoring is shown in the table below.

	Score (max 4)
Service Assessments	
Benefits	3
Children & Young People	4
Culture	2
Environment	2
Housing	3
Social Care (Adults)	4
Use of Resources	3
Council ability (from 2002 corporate assessment)	3

- 6.20 The CPA scorecard acknowledges the improvement in services, including in relation to crime, health inequalities, educational attainment and outcomes for children and young people. It also notes the achievement of 11/13 Local Public Service Agreement targets. It noted that the Council had taken major steps to improve value for money, but recognised the need to do more.
- 6.21 The Council’s performance against its own targets for the Tower Hamlets Index basket of indicators is set out in the table below. For 2004/05 the

Council achieved its target against Inner London, but slipped back against Greater London and all English Authorities.

Comparator group (lower the better)	2001/02	2002/03	2003/04	2004/05	Target Position (April 2006)
Inner London	6 th	5 th	3 rd	2 nd	3 rd or better
Greater London	18 th	14 th	14 th	16 th	8 th or better
National	56 th	45 th	32 nd	41 st	33 rd or better

6.22 In 2005/06 the Council showed an improvement in 63% of indicators, with 23% declining and 22% remaining the same. 57% achieved their target compared to 56% last year. Seven performance indicators that relate to financial systems were reviewed. All seven achieved their targets for 2005/06. These are shown in the table below.

	Target	Performance
BV09 Council Tax collection	94%	94.5%
BV10 NNDR collection	99.4%	99.4%
BV66a Housing Rent collection	96.6%	97.1%
BV08 Invoices paid on time	83%	86.9%
BV78a HB processing time	34.5 days	34 days
BV76d HB prosecutions/sanctions per 1000	2.4	1.3
BV76c Benefit fraud investigations per 1000	15	16.5

Risk Management

- 6.23 Risk management reports and the risk registers have been examined to evidence the effective operation of the risk management system.
- 6.24 The Authority has an effective system of risk management that includes the key elements. Risk is considered in service and financial planning and in decision-making processes. There is a corporate risk management strategy and framework that is documented, disseminated through the intranet and training and is enforced by a quarterly reporting regime.
- 6.25 Risk Management was scored as three out of four as part of the CPA Use of Resources judgement.
- 6.26 A recent review of risk management by the Audit Commission found that “that the systems and procedures in place are adequate. The use of risk management principles and tools is clearly evident”. The report noted the scope to further embed risk management. An action plan is being devised to address the recommendations made.
- 6.27 A review of risk registers over 2005/06 provide assurance that the most significant risks are identified and steps are taken to manage those risks within the Council appetite for risk.

Corporate Governance Review

CIPFA/SOLACE Corporate Governance Checklist

- 6.28 The Council's compliance against the checklist was further reviewed in March 2006 identifying areas for future action. The outcome of the review was reported to the Audit Panel which also endorsed proposals for the adoption of a Local Code of Corporate Governance. The outcome of the review and details of the Local Code of Corporate Governance were also reported to the Standards Committee in April 2006.

Constitution

- 6.29 During 2005/06, officers continued to examine best practice in constitutional arrangements across a range of other authorities and full Council agreed a revised Constitution in March 2006. The improvements that were introduced also take account of new statutory requirements and areas for clarification previously identified by Members and officers. Whilst this included some changes to the Member/Officer Protocol, further revisions to this document will be considered as part of the next annual review of the Constitution.

Improvements to the Council's Ethical Framework

- 6.30 Following mandatory training for all Councillors on the ethical framework and conflicts of interest during 2004/5, an ethical standards self assessment was completed by all 51 Members of the Council during the autumn of 2005. The outcome of the self assessment was generally positive, indicating that the majority of Councillors had either a clear or fairly clear understanding of their obligations under the Code of Conduct for Members. A detailed analysis of the results of the self assessment was reported to the Standards Committee in January 2006. A further ethical standards self assessment will be undertaken once Member training is completed following the local government elections in May 2006.

Referrals to the Standards Board for England

- 6.31 During 2005/6 the Monitoring Officer was notified by the Standards Board for England of complaints about eight Members of the Council alleging a failure to comply with the Code of Conduct for Members. Of the eight complaints, the Board decided that six did not require investigation. Of the two complaints which the Standards Board decided should be investigated, one was referred to a Standards Board Ethical Standards Officer (ESO) for investigation and the other was referred to the Council and investigated locally by a person appointed by the Monitoring Officer.
- 6.32 The ESO concluded that it was not necessary to take any action in respect of the matter investigated. There were no general or specific areas notified to the Council as requiring improvement as a result of the completed investigation.

6.33 The local investigation considered two alleged breaches of the Code of Conduct for Members. The Council's Standards Committee found that there had been one failure to comply with the Code of Conduct and that it was not necessary to take any further action in respect of the breach. The Standards Committee made two recommendations to the Monitoring Officer in relation to the promotion and maintenance of high standards of conduct which have been addressed as part of the Member development programme.

Response to Regeneration Fraud

6.34 Members of the Audit Panel have continued to receive regular reports on the overall position in relation to the action being taken in response to the fraud, including civil and criminal proceedings. Following completion of the police investigation, the Crown Prosecution Service decided to bring separate criminal proceedings relating to the Stepney Youth Action Scheme Ltd (YAS) and Millennium Advance Technology Training Ltd (MATT). The Council has co-operated fully with the Crown Prosecution Service and has provided third party disclosure of relevant material in both cases. The trial relating to YAS concluded in April 2006 and resulted in convictions and custodial sentences for three out of five defendants. The liquidator for YAS have jointly lodged an application for compensation, which will be considered at the time of sentencing. The trial relating to MATT is listed for hearing in January 2007.

Complaints

6.35 A review was undertaken of complaints to the Local Government Ombudsman and their determinations. The review found that the system was working adequately, with response times improving from an average of 31 days in 2002/03 to 17.7 days in 2005/06. A summary of the complaints to the Ombudsman over the last four years is set out in the table below.

Ombudsman Decisions				
Determination	2002/03	2003/04	2004/05	2005/06
Mal-administration causing injustice	3	5	3	1
Local Settlement	36	57	21	31
No mal-administration	41	81	44	45
Ombudsman's discretion	12	32	24	22
Out of jurisdiction	37	25	17	19
Premature complaints	24	39	38	49
Total excluding premature complaints	129	200	109	118
Total	153	239	147	169

7 Statement of Internal Control

- 7.1 The draft Statement on Internal Control is attached at appendix 3.
- 7.2 The draft statement follows the same structure as last year. The main changes are a refreshing of the description of the internal control environment and an expansion of the review of effectiveness section to give more information on the sources of assurance.
- 7.3 The issues raised in 2004/05 are set out in the table below.

Issues in 2004/05 statement	Status
Embed the strategic audit partnership to ensure the sustained development of the internal audit function;	Complete.
Implement the account preparation and grant submission improvement plans	In progress for 0506 accounts, some progress acknowledged by Audit Commission regarding grants
Further develop the Assurance Framework by linking risk and internal control reporting;	Risk better embedded in internal audit planning. Risk based assurance rating implemented.
Build on the Corporate Governance checklist and action plan, by developing a local code of corporate governance;	Local Code approved April 06
Review and revise the financial scheme of delegation to improve the understanding of delegation and commensurate responsibilities across the Authority;	Complete. Approved March 06
Implement the revised structure for the Development & Renewal Directorate to further enhance the control of regeneration partnership risk;	Complete
Establish the necessary controls and systems for the emerging models of local governance.	The Council has reviewed its approach to managing partnership risk. Further action is dependent on the publication of the Local Government White Paper.

- 7.4 The penultimate section of the 2005/06 statement sets out the key issues in the internal control environment that have been identified by the process set out above.

8 Comments of the Chief Financial Officer

8.1 The statement on internal control forms part of the published financial statements under the Accounts and Audit Regulations 2003.

8.2 There are no specific financial implications arising from this report.

9 Concurrent Report of the Chief Legal Officer

9.1 The statement is a requirement under the Accounts and Audit Regulations 2003. Other than that there are no specific legal implications.

10 Equal Opportunity Considerations

10.1 There are no specific equality issues arising from this report.

11 Anti-Poverty Considerations

11.1 There are no specific anti-poverty issues arising from this report.

12 Risk Management Implications

12.1 The statement on internal control describes the processes for identifying and managing the risks to the Council's stated objectives. The risk management implications are stated in the body of the report.

13 Sustainable Action for a Greener Environment (SAGE)

13.1 There are no specific SAGE implications arising from this report.

Internal Control Checklist (summary)

Step	Description	Assurance
Objective 1: Establishing principal statutory obligations and organisational objectives		
Step 1: Identification of principal statutory obligations	Constitution	4
	Committee terms of reference	4
	Scheme of delegation	4
	System to identify and disseminate changes in legislation	4
	Evidence of dissemination	4
Step 2: Establishment of corporate objectives	Community & strategic plans	4
	Consultation on plans	4
	Service planning framework	4
	communication strategy	4
Step 3: Corporate Governance arrangements	Local code of corporate governance	4
	Audit Commission Corporate Governance review	4
	CIPFA/Solace checklist action plan	4
	Committee charged with corporate governance	4
	Governance training for members	4
Step 4: Performance management arrangements	Performance Mgmt framework	4
	Performance Mgmt monitoring reports	4
	BVRs and benchmarking	4
	Inspection reports	4
Objective 2: Principal risks to achieving objectives		
Step 1: Risk Management strategy	Risk Management strategy	4
	Evidence of dissemination & review	4
Step 2: Risk Management systems & structures	Member forum	4
	Senior Mgmt Team reporting	4
	Member and officer lead	4
	Defined process for reviewing and reporting risk	4
	Corporate and departmental risk registers	4
	Insurance and self-insurance review	4
	RM training	4

Step 3:		
Risk Management is embedded	Committee reports include risk management assessment	4
	Risk is considered in business planning process	4
	Corporate risk management board	4
	Risk owners identified in registers	4
	Evidence of review of risk registers	4
	Risks considered in partnership working	4
Objective 3 Identify key controls to manage principal risks		
Step 1:		
Robust system of internal control, which includes systems & procedures to mitigate principal risks	Financial Regulations, incl. compliance with CIPFA Treasury Management Code and Prudential Code	4
	Contract Standing Orders	4
	Whistleblowing policy	4
	Counter fraud & corruption policy	4
	Codes of conduct, eg Members, Member : Officer etc	4
	Register of interest	4
	Scheme of delegation approved	4
	Corporate procurement policy	4
	Corporate recruitment and disciplinary codes	4
	Business continuity plans	4
	Corporate / departmental risk registers	4
	Independent assessment, by Internal & External Audit	4
	Audit Commission review of Internal Audit	4
	Corporate health & Safety Policy	4
	Corporate complaints procedures	4

External Audit and Inspection 2005/06

Summary of reports received in or pertaining to 2005/06

Reports	Reporting period	Report date
Audit Commission		
Annual Audit & Inspection Letter	2004/05 accounts	Jan 2006
Interim report	2004/05 accounts	Nov 2005
Grant Claims Report	2004/05 claims	Mar 2006
Final Accounts Memorandum	2004/05 accounts	Jan 2006
Audit & Inspection Plan 2005/06	2005/06	April 2005
Best Value Performance Indicators	2005/06	Nov 2005
Evaluating the Tower Hamlets Children's Trust Pathfinder	2005/06	Feb 2006
Supporting People	2005/06	July 2005
User Focus	2004/05	Sept 2005
Follow-Up Audit of Commissioning in Adult Social Care	2004/05	Oct 2005
Service & Financial Planning – Follow Up	2003/04	June 2005
Information Governance	2004/05	April 2005
Housing Choice 2 nd Review	2004/05	July 2005
Other		
DWP – Benefit Fraud Inspectorate report (draft)		April 2006
CSCI / OSTED Annual Performance Assessment – Children's Social Care & Education Services	2005	Dec 05
CSCI – Performance Review Report Adult Social Care	2005	Aug 2005
AC/CSCI etc Joint Inspection of Youth Offending Team	2005	Mar 2005

STATEMENT ON INTERNAL CONTROL

For the period 1 April 2005 to 31 March 2006

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 2006, 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

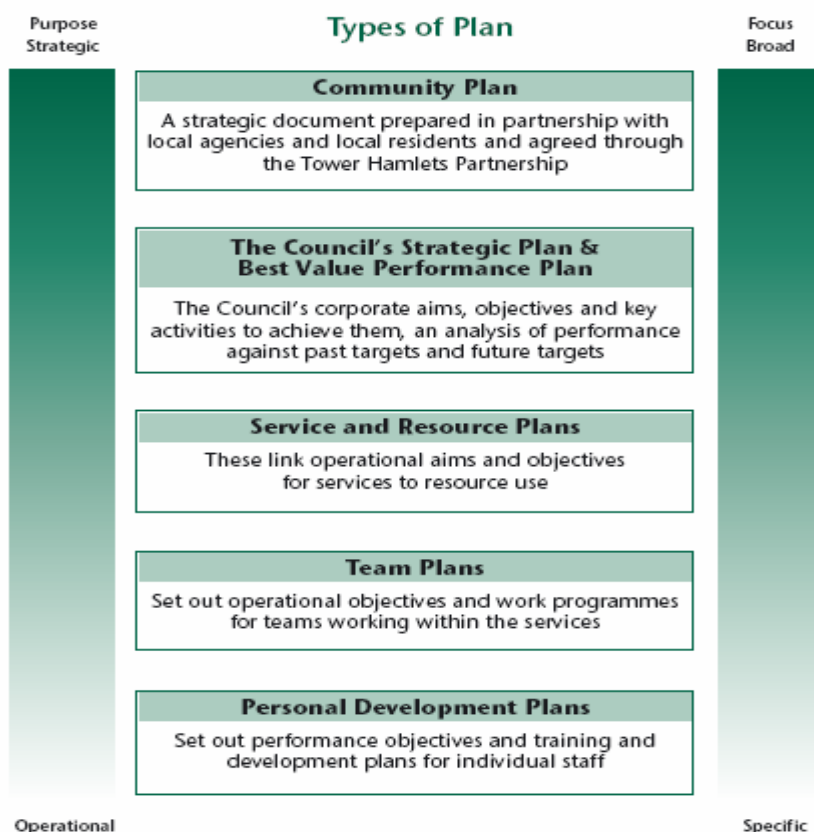
The Authority has a clearly defined set of priorities and supporting objectives designed to achieve the vision, established through the Tower Hamlets' Community Plan, of improving the quality of life of all those who live and work in the borough. The Authority's particular contribution to the implementation 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 embedded in service, team and individual performance development plans; that resources are linked to operational aims and objectives; and that progress against plans and targets is monitored & evaluated at all levels.

The overall planning framework is illustrated in the following diagram:-



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 Chief Executive and Senior Officers. This is set out in the scheme of delegation.

During 2005/06 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 Members and 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. The service is provided in partnership with Deloitte & Touche. 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 embedded 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 2005/06 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 2005/06, the Authority continued work on its efficiency programme. As part of its service & financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the consideration of resource allocation.

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

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 March 2006. Following mandatory training for all Councillors on the ethical framework and conflicts of interest during 2004/5, an ethical standards self assessment was completed by all 51 Members of the Council during the autumn of 2005.
2. The annual Internal Audit Opinion 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 'three star' in the Comprehensive Performance Assessment, including a score of three out of four for its use of resources. The results of inspections of individual services were generally positive and showed at least promising prospects, including 3 stars for both Children's and Adults Social Care services. Children's Services also received a score of 4/4 in its Annual Performance Assessment.
5. Monitoring of performance shows consistent improvement in performance against external measures, the Authority's own targets and in comparison to other authorities.
6. The provisional outturn on the 2005/06 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 2005/06 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.

- ◆ Carry out a comprehensive induction programme for new members.
- ◆ Further review the Member/Officer protocol
- ◆ Test the revised Business Continuity Plan
- ◆ Review the arrangements for the Council's Audit Panel.
- ◆ Fully implement the Housing Benefit Verification Framework.

- ◆ Maintain oversight of the corporate implications of the Housing Choice programme.
- ◆ Complete the implementation of the Children's Services directorate.
- ◆ Implement the Financial Management Standard in secondary schools and prepare for the implementation in primary schools in 2007/08.
- ◆ Improve the corporate coordination of asset disposal.
- ◆ Continue the active management of sickness absence.
- ◆ Continue initiatives to improve Value for Money.

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:

.....
Leader
Date:

This page is intentionally left blank

Agenda Item 7.3

COMMITTEE	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Pensions & Accounts	29th June 2006	Unrestricted		
REPORT OF:	TITLE:			
Director of Resources	Draft Statement of Accounts			
ORIGINATING OFFICER(S):	2005-2006			
Alan Finch – Service Head, Corporate Finance	Ward(s) affected:	N/A		

1. SUMMARY

1.1 This report presents the Authority's draft Statement of Accounts for the financial year ending 31st March 2006, prior to audit.

2. RECOMMENDATIONS

Pensions and Accounts Committee is recommended to:-

2.1 Approve the draft final Statement of Accounts for the financial year ending 31st March 2006.

2.2 Note that the accounts will now be submitted for audit.

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*

*Mohammed Sajid, Ext. 4729
Mohammed Sajid, Ext. 4729
Mohammed Sajid, Ext. 4729
Barrie Tyson, Ext. 7132
Jim Ricketts, Ext. 4733*

3. BACKGROUND

- 3.1 The approval of the authority's Statement of Accounts is subject to a two stage process. Firstly, Pensions & Accounts Committee receives and is requested to approve the draft Statement of Accounts for submission to the Audit Commission. Under statute this must take place before 30th June 2006.
- 3.2 After the Council's accounts have been subjected to external audit, the auditor will issue his opinion and, providing he finds no reason not to do so, his audit certificate. This must take place before 30th September this year.
- 3.3 Under legislation, if there are any material amendments arising as a result of the audit, these must be reported back to Pensions and Accounts Committee.
- 3.4 The auditor is also required to make a report setting out any matters that are not material to the accounts but are more than merely trifling. (This is known as the SAS610 report, referring to the Statement of Auditing Standard relating to such reports). If necessary, this report will be made to the Audit Panel on 11th October.
- 3.5 Again in accordance with legislation, the deadlines for submission and audit of accounts are a month earlier this year than they were in 2005.

4. STATEMENT OF ACCOUNTS 2005-2006

- 4.1 The draft Statement of Accounts is attached to the report as **Appendix 1**.
- 4.2 The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the "Statement of Recommended Practice" published by the Chartered Institute of Public Finance and Accountancy and supported by the Department for Communities & Local Government. A summarised version of the accounts is published as a leaflet once they are approved.
- 4.3 The Council's final spending against budgets is reported to the Cabinet and this will take place at the meeting of 5th July 2006.
- 4.4 The accounts are an important aspect of the financial management of the Council as they set out the Council's financial position, including its main assets and liabilities on a year-by-year basis as well as summarising the transactions of the Council during the year. The accounts influence the Council's financial plans because balanced budgets and sustainable medium term planning depend primarily upon a healthy overall financial position. If an authority finds itself in a position in which it needs to set money aside in its accounts to cover existing liabilities or future risks, for example, these items are the first call on the budget.

4.5. The draft accounts show;

<p>Consolidated Revenue Account</p>	<p>The Consolidated Revenue Account summarises the revenue activities of the Council during 2005/06 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, and transfer to balances and reserves. The Consolidated Revenue Account includes the activities of the General Fund and the Housing Revenue Account.</p> <p>The draft accounts show that in 2005/06, the Council spent £1,086.3m on services for revenue purposes.</p> <p>The surplus on the Consolidated Revenue Account for 2005/06 is £6.748m. The Council planned for a surplus in order to strengthen its overall financial health taking account of the current evaluation of strategic financial risks. However, the surplus is greater than anticipated for two reasons.</p> <p>Firstly, Directorate budgets were underspent by £0.9m more than anticipated. The detailed reasons for this are to be reported to Cabinet.</p> <p>Secondly, whilst closing the accounts it was found that an additional charge to the HRA is necessary for debt redemption costs. This amounts to £2.3m and is essentially a transfer from the HRA to the General Fund. As this results in an unanticipated and unintended surplus to general balances, it will be proposed to Cabinet that the surplus be used to help support housing capital expenditure in future years. This will result in a neutral impact overall for both the General Fund and HRA.</p>
<p>Housing Revenue Account</p>	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the provision of Social Housing by the Council.</p> <p>The HRA balance as at 31st March is</p>

		<p>£6.458m which is a decrease of £0.562m in the year. The main reason for the deficit is the additional, backdated charge for debt redemption explained above. As indicated above, Cabinet will be recommended to agree that the unexpected benefit to the General Fund be used to provide additional support for future housing capital spending.</p>
Reserves & Balances		<p>Earmarked reserves are those that have been set aside to cover a particular risk, or are ringfenced for particular purposes or services. The level of earmarked reserves now stands at £87.196m, an increase of £12.012m. The detail is set out in Note 27 to the Accounts (Page 50). This is largely explained by the planned contribution to the Housing Choice Reserve (£5.0m) and underspending in schools (£3.4m).</p> <p>The level of General Fund general reserve now stands at £16.666m. This is the amount which is generally available for use in unforeseen circumstances. However, as set out above, it will be proposed to the Cabinet that £2.3m of this is set aside for Housing capital spending.</p> <p>The accounts assume certain transfers to reserves that have yet to be formally approved, and these will be reported in full to the Cabinet for approval on 5th July. In the event that the Cabinet does not agree to these transfers, the accounts will be adjusted as part of the audit process.</p>
Consolidated Sheet	Balance	<p>The Balance Sheet shows the various assets and liabilities of the Council as at 31st March 2006. The value of the assets of the Council must equal the value of liabilities plus reserves.</p> <p>Assets include land and buildings, equipment and vehicles, cash and investments held by the Council, and any debts owing to the Council.</p> <p>Liabilities include loans taken out by the Council to finance capital expenditure and any debts owed by the Council.</p>

	<p>The net assets of the Council (assets less liabilities) were £1.735 billion, which was an increase of 12.7% over 31st March 2005. The main reason for the increase is the valuation of Council owned land and buildings.</p>
Collection Fund	<p>The Collection Fund is a separate account detailing local taxes collected by the Council on behalf of itself, the Greater London Authority (GLA) and the Government. The account shows the distribution of the amount of Council Tax collected between the Council and the GLA and the payment of non-domestic rates to the Government pool.</p> <p>Any surplus on the Fund is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund, and any deficit is similarly distributed.</p>
Cash Flow Statement	<p>The Cash Flow Statement is an alternative way of showing the financial activity of the Council in terms of payments made and received during the year. It gives quite a good idea of the scale of the financial operations of the Council, showing where its money comes from and how it has been spent.</p> <p>The statement shows that in 2005/06 the Council spent £1,248 million on revenue activities and a further £91 million on capital items. Most of the income to pay for this came from the Government.</p>
Pension Fund	<p>The Pension Fund accounts are separate from the rest of the Council's accounts and show the expenditure and income, assets and liabilities of the Pension Fund provided by the Council under legislation for the benefit of its employees and pensioners, and those of admitted bodies. They are audited at the same time as the Council's accounts but are subject to a separate audit opinion.</p> <p>The market value of the assets of fund at the end of the year was £648.8m, an increase of 26% reflecting strong investment returns over the last year.</p>

- 4.5. The Statement of Accounts also incorporates the Statement on Internal Control, which is the subject of a report elsewhere on this agenda.

4.6. In receiving the final accounts for 2004/05, Members were advised of ongoing discussions with the external auditor concerning provisions in the accounts for former Inner London Education Authority (ILEA) debt, a proportion of which was transferred to Tower Hamlets in 1992. This matter has now been resolved and the accounts for 2005/06 reflect appropriate sums to provide for the repayment of former ILEA debt.

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

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

6. RISK MANAGEMENT

6.1 There are no specific risk management implications.

7. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER

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

8. EQUAL OPPORTUNITY CONSIDERATIONS

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

9. ANTI-POVERTY CONSIDERATIONS

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

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

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



**LONDON BOROUGH OF
TOWER HAMLETS**

STATEMENT OF ACCOUNTS 2005-06

**LONDON BOROUGH OF TOWER HAMLETS
STATEMENT OF ACCOUNTS 2005-06**

CONTENTS

	Page
Foreword by the Director of Resources	1
Statement of Accounting Policies	8
Statement of Responsibilities for the Statement of Accounts	15
Statement on the System of Internal Control	16
Consolidated Revenue Account	21
Housing Revenue Account	30
Collection Fund	34
Consolidated Balance Sheet	37
Statement of Total Movements in Reserves	53
Cash Flow Statement	56
Pension Fund Account	58
Auditor's Report	65
Glossary	66



FOREWORD BY THE DIRECTOR OF RESOURCES

I am pleased to introduce the Council's full Statement of Accounts for 2005/06, which brings together the financial results of all the Council's operations for the year. The accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2005 and the Best Value Accounting Code of Practice 2005. These constitute "proper accounting practice" which councils must comply with by statute. The Council has also produced a summary of the accounts, which is less technical and detailed than the full statement and has been produced following consultation with stakeholders. This is available from the address at the end of this foreword or on the Council's website at www.towerhamlets.gov.uk.

The accounts reflect a period of financial consolidation for Tower Hamlets Council. The Council's Use of Resources score was '3', the second highest category, against the Audit Commission's 'harder test'. This contributed towards the Council's overall score as a '3 Star' authority, deemed to be improving well.

The Council's finances overall are sound. Expenditure in year was well under control and the revenue budget was marginally underspent by £1.1 million. Long term loan debt reduced during the year by £111.2 million.

Pressures on the Council's budget year on year from demographic growth, new legislation and inflation generally exceed the additional resources made available by the Government. However, the Council has delivered savings which have enabled the budget to be balanced and increases in Council Tax minimised and kept at affordable levels.

Tower Hamlets' Council Tax remains, for 2006/07, the fifth lowest charge in London. At the same time, the Council continues its strategy of building up reserves against foreseen and unforeseen eventualities, while fully taking into account its ambitious improvement programme.

In addition, the Council adopted its Efficiency Strategy in May and has plans in place to deliver the Gershon efficiency target a year ahead of schedule. Efficiency savings agreed in setting the General Fund budget for 2006/07 totalled £5.5m.

The Council has continued its policy of transferring its housing stock to Registered Social Landlords, subject to the consent of tenants and leaseholders. The financial impact of this has been kept under regular review and actions taken to manage the transition involved and the effects on both the Housing Revenue Account and the General Fund.

In addition, £95.6 million was directly invested in assets and infrastructure and among other things this led to the opening during the year of two Idea Stores at Whitechapel and Canary Wharf and the redeveloped Mile End Stadium. Significant investment in schools, housing and streets was also achieved.

The review of Formula Grant distribution undertaken by the Government during the year leaves the Council with some challenges. The Council will receive a smaller share of the national grant total for 2006/07 and 2007/08 than it would have under the former arrangements. This is, however, a situation to which the Council is well placed to respond because of prudent and effective financial management.

The accounting statements

These comprise:

- The **Statement of Accounting Policies** on which the figures in the accounts are based.
- The **Consolidated Revenue Account**, which reports expenditure on services for the year and how this was financed from charges, Council Tax and central Government.
- The **Housing Revenue Account**, a statutory account which shows separately expenditure and income of the Council, as landlord, on council housing.
- The **Collection Fund**, which shows the income received from Council Tax and business rates and how it has been divided between the Council and the Greater London Authority.
- The **Consolidated Balance Sheet**, which is fundamental to understanding the financial position of the Council at the year-end and shows its balances and reserves, its long-term indebtedness, net current assets employed in operational activities and summarised information on fixed assets held.
- The **Statement of Total Movements in Reserves**, which brings together all the recognised gains and losses for the year.
- The **Cash Flow Statement**, summarising the inflows and outflows of cash arising from transactions with third parties.
- The **Pension Fund Account**, which shows the income and expenditure of the fund for the year and its financial position at the year-end.

We try to produce the statements in a form that is understandable to most stakeholders. However, they include some technical terms which are explained in the **Glossary**, which starts at page 66.

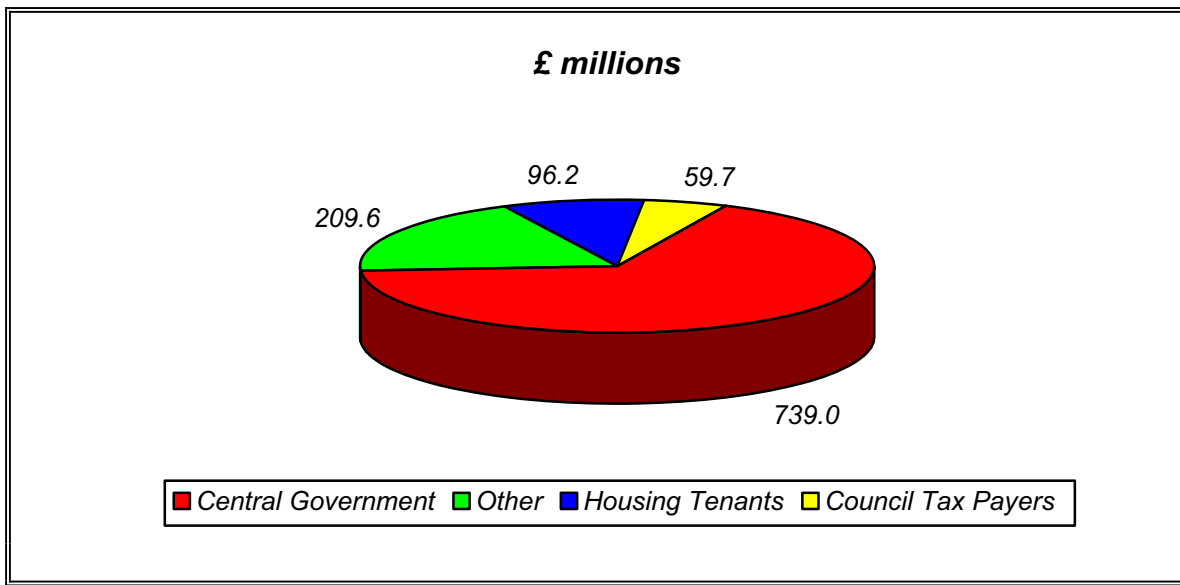
The **Statement of Accounting Policies**, which follows, includes and explains some changes in accounting policy since last year. The most significant of these are the way the Council now accounts for amounts received as a result of agreements under section 106 of the Town and Country Planning Act 1990 (page 9) and Private Finance Initiative Schemes (page 13); and the introduction of the Landfill Allowance Trading Scheme (page 14).

Review of the year

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

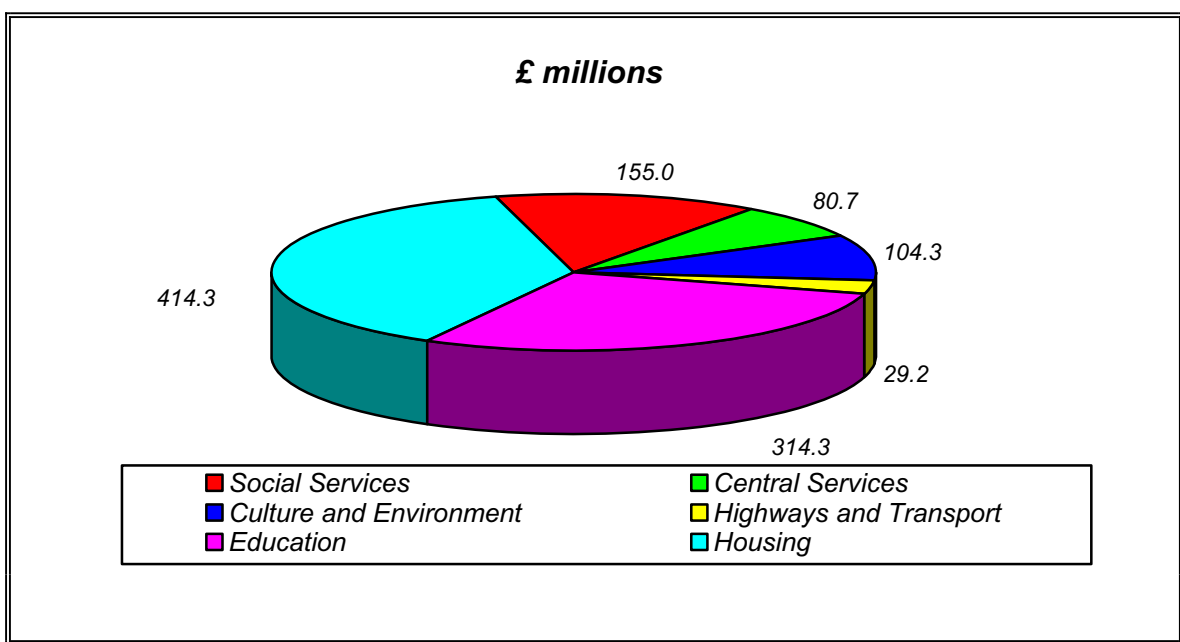
WHERE THE MONEY CAME FROM

The Council's overall income for the year was £1,104.5 million (£1,043.4 million in 2004-05) and came from a number of different sources:



HOW THE MONEY WAS SPENT

The Council spent £1,097.8 million (£1,037.8 million in 2004-05) on services:



Grants from Central Government form the biggest single source of income to the Council - £739.0 million (£674.6 million in 2004/2005). Of this, approximately 49% is grant towards the costs of providing specific services. The rest is grant for the Council's service provision as a whole.

Income received from housing tenants' rents and other charges amounted to £96.2 million (£90.8 million in 2004/2005). "Other" income of £209.6 million (£221.7 million in 2004-05) includes fees and charges from users of services provided by the Council and external interest receipts. The balance of £59.7 million came from Council Tax (£56.2 million in 2004-05).

£1,097.8 million was spent in the year (£1,037.8 million in 2004-05). 29% of spending was on Education, Social Services accounted for 14% and Culture and Environment (including leisure, environmental health, planning and refuse collection) 10%. A fuller analysis is shown in the Consolidated Revenue Account on page 21.

Running expenses (such as maintaining buildings, running vehicles and buying supplies and services) accounted for approximately 59% of spending. Salaries and wages accounted for a further 33%. The balance was spent on "capital financing" (principal and interest payments on loans, leasing charges and asset rentals).

REVENUE SPEND COMPARED TO BUDGET

The Council's revenue expenditure and income is divided between "General Fund" (services excluding council housing) and the "Housing Revenue Account" (a separate account for the Council acting as an housing landlord). The General Fund net budget requirement for the year was agreed at £438.85 million consisting of service budgets of £433.17 million and a net contribution to balances of £5.68 million. Actual spend amounted to £432.10 million, an underspending of £1.07 million, with a net contribution to balances of £6.75 million. The HRA expenditure requirement for the year was agreed at £145.42 million. In total there was a net overspending of £0.56 million. This has been taken from the HRA balance. More details are shown below and on pages 21 and 30.

General Fund

	Budget £m	Actual £m	Variance £m
Net expenditure	433.17	432.10	(1.07)
Contribution to balance	5.68	6.75	1.07
Budget requirement	438.85	438.85	0.00
Government Grants			
Revenue Support Grant	(310.28)	(310.28)	0.00
Redistributed Business Rates	(68.84)	(68.84)	0.00
Surplus on Collection Fund	(1.91)	(1.91)	0.00
Council Tax requirement	57.82	57.82	0.00

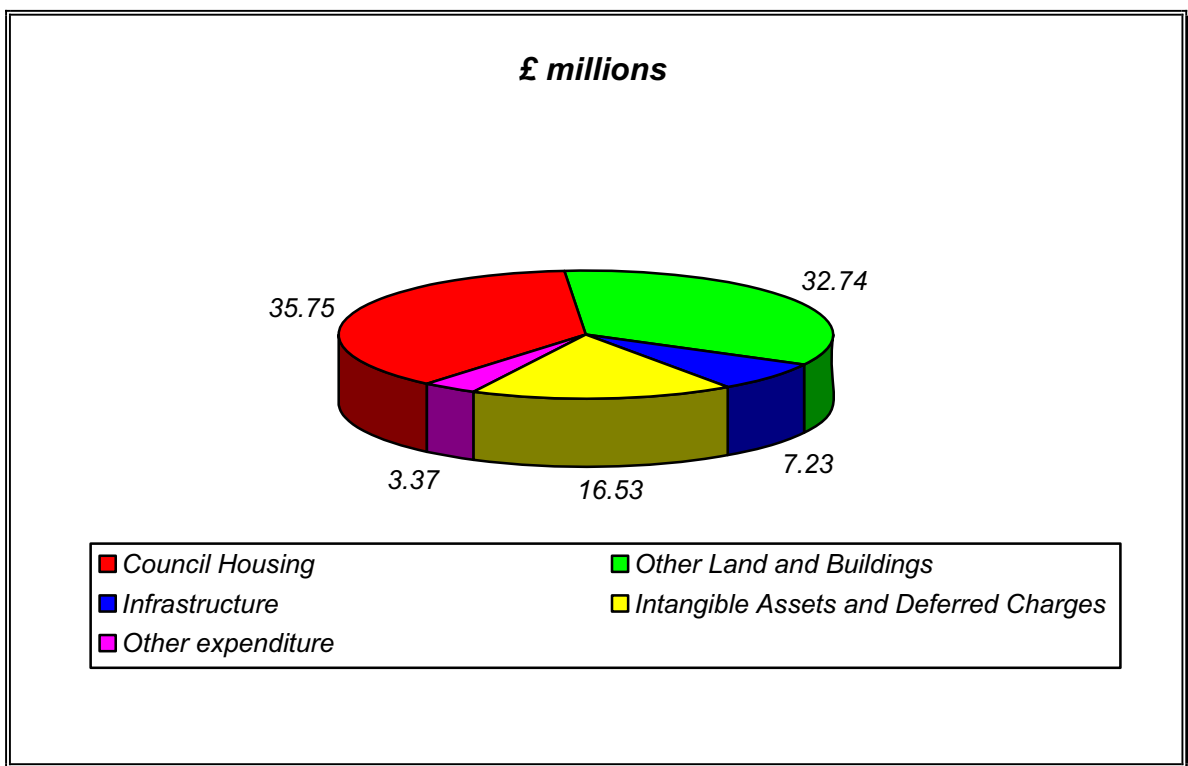
Housing Revenue Account

	Budget £m	Actual £m	Variance £m
Expenditure	165.21	191.31	26.10
Accounting adjustments	(19.79)	(53.40)	(33.61)
Budget requirement	145.42	137.91	(7.51)
Income			
Rents	(83.69)	(82.34)	1.35
Government grant	(47.53)	(39.65)	7.88
Charges and contributions	(13.07)	(14.56)	(1.49)
Interest	(1.10)	(0.80)	0.30
Taken from balance	0.03	0.56	0.53

PENSIONS

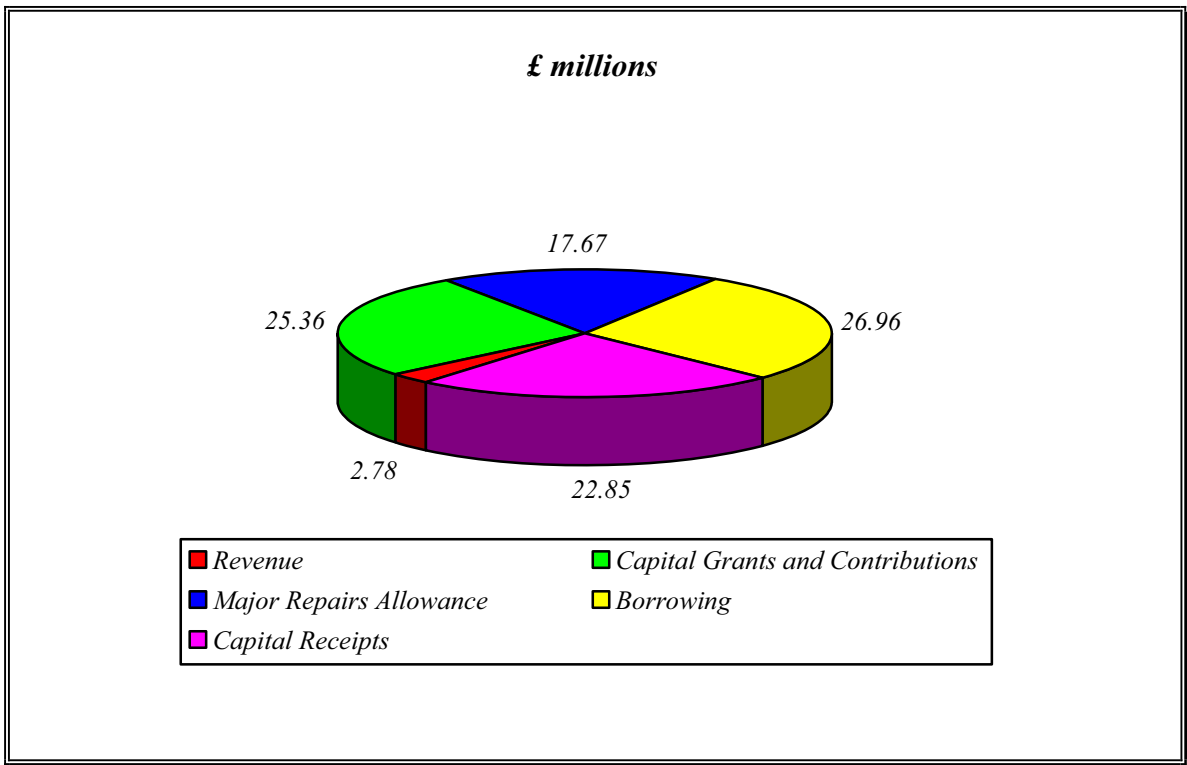
The Council offers retirement pensions to its staff and makes contributions to pension schemes on their behalf. Although the pension benefits are not payable until the staff retire, the Council has a commitment to make the payments and must account for them in the year in which the future entitlements are earned. This commitment is compared to the assets (investments) of the pensions schemes and the net amount is included in the accounts as the Council's "Pensions Liability". At the end of 2005-06 this liability was £365.98 million (£321.10 million at the end of 2004-05). Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet, there are statutory arrangements for meeting the liability and the financial position of the Council remains healthy. The deficit will be addressed by increased contributions to the schemes over the remaining working lives of the staff.

CAPITAL SPENDING



Capital spending during the year amounted to £95.6 million (£95.6 million in 2004/2005). £35.7 million (£38.8 million in 2004/2005) of this was on projects relating to the conversion and improvement of the Council's housing stock. Spending on other land and buildings projects was £32.7 million (£25.4 million in 2004/2005) and was primarily on the refurbishment, improvement and extension of schools and the further development of Idea stores in the Borough. Infrastructure spending of £7.2 million (£5.8 million in 2004/2005) was mainly on improving the existing road system within the Borough and the provision of street lighting. Spending on Intangible Assets and Deferred Charges includes information technology, home improvement grants paid to homeowners and grants paid to voluntary organisations, and amounted to £16.5 million (£20.8 million in 2004-05). It also includes £2.9 million (£6.0 million in 2004-05) in respect of a Private Finance Initiative (PFI) scheme. The Council entered into a PFI scheme with private developers to replace and improve its schools over a 25 year period. The Council has payments commitments of £343 million during the remaining life of the scheme (£355 million in 2004-05).

HOW CAPITAL SPENDING WAS PAID FOR



The Government pays the Council a grant called the Major Repairs Allowance to be spent on its housing stock. This amounted to £17.7 million for the year (£21.4 million in 2004-05). Capital receipts are income from the sale of assets, such as council houses. £22.9 million was used in 2005-06 (£51.9 million in 2004-05). The Council can pay for capital spending from its revenue monies and £2.8 million was used in the year (£17.0 million in 2004-05). There are other Government grants which have to be used for specific projects and the Council receives contributions from others (for example developers). A total of £25.4 million was used in 2005-06 (£25.4 million in 2004-05). Finally, the Council is allowed to borrow money to finance capital spending and £27.0 million was borrowed in the year (£5.1 million in 2004-05).

FURTHER INFORMATION

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



STATEMENT OF ACCOUNTING POLICIES

The Statement of Accounts summarises the Council's transactions for the 2005-06 financial year and its position at the year-end of 31st March 2006. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2005* ("the SORP") and the *Best Value Accounting Code of Practice 2005* ("BVACOP"). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

Accruals of Income and Expenditure

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

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

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

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

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

Provisions

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

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

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

Bad and Doubtful Debts

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

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover identified risks. Reserves are created by appropriating amounts from the Consolidated Revenue Account. When expenditure to be funded from a reserve is incurred it is charged to the relevant revenue account and financed by a transfer from the reserve.

In a change in accounting practice since 2004-05, amounts received as a result of agreements under section 106 of the Town and Country Planning Act 1990, previously held in a reserve, are treated as creditors in the Council's balance sheet and transferred to the appropriate service revenue account when expenditure is incurred. The balance on the reserve at 31st March 2005 has been reclassified as creditors. The change in practice is as a result of advice received from the Audit Commission.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council – these reserves (which were recently reclassified as “accounts” by the SORP) are explained in the relevant policies below.

Government Grants and Contributions (Revenue)

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

Retirement Benefits

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

- The Local Government Pension Scheme administered by the Council

- The Local Government Pension Scheme administered by the London Pensions Fund Authority

- The Teachers' Pension Scheme administered by the Department for Education and Skills (DfES)

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

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the DfES in the year.

The Local Government Pension Scheme

The Local Government scheme is accounted for as a defined benefits scheme.

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

Liabilities are discounted to their value at current prices, using a discount rate of 4.9%, derived from corporate bond yields (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years) as at 31st March 2004.

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

The net pensions liability is analysed into seven components:

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

Statutory provisions limit the Council to raising council tax to cover the contributions payable by the Council to the pension funds in the year. In the Consolidated Revenue Account this means that there is an appropriation to the Pensions Reserve after Net Operating Expenditure to remove the notional debits and credits for retirement benefits and replace them with amounts representing the cash paid to the pension funds and any amounts payable to the funds but unpaid at the year-end.

Discretionary Benefits

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

VAT

Income and expenditure excludes any amounts related to VAT, as generally all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

Overheads and support services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2005. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are accounted for as separate headings in the Consolidated Revenue Account, as part of the Net Cost of Services.

Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for at least one financial year. The balance is amortised to the relevant revenue account over the economic life of the investment to reflect the pattern of consumption of benefits. This is a change of practice from previous years, when such expenditure was amortised in the year it was incurred, which better reflects best practice. The amounts involved are not material to the presentation of the accounts.

Tangible Fixed Assets

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

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

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

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

Net current replacement cost is assessed as:

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

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains.

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

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- otherwise – written off against the Fixed Asset Restatement Account.

No impairment has been identified for 2005-06.

Disposals: When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Fixed Asset Restatement Account.

Amounts in excess of £10,000 received from disposals are credited to the Usable Capital Receipts reserve, which can then only be used for new capital investment or set aside to reduce the Council's borrowing requirement.

A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of deductions and allowances) is payable into a Government pool.

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

Depreciation is calculated on the following bases:

- dwellings – in line with the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation
- other land and buildings – straight-line allocation over the life of the asset as estimated by the valuer
- vehicles, plant and equipment – a percentage of the value of each class of assets in the balance sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 40 years.

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

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

Charges to Revenue for Fixed Assets

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

- capital charges on tangible fixed assets – comprising depreciation attributable to the assets used by the relevant service, plus a capital financing charge based on 3.5% of the value of the asset in the balance sheet
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- amortisation of intangible fixed assets attributable to the service.

The charges made to service revenue accounts, support services and trading accounts are reversed out of the Consolidated Revenue Account after the Net Cost of Services by way of a credit to the Asset Management Revenue Account (AMRA). The following transactions are then made in the AMRA to represent the expenditure of the Council relating to fixed assets, reflected in Net Operating Expenditure:

- debit for total depreciation of fixed assets for the year
- credits for amortisations from the Government Grants Deferred Account
- debits for total impairment losses attributable to the clear consumption of economic benefits and amortisations of intangible assets
- debit for external interest payable by the Council.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision after Net Operating Expenditure, by way of an adjusting transaction with the Capital Financing Account for the difference between the two.

Deferred Charges

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

Leases

Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset. The liability is written down as the rental becomes payable) and
- a finance charge (debited to the Asset Management Revenue Account as the rental becomes payable).

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable. The Council currently holds no operating leases.

Long Term Contracts – Private Finance Initiatives

The Council is party to two Private Finance Initiative contracts which terminate in 2027 and 2029. The service element of contract payments is charged to the appropriate service revenue account. At commencement it was determined under Financial Reporting Standard 5 that the Council did not have an asset of the properties and they were written out of the Council's accounts. The assets will revert to the Council at the end of the contract terms. Following review and external advice, the accounting practice in respect of the contracts has been changed for 2005-06, and 2004-05 figures have been restated. The amounts are shown in the relevant notes to the Balance Sheet. The assets are valued annually and written on to the Council's balance sheet as long-term debtors (previously tangible fixed assets) over the lifetime of the contracts. The residual values of the debtors at the end of the contracts will be written on to the balance sheet as tangible fixed assets. An initial capital contribution by the Council under the contracts is treated as a deferred consideration under current assets - debtors and payments in advance (previously deferred charges), and charged to the appropriate service revenue account over the lifetime of the contract. The amounts charged are then reversed out of the Consolidated Revenue Account to the Capital Financing Account so there is no impact on the level of council tax.

Repurchase of Borrowing

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Consolidated Revenue Account in the year of repurchase or settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the balance sheet and written down to revenue on a straight-line basis over the term of the replacement loans.

Investments

Investments are carried at cost. If the value of an investment were to fall below its cost, the investment would be written down to market value and a provision for the unrealised loss made in the Consolidated Revenue Account if this is unlikely to be a temporary fall.

Stocks and Work in Progress

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

Post Balance Sheet Events

Amounts are adjusted in the Statement of Accounts if an event arises after the balance sheet date which provides additional evidence of conditions that existed at that date and materially affects the amounts to be included. If an event arises after the balance sheet date which concerns conditions which did not exist at that date, it is disclosed in the notes to the balance sheet if it is of such materiality that disclosure is required for the fair presentation of the financial statements. The Statement of Accounts was authorised for issue by the Director of Resources on 19th June 2006 which is the date up to which events after the balance sheet date have been considered for this purpose.

Contingent Liabilities

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

Insurance

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

Landfill Allowance Trading Scheme

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDA's) such as the Council to reduce the amount of biodegradable municipal waste disposed to landfill. An allowance to use landfill at a specified level (tonnes) is allocated to each WDA by the Department for Environment, Food and Rural Affairs (DEFRA). Allowances are tradable between WDA's in accordance with the Landfill Allowance Trading Scheme (LATS) which commenced on 1st April 2005. Transactions under LATS have been accounted for in accordance with Local Authority Accounting Panel (LAAP) Bulletin 64 issued by CIPFA and which applies to 2005-06 only. The allowance from DEFRA is valued at market value and treated as Government grant income under the Net Cost of Services. Allowances purchased are valued at cost and are treated as expenditure. Total allowances are carried on the balance sheet as a current asset matched by a provision for the obligation to hold allowances equal to landfill usage.

Group Accounts

The SORP requires that where a local authority has material interests in subsidiaries, associates and/or joint ventures, then group accounts must be produced alongside the authority's own financial statements. The Council has determined that it has no such interests and that group accounts are therefore not required.

Statement of Responsibilities for the Statement of Accounts

The Council's responsibilities

The Council is required:

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

The Statement of Accounts 2005-06 was considered and approved by the Council's Pensions and Accounts Committee on 29th June 2006.

Councillor Ahmed Omer
Chair of Committee
29th June 2006

The responsibilities of the Director of Resources

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

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

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

The Director of Resources has also:

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

I certify that the Statement of Accounts 2005-06 presents fairly the financial position of the Council at 31st March 2006 and its income and expenditure for the year then ended.



Martin Smith, CPFA
Director of Resources
19th June 2006

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL for the period 1st April 2005 to 31st March 2006

SCOPE OF RESPONSIBILITY

The Council 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 Council 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 Council'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 Council for the financial year ended 31st March 2006, 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 Council'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 Council's objectives

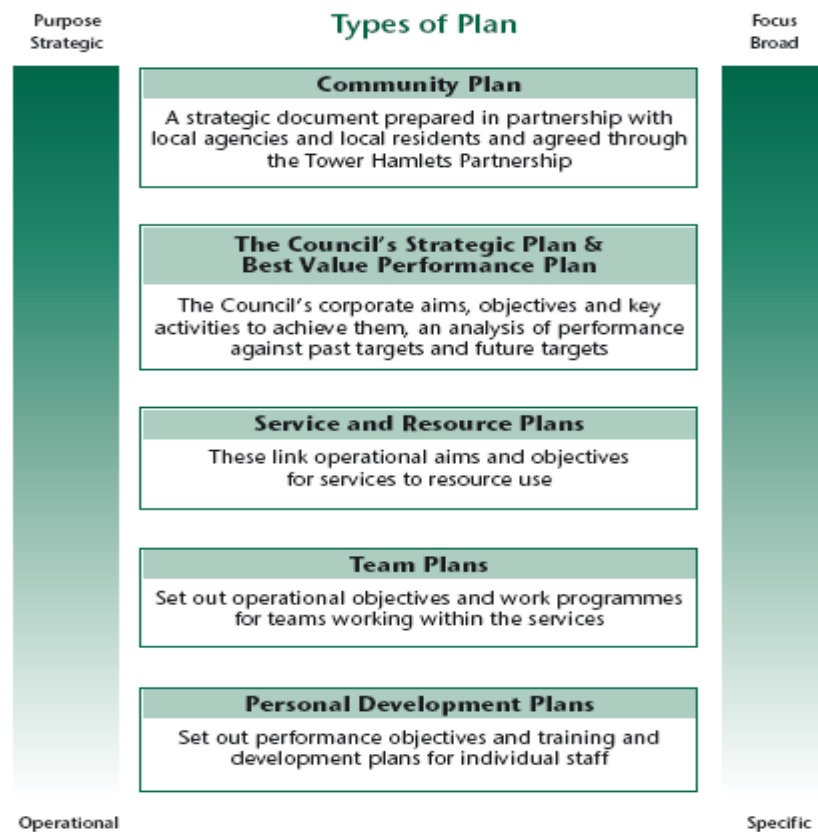
The Council has a clearly defined set of priorities and supporting objectives designed to achieve the vision, established through the Tower Hamlets' Community Plan, of improving the quality of life of all those who live and work in the borough. The Council's particular contribution to the implementation of the Community Plan is set out in a Strategic Plan, which defines the Council'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 Council operates a comprehensive performance management framework to ensure that strategic priorities are embedded in service, team and individual performance development plans; that resources are linked to operational aims and objectives; and that progress against plans and targets is monitored and evaluated at all levels.

The overall planning framework is illustrated in the following diagram.



The decision making framework

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

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

During 2005/06 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A "call-in" procedure allowed Scrutiny to review Executive decisions before they were implemented, and to recommend alternative courses of action.

Compliance with policy, procedures, law and regulations

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

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

Internal Audit provides assurance and advice on internal control to the Corporate Management Team and Members. The service is provided in partnership with Deloitte and Touche. 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 Council has embedded a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The Strategy recognises that the Council may not always adopt the least risky option, where the potential benefits to the community warrant the acceptance of a higher level of risk. All reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved.

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

Financial management

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Director of Resources. The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected 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 Council. The control arrangements in 2005/06 included:

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

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 2005/06, the Council continued work on its efficiency programme. As part of its service and financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the consideration of resource allocation.

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

Review of Effectiveness

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

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

1. The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound. A revised Constitution was agreed by full Council in March 2006. Following mandatory training for all Councillors on the ethical framework and conflicts of interest during 2004/5, an ethical standards self assessment was completed by all 51 Members of the Council during the autumn of 2005.
2. The annual Internal Audit Opinion expressed the opinion that overall the Council'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 Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control. The Council is rated as 'three star' in the Comprehensive Performance Assessment, including a score of three out of four for its use of resources. The results of inspections of individual services were generally positive and showed at least promising prospects, including 3 stars for both Children's and Adults Social Care services. Children's Services also received a score of 4/4 in its Annual Performance Assessment.
5. Monitoring of performance shows consistent improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
6. The outturn on the 2005/06 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

SIGNIFICANT INTERNAL CONTROL ISSUES

The review of the effectiveness of the system of internal control operating in 2005/06 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.

- ◆ Carry out a comprehensive induction programme for new Members.
- ◆ Further review the Member/Officer protocol.
- ◆ Test the revised Business Continuity Plan.
- ◆ Review the arrangements for the Council’s Audit Panel.
- ◆ Fully implement the Housing Benefit Verification Framework.
- ◆ Maintain oversight of the corporate implications of the Housing Choice programme.
- ◆ Complete the implementation of the Children’s Services directorate.
- ◆ Implement the Financial Management Standard in secondary schools and prepare for the implementation in primary schools in 2007/08.
- ◆ Improve the corporate coordination of asset disposal.
- ◆ Continue the active management of sickness absence.
- ◆ Continue initiatives to improve Value for Money.

CONCLUSION

We have been advised on the implications of the review of the effectiveness of the system of internal control by the Council 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:

.....
Leader
Date:

CONSOLIDATED REVENUE ACCOUNT

for year ended 31st March 2006

	Note	2005/2006 Gross Expenditure	2005/2006 Gross Income	2005/2006 Net Expenditure	2004/2005 Net Expenditure
		£'000	£'000	£'000	£'000
GENERAL FUND SERVICES	1				
Cultural, Environmental and Planning Services	2	104,290	42,219	62,071	53,391
Central Services		35,195	28,986	6,209	6,420
Education Services		314,321	93,148	221,173	209,342
Highways, Roads and Transport Services	3	29,215	13,817	15,398	15,585
Housing Services	4	414,222	349,701	64,521	42,482
Social Services		155,022	43,248	111,774	104,322
Corporate and Democratic Core	5	25,946	10,644	15,302	16,514
Non-distributed Costs		8,101	1,042	7,059	6,312
NET COST OF SERVICES		1,086,312	582,805	503,507	454,368
Total net deficit (surplus) on Trading Accounts	6	72,101	72,923	(822)	123
Transfer from Asset Management Revenue Account	8			(76,467)	(51,666)
Contribution to Housing Pooled Capital receipts				32,036	59,387
Amounts due to levying authorities	9			1,551	1,503
Amortised Premiums and Discounts	10 (HRA)			2,301	-
Interest and investment income				(5,630)	(6,837)
Pensions interest cost	11			47,089	38,218
Expected return on pensions assets	11			(35,497)	(32,357)
NET OPERATING EXPENDITURE				468,068	462,739
Surplus (deficit) transferred to (from) HRA balances				(562)	2,120
Contribution to (from) school balances				3,356	1,339
Transfer to (from) other earmarked reserves				4,894	9,963
Contributions to capital reserves					
Financing of capital expenditure				6,129	3,817
Capital contributions deferred				8,903	11,901
Minimum Revenue Provision adjustment	12			(18,923)	(19,531)
Contribution to (from) Pensions Reserve	11			(5,240)	275
Deferred considerations adjustment	14			(1,150)	(1,048)
Contribution from Major Repairs Reserve				(1,339)	(2,120)
Contribution from Housing Pooled Capital receipts				(32,036)	(59,387)
AMOUNT TO BE MET FROM GOVERNMENT					
GRANT AND LOCAL TAXPAYERS				432,100	410,068
Council Taxpayers				(57,820)	(54,347)
Collection Fund surplus				(1,905)	(1,905)
Revenue Support Grant				(310,279)	(293,823)
Contribution from non-domestic rate pool				(68,844)	(57,776)
(SURPLUS) DEFICIT FOR THE YEAR				(6,748)	2,217
BALANCES AT BEGINNING OF YEAR					
General Fund				9,918	12,135
Schools				17,681	16,342
				27,599	28,477
(SURPLUS) DEFICIT FOR THE YEAR					
General Fund				(6,748)	2,217
Schools				(3,356)	(1,339)
				(10,104)	878
BALANCES AT END OF YEAR					
General Fund				16,666	9,918
Schools				21,037	17,681
				37,703	27,599

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

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

	2005/2006			2004/2005		
	Chargeable	Non Chargeable	Total	Chargeable	Non Chargeable	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Employee costs	1,096	690	1,786	1,152	583	1,735
Transport	23	13	36	23	10	33
Supplies and services	101	17	118	158	59	217
Support services	228	153	381	100	318	418
Total Expenditure	1,448	873	2,321	1,433	970	2,403
Income						
Building Regulation Fees	1,563	176	1,739	1,343	180	1,523
Other Income	0	19	19	0	0	0
Total Income	1,563	195	1,758	1,343	180	1,523
Deficit (Surplus) for the year	(115)	678	563	90	790	880

3. CONTROLLED PARKING ACCOUNT

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

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

	2005/2006	2004/2005
	£'000	£'000
Expenditure		
Employee costs	3,633	3,383
Premises	327	279
Transport	123	119
Supplies and services	1,271	1,396
Third party payments	587	999
Support services	1,886	1,592
Capital financing	31	32
Increase in provision for bad debts	11	0
Total Expenditure	7,869	7,800
Income		
Fees and charges	10,464	9,050
Decrease in provision for bad debts	0	155
Total Income	10,464	9,205
Surplus for the year	(2,595)	(1,405)
Balance at 1st April	1,048	2,281
Surplus for year	2,595	1,405
Funding of General Fund service initiatives.	(2,709)	(2,638)
Balance at 31st March	934	1,048

4. HOUSING SERVICES

The Housing Revenue Account (HRA), which is separately reported at page 30, is consolidated into these figures. Before consolidation certain adjustments are required to ensure the proper reporting of expenditure and income for the Council as a whole. The amounts consolidated are as follows:

	2005/2006 Gross Expenditure £'000	2005/2006 Gross Income £'000	2005/2006 Net Expenditure £'000	2004/2005 Net Expenditure £'000
Housing Revenue Account (page 30)	191,310	136,559	54,751	30,613
Internal recharges				
Corporate and Democratic Core	1,256	0	1,256	1,336
	190,054	136,559	53,495	29,277
Other Housing	225,811	213,142	12,669	13,205
Internal recharges				
Supporting people	1,643	0	1,643	0
	224,168	213,142	11,026	13,205
NET COST OF SERVICES	414,222	349,701	64,521	42,482

5. MEMBERS' ALLOWANCES

Includes total allowances paid to Council Members of £816,866 in 2005/2006 (£785,940 in 2004/2005).

6. TRADING ACCOUNTS

The following accounts have been treated as "Trading Accounts" in 2005/2006 in accordance with Best Value criteria.

	2005/2006		2004/2005	
	Expenditure	Income	Surplus/ (Deficit)	Surplus/ (Deficit)
	£'000	£'000	£'000	£'000
Vehicle Maintenance	7,093	7,249	156	198
Cleansing and Welfare Catering	9,907	9,604	(303)	(186)
Building and Property Services	692	665	(27)	(198)
Support Services	35,272	36,010	738	(633)
Administrative Buildings	19,137	19,395	258	696
TOTAL TRADING ACCOUNTS	72,101	72,923	822	(123)

7. LEASES

Operating Leases

The Council has no outstanding obligations under operating leases and no rental payments were made during 2005-06 nor 2004-05.

Finance Leases

The Council has 20 year leases on land and two administrative buildings at Millharbour, which expire in 2006-07. Two further administrative buildings were leased during the year at Mulberry Place (15 years) and Anchorage House (13 years). All the leases are accounted for as finance leases. The equalised lease rentals charged to services in 2005-06 were £3.7million (£2.5 million in 2004-05), accounted for as £3.1 million (£1.9 million) finance costs and £0.6 million (£0.6 million) write-down of obligations. As 2005-06 was the first year of the new leases, no write-down of obligations was applied to those leases.

8. 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 Council 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.

	2005/2006 £'000	2005/2006 £'000	2004/2005 £'000	2004/2005 £'000
Provision for depreciation of fixed assets		32,006		34,002
Provision for amortisation of intangible assets		745		685
External interest payable				
Finance leases	3,686		2,506	
Other loans	39,801		45,711	
		43,487		48,217
		76,238		82,904
Capital charges to services				
General Fund		(38,456)		(33,969)
Housing Revenue Account		(105,346)		(88,700)
Capital contributions deferred		(8,903)		(11,901)
		(152,705)		(134,570)
Balance transferred to Consolidated Revenue Account		(76,467)		(51,666)

9. LEVIES

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

	2005/2006 £'000	2004/2005 £'000
Lee Valley Regional Park Authority	211	197
Environment Agency	134	120
London Pensions Fund Authority	1,206	1,186
Total levies	1,551	1,503

10. PENSION FUND CONTRIBUTION RATES

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

(i) Non-Education employees

In 2005/2006 the Council paid £29.5 million (£30.8 million in 2004/2005) into the Local Government Pension Scheme, which it administers. This represented 23.6% (26.0% in 2004/05) of pensionable pay.

The contribution rate was determined by the scheme's actuary based on a triennial revaluation undertaken on 31st March, 2004. The revaluation calculated the deficit to be £192 million and the contribution rate is based on recovering this amount over a twenty year period. The future and past service contribution amounts and rates required to recover the deficit are set out below:

	2005/2006 £'000	2004/2005 £'000	2005/2006 % of Pensionable Pay	2004/2005
Future service rate	18,173	15,645	14.50	13.20
Past Service rate	13,160	24,677	10.50	20.82

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

	2005/2006 £'000	2004/2005 £'000
In year	1,053	739
Earlier years for which payments are still being made	8,528	4,396
	9,581	5,135

10. PENSION FUND CONTRIBUTION RATES (continued)

(ii) Education Employees

Additionally, the Council pays contributions into the Teachers' Pension Scheme, and the Local Government Pension Scheme (separately administered by the London Pensions Fund Authority (LPFA)) on behalf of employees transferred from the defunct Greater London Council. Contributions were as follows:

	2005/2006	2004/2005	2005/2006	2004/2005
	£m	£m	% of Pensionable Pay	
London Pensions Fund Authority	0.46	0.46	19.30	19.30
Teacher's Pension Scheme	8.22	8.02	13.50	13.50
	8.68	8.48		

The Council is responsible for all pension payments, and related annual increases, relating to added years benefits it has awarded. The relevant amounts are as follows: -

	2005/2006	2004/2005	2005/2006	2004/2005
	£m	£m	% of Pensionable Pay	
Annual pension payments	0.210	0.205	0.09	0.37
Lump sum payments on retirement	0.030	0.011	0.01	0.02
	0.240	0.216		

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

11. PENSION COSTS

As stated in note 10, the Council offers retirement benefits to its staff, as part of their terms and conditions of employment, and makes contributions to pension schemes on their behalf. The schemes are the Local Government Pension Scheme (LGPS), administered separately either by the Council or the London Pensions Fund Authority (LPFA), and the Teachers' Pension Scheme. The LGPS is a "funded" scheme, which means that both the Council and staff contribute into a fund at a rate calculated to balance the amount of benefits payable in the future with the amount of income (including investment income) received by the fund.

Although benefits are not payable until employees retire, the Council has a commitment to make the payments and, except in respect of teachers' benefits, must account for them in the year that future entitlements are earned.

In respect of teachers, the Council makes contributions into a scheme administered by the Department for Education and Skills (DfES) on behalf of the Government. Although the Council's contributions are calculated on a notional "funded" basis, this scheme is unfunded and the ultimate liability for payment is that of the Government. The contributions are not included in the Council's accounts in the same way as for the LGPS scheme but instead are included on the basis of the actual amount paid into the scheme. That amount was £8.22 million in 2005-06 (£8.02 million in 2004-05) representing 13.50% of pensionable pay (13.50% in 2004-05).

When retirement benefits are earned from the LGPS scheme the future net cost to the Council is recognised under "Net Cost of Services". The cost is assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The use of this method means that the cost will increase as employees approach retirement. The interest cost (resulting from an adjustment for inflation) and expected return on the schemes' assets are recognised under "Net Operating Expenditure". However, only the actual amount payable in the year can be charged to Council Tax, so the real cost of the retirement benefits earned is reversed out of the Consolidated Revenue Account after "Net Operating Expenditure". This is referred to as a movement in the Pensions Reserve.

11. PENSION COSTS (continued)

The following transactions have been included in the accounts for the year:

	The Council		LPFA		Total	
	2005/2006 £'000	2004/2005 £'000	2005/2006 £'000	2004/2005 £'000	2005/2006 £'000	2004/2005 £'000
Net Cost of Services						
Current service costs	20,700	19,846	538	540	21,238	20,386
Impact of settlements and curtailments	2,000	1,207		0	2,000	1,207
Net Operating Expenditure						
Interest cost	44,500	35,926	2,589	2,292	47,089	38,218
Expected return on assets in the scheme	(33,600)	(30,285)	(1,897)	(2,072)	(35,497)	(32,357)
Amount to be met from Government grant and local taxpayers						
Movement in Pension Reserve	(4,800)	271	(440)	4	(5,240)	275
	28,800	26,965	790	764	29,590	27,729
Employer's contribution to scheme	(28,800)	(26,965)	(790)	(764)	(29,590)	(27,729)

Note 26 to the Consolidated Balance Sheet contains details of the assumptions made in calculating the figures included in this note. Note 1 to the Statement of Total Movements in Reserves shows the actuarial gains and losses on the Pensions Reserve. The information in this note is presented differently from 2004-05 and figures for that year have been adjusted and restated to provide a valid comparison.

12. MINIMUM REVENUE PROVISION

The Council is required by statute to set aside a minimum revenue provision for the redemption of external debt. This does not include the Housing Revenue Account. It may also set aside an additional amount on a voluntary basis. The method of calculating the minimum provision is defined by statute. The Net Cost of Services, however, includes amounts for depreciation and the amortisation of deferred charges and intangible assets, and an adjustment to the Consolidated Revenue Account is required of the difference.

	2005/2006 £'000	2004/2005 £'000
Minimum Revenue Provision	5,540	5,355
Voluntary set aside	1,626	-
	7,166	5,355
Depreciation	12,883	11,168
Amortisation of intangible assets	745	685
Amortisation of deferred charges	12,461	14,081
Total charges in year	26,089	25,934
Adjustment to Consolidated Revenue Account	(18,923)	(20,579)

The amortisation of deferred charges has been incorporated in this note as from 2005-06, in accordance with best practice. In previous years it has been shown on the face of the Consolidated Revenue Account. The 2005-06 amount excludes a deferred charge in respect of the Cash Incentive Scheme (£964,000) which is an Housing Revenue Account item.

13. PRIVATE FINANCE INITIATIVE PROJECTS

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

The projected payments under the PFI agreements are as follows:

	2005/2006 Mulberry School £'000	2004/2005 Mulberry School £'000	2005/2006 Grouped Schools £'000	2004/2005 Grouped Schools £'000
Contracted payments due within 1 year	1,991	3,542	11,422	10,203
Contracted payments due within the following 5 years	10,295	10,189	62,444	60,073
Contracted payments after year ending 31st March 2011	39,641	41,782	217,382	226,902

14. DEFERRED CONSIDERATIONS ADJUSTMENT

This is in respect of initial capital contributions by the Council under Private Finance Initiative schemes. The balances are written off to the appropriate service revenue accounts over the lifetime of the contracts. The amounts charged are, however, reversed out of the Consolidated Revenue Account so that there is no impact on the level of council tax. This is a change in accounting practice - see page 13 of "Accounting Policies".

15. OFFICERS' EMOLUMENTS

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

Remuneration Band £	2005/2006		2004/2005	
	Teaching Staff	Other Staff	Teaching Staff	Other Staff
50,000 - 59,999	140	90	95	88
60,000 - 69,999	45	33	39	22
70,000 - 79,999	9	9	6	11
80,000 - 89,999	7	8	7	8
90,000 - 99,999	1	8	2	2
100,000 - 109,999	-	2	-	4
110,000 - 119,999	-	4	-	2
120,000 - 129,999	-	1	-	-
130,000 - 139,999	-	1	-	-
150,000 - 159,999	-	-	-	1
180,000 - 189,999	-	1	-	-
Total employees	202	157	149	138

16. PUBLICITY

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

	2005/2006 £'000	2004/2005 £'000
Personnel (mainly recruitment advertising)	942	977
Media and public relations	1,300	897
Other	1	2
Total expenditure	2,243	1,876

17. AUDIT FEES

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

	2005/2006 £'000	2004/2005 £'000
Core audit in accordance with s.5 of the Audit Commission Act 1998	396	415
Statutory inspections in accordance with s.10 of the Act	18	81
Audit of grant claims	200	353
Total expenditure	614	849

18. ECONOMIC DEVELOPMENT

The Local Government (Promotion of Economic Development) Regulations 1990 require authorities to disclose any financial assistance given to relevant bodies in the form of a loan with a rate of interest at less than market rate. At 31st March 2006 the Council had no outstanding loan agreements of this nature.

19. SECTION 137 OF THE LOCAL GOVERNMENT ACT 1972

This section, as amended, empowers councils to make contributions to certain charitable funds, not-for-profit bodies and mayoral appeals. No such contributions were made in 2005-06 nor 2004-05.

20. RELATED PARTY TRANSACTIONS

The Code of Practice on Local Authority Accounting requires disclosure of additional information regarding transactions between the Council and related parties in accordance with Financial Reporting Standard 8. 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, New Beginning New Settlements Partnership Ltd and Bromley-by-Bow Centre Partnership Ltd are disclosed in note 16 to the Consolidated Balance Sheet on page 44. The Council 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 Council borrows from the Pension Fund. The year end balance is shown in note 14 to the Consolidated Balance Sheet on page 43. The Pension Fund accounts are presented on pages 59 to 65 of this Statement.

(iii) Membership of and relationship with other organisations

Council Members have made declarations of their interests in the following organisations to which the Council made payments in 2005-06:

	Councillor	Payments by the Council £'000
Account 3 Women's Consultancy Services Ltd	H. Rahman	1
Bangladesh Youth Movement	F. Miah A. Asad	5
Bethnal Green and Victoria Park Housing Association	J. Gardiner	80
Bromley-by-Bow Centre	H. Rahman M.Uz-Zaman	1
Culloden Bangladeshi Parents Association	A. M. Ohid Ahmed	2
Eastside Books Ltd	D. Jones	7
Friends of Tower Hamlets Cemetery Park	D. Edgar	26
Island Sports Trust	J. Ludlow	
Keen Students School	J. Sharpe	5
London Football Association	H. Rahman	12
Mudchute Association	R. Gipson	5
Operation Blackvote	B. Son	15
Oxford House in Bethnal Green	L. Alexander	1
Poplar Housing and Regeneration Community Association	L. Alexander	20
South Poplar and Limehouse Action for Secure Housing	J. Gardiner	49
Tower Hamlets Community Credit Union	B. Son	57
Tower Hamlets Community Housing	J. Gardiner	30
Tower Hamlets Parents' Centre	H. Rahman	
Youth Action UK	S. Islam	80
	M. G. Mortuza	5
	A. Asad	5

21. POOLED BUDGETS

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

- (a) Integrated Community Equipment Service (ICES)
- (b) Services for Adults with Learning Difficulties (LDSA)
- (c) Integrated Services for Disabled Children in the Children's Trust Pathfinder (DCTP)
- (d) Commissioning Health and Social Care Services for Adults with Learning Disabilities (CLDSA)
- (e) 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 to each pool is included in the Social Services gross expenditure figure disclosed in the Consolidated Revenue Account on page 21.

2005-06	ICES £'000	LDSA £'000	DCTP £'000	CLDSA £'000	CAMHS £'000
Income					
The Council	807	1,180	5,416	14,529	415
Tower Hamlets Primary Care Trust	524	1,427	1,407	2,308	56
Learning Disabilities Development Fund	-	-	-	222	-
Child and Adolescent Health Service	-	-	-	-	1,259
	<u>1,331</u>	<u>2,607</u>	<u>6,823</u>	<u>17,059</u>	<u>1,730</u>
Expenditure	1,331	2,607	6,823	17,059	1,730
Surplus/Deficit for the year	0	0	0	0	0

2004-05	ICES £'000	LDSA £'000	DCTP £'000	CLDSA £'000	CAMHS £'000
Income					
The Council	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	-	-	-	103	-
Child and Adolescent Health Service	-	-	-	-	1,127
	<u>1,295</u>	<u>2,547</u>	<u>5,253</u>	<u>14,295</u>	<u>1,538</u>
Expenditure	1,295	2,547	5,253	14,295	1,538
Surplus/Deficit for the year	0	0	0	0	0

HOUSING REVENUE ACCOUNT (HRA) for year ended 31st March 2006

The Housing Revenue Account (HRA) deals with the provision and maintenance of council housing by the Council acting as landlord. It also shows income from rents and Government grant. There is a statutory requirement to keep this account separate from other Council activities (including other housing activities).

	Note	2005/2006 £'000	2004/2005 £'000
INCOME			
Gross Rental Income			
Rents of dwellings	8	76,052	85,520
Non dwelling rents		6,293	5,340
Charges for services and facilities			
Heating charges		1,323	1,421
Leaseholder charges		11,451	10,006
Other charges		1,035	1,168
HRA Subsidy receivable			
General	6	21,871	26,524
Major Repairs Allowance		17,784	21,399
Contributions towards expenditure		750	2,416
TOTAL INCOME		136,559	153,794
EXPENDITURE			
Repairs, maintenance and management			
Repairs and maintenance		32,326	36,418
Supervision and management		47,243	49,283
Rents, rates, taxes and other charges		2,590	3,411
Rent rebates		5,022	6,299
Increase in provision for bad debts		124	134
Cost of capital charge	5	84,770	65,214
Depreciation of Fixed Assets			
On dwellings	5	17,666	21,399
On other assets		1,457	2,120
Debt management costs		112	129
TOTAL EXPENDITURE		191,310	184,407
NET COST OF SERVICES		54,751	30,613
Transfer from Asset Management Revenue Account			
Pensions Interest Cost	5	(56,110)	(31,562)
Expected Return on Pension Assets	7	8,336	5,948
Transfers from General Fund (as directed by Secretary of State)	7	(6,292)	(5,024)
Amortised Premiums and Discounts	9	(1,643)	(1,614)
Interest receivable	10	2,301	-
Interest receivable		(799)	(1,129)
NET OPERATING EXPENDITURE		544	(2,768)
APPROPRIATIONS			
Contribution to/(from) Pensions Reserve	7	(543)	(118)
Revenue Contribution to Capital expenditure		1,900	2,886
Transfer to Major Repairs Reserve	3	118	-
Transfer from Major Repairs Reserve	3	(1,457)	(2,120)
DEFICIT/(SURPLUS) FOR YEAR		562	(2,120)
Balance at the beginning of the year		7,020	4,900
BALANCE AT THE END OF THE YEAR		6,458	7,020

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING STOCK

The type and number of dwellings in the Council's housing stock at 1st April were as follows:

	2005/2006	2004/2005
Low rise flats (1-2 storeys)	523	741
Medium rise flats (3-5 storeys)	11,646	12,104
High rise flats (6 or more storeys)	4,351	7,981
Houses and bungalows	1,129	1,391
TOTAL AT 1st APRIL	17,649	22,217

2. FIXED ASSETS

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

	2005/2006 £'000	2004/2005 £'000
Total value at 1st April	1,830,237	1,534,634
Additions, disposals, transfers and revaluations	140,960	295,603
Total value at 31st March	1,971,197	1,830,237

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

	Operational Dwellings £'000	Other land and buildings £'000	Non- Operational £'000	TOTAL £'000
Total value at 1st April 2004	1,467,570	17,933	47,620	1,533,123
Additions, disposals, transfers and revaluations	294,425	(1,127)	(4,428)	288,870
Total value at 31st March 2005	1,761,995	16,806	43,192	1,821,993
Additions, disposals, transfers and revaluations	123,669	21,201	3,107	147,977
Total value at 31st March 2006	1,885,664	38,007	46,299	1,969,970

The vacant possession value of dwellings within the Council's HRA was £2,951 million in 2005/2006 (£3,520 million in 2004/2005). This represents the value of the dwellings if they were available to be sold on the open market as vacant properties. The difference between this value and the balance sheet value shows the economic cost to the Government of providing council housing at less than open market value.

3. MAJOR REPAIRS RESERVE

	2005/2006 £'000	2004/2005 £'000
Balance at 1st April	0	0
Transfer from Capital Financing Account	19,123	23,519
Transfer to or from HRA		
Depreciation on non-dwellings	(1,457)	(2,120)
Excess of Major Repairs Allowance over dwellings depreciation	118	
Financing of capital expenditure	(17,666)	(21,399)
BALANCE AT 31st MARCH	118	0

4. CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	Dwellings £'000	Other land & buildings £'000	Other £'000	Total £'000
Expenditure	35,752	6,654	6,194	48,600
Sources of finance				
Borrowing	12,584	5,235	1,558	19,377
Useable capital receipts			2,000	2,000
Revenue contributions	900		1,000	1,900
Capital grants	4,602	1,419	1,636	7,657
Major Repairs Reserve	17,666			17,666
TOTAL CAPITAL FINANCING	35,752	6,654	6,194	48,600

(ii) Capital Receipts

Capital receipts in 2005/2006 from the disposal of fixed assets within the HRA amounted to £44.18 million (£85.36m in 2004/2005) as follows:

	2005/2006 £'000	2004/2005 £'000
Dwellings	43,525	81,033
Other land and buildings	193	3,626
Other assets	466	697
TOTAL CAPITAL RECEIPTS	44,184	85,356

5. COST OF CAPITAL CHARGE

The total figure for capital charges of £103.9 million (£88.7 million in 2004/2005) is made up of:

- i) A charge for the cost of capital based on 3.5% of the value of assets amounting to £84.8 million (£65.2 million in 2004/2005).
- ii) A depreciation charge of £19.1 million (£23.5 million in 2004/2005) made up of £17.7 million (£21.4 million in 2004/2005) in respect of council houses and £1.4 million (£2.1 million in 2004/2005) 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.

	2005/2006 £'000	2004/2005 £'000
Operational Assets		
Council dwellings	17,666	21,399
Other land and buildings	796	517
Equipment	656	335
Infrastructure	5	5
Non-Operational Assets		
Investment Properties	-	1,263
TOTAL DEPRECIATION	19,123	23,519

The cost of capital charge is subject to an adjusting entry (a transfer from the Asset Management Revenue Account) to ensure that the HRA is only charged with an amount calculated in accordance with a statutory formula. The adjustment was £56.11 million in 2005-06 (£31.56 million in 2004-05).

6. HRA SUBSIDY RECEIVABLE

	2005/2006 £'000	2004/2005 £'000
Major Repairs Allowance (MRA)	17,784	21,399
General	21,871	26,524
Total HRA Subsidy Receivable	<u>39,655</u>	<u>47,923</u>

7. PENSION COSTS

These figures represent the cost of pensions attributable to the HRA. Further details of the treatment of pensions costs are shown in note 11 to the Consolidated Revenue Account (pages 25 and 26). Note 26 to the Consolidated Balance Sheet contains details of the assumptions made in calculating the figures included in this note. Note 1 to the Statement of Total Movements in Reserves shows the actuarial gains and losses on the Pensions Reserve. The following transactions have been made in the account for the year. The information in this note is presented differently from 2004-05 and figures for that year have been adjusted and restated to provide a valid comparison.

	The Council		LPFA		Total	
	2005/2006 £'000	2004/2005 £'000	2005/2006 £'000	2004/2005 £'000	2005/2006 £'000	2004/2005 £'000
Net Cost of Services						
Current service costs	3,834	3,204	20	35	3,854	3,239
Net Operating Expenditure						
Interest cost	8,243	5,798	93	150	8,336	5,948
Expected return on assets in the scheme	(6,224)	(4,888)	(68)	(136)	(6,292)	(5,024)
Amount to be met from Government grant and local taxpayers						
Movement in Pension Reserve	(519)	(104)	(24)	(14)	(543)	(118)
	5,334	4,010	21	35	5,355	4,045
Employer's contribution to scheme	(5,334)	(4,010)	(21)	(35)	(5,355)	(4,045)

8. RENT ARREARS

	2005/2006	2004/2005
Gross rent arrears at 31st March (£000's)	4,767	6,484
Arrears as % of rent receivable	6.3	7.6
Provision made for bad debts (£000's)	3,801	4,694

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

Authorities are allowed to transfer sums to the HRA from another revenue account on the basis of directions issued by the Government. The £1.6 million transferred during 2005/06 relates to "Supporting People" services provided by the Council.

10. AMORTISED PREMIUMS AND DISCOUNTS

This relates to premiums payable on the premature redemption of housing debt, which is charged to the HRA over 10 years. The sum of £2.301 million relating to the period 2003/04 to 2005/06 has been transferred to the General Fund as follows:

	£'000
2003/04	605
2004/05	848
2005/06	848
Total	2,301

COLLECTION FUND
for year ended 31st March 2006

Income	Note	2005/2006 £'000	2005/2006 £'000	2004/2005 £'000	2004/2005 £'000
Council Tax (net of benefits)	2	55,339		50,438	
Transfers from General Fund - Council Tax Benefits		23,685	79,024	22,988	73,426
National Non-Domestic Rates	3		216,901		199,482
TOTAL INCOME			295,925		272,908
Expenditure					
Precepts and demands	2				
London Borough of Tower Hamlets		57,820		54,347	
Greater London Authority		18,466	76,286	17,107	71,454
Distribution of prior year surplus on Collection Fund			2,482		2,489
Non domestic rates:					
Payment to National Pool		215,966		198,562	
Cost of collection allowances		935	216,901	920	199,482
Provision for bad debts	4		1,042		509
TOTAL EXPENDITURE			296,711		273,934
DECREASE IN FUND BALANCE			(786)		(1,026)

COLLECTION FUND BALANCE

Balance at the beginning of the year	3,961	4,987
(Deficit)/Surplus for the year	(786)	(1,026)
Balance at the end of the year	3,175	3,961

NOTES TO THE COLLECTION FUND

1. GENERAL

The Collection Fund accounts for all transactions in respect of Council Tax and National Non-Domestic Rates (also known as NNDR or Business Rates). Although it is kept separate from the Consolidated Revenue Account, the Collection Fund balance forms part of the Council's Consolidated Balance Sheet.

2. COUNCIL TAX

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

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

By multiplying the number of properties in each band (after allowing for discounts, exemptions and non-collection) by the fractions involved the Council calculates the number of "Band D equivalent" properties in the borough (known as the Council Tax Base) and how much a Band D tax of £1 would produce. For 2005-06 this was £0.073 million (£0.071 million for 2004-05) allowing for a non-collection rate of 3.00% (3.00% in 2004-05).

When the 2005-06 Council Tax was set the position was as follows:

Band	No. of Properties	Council Tax Base
A	1,156	748
B	20,179	15,224
C	25,590	22,064
D	11,060	10,728
E	10,315	10,229
F	5,386	12,229
G	2,120	3,427
H	286	556
Total	76,092	75,205

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

	2005/2006		2004/2005		Increase	
	Band D Tax £	Amount to be Raised £'000	Band D Tax £	Amount to be Raised £'000	£	%
Tower Hamlets	797.28	59,725	766.69	56,252	30.59	3.99
Greater London Authority	254.62	19,044	241.33	17,691	13.29	5.51
TOTAL	1,051.90	78,769	1,008.02	73,943	43.88	4.35

3. NATIONAL NON-DOMESTIC RATES (NNDR)

Under the arrangements for the National Non-Domestic Rates the Council collects business rates for its area which it pays to the Government. The Government then redistributes the total back to local authorities on the basis of a fixed amount per head of population. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2005-06 was 42.2p in the £ (45.6p in the £ in 2004-05), The total rateable value in the borough as at 31st March 2006 was £701.1 million (£570.6 million at 31st March 2005).

4. PROVISION FOR IRRECOVERABLE COUNCIL TAX DEBTS

Contributions are made from the Collection Fund Income and Expenditure Account to a provision for bad debts. During 2005/2006 £1.042 million was contributed to the Council Tax bad debt provision and £0.825 million of irrecoverable debts were written off.

CONSOLIDATED BALANCE SHEET

as at 31st March 2006

	Note	2005/2006 £'000	2005/2006 £'000	2004/2005 £'000
Tangible Fixed Assets	1 / 2			
Operational assets				
Dwellings		1,885,664		1,761,995
Other land and buildings		539,844		468,288
Infrastructure assets		76,263		71,021
Equipment		3,932		4,355
Community assets		37,441		35,903
Non-operational assets				
Investment properties		<u>51,019</u>		<u>47,912</u>
			2,594,163	<u>2,389,474</u>
Long Term Debtors	9		29,107	24,979
Total Long Term Assets			2,623,270	2,414,453
Add Current Assets				
Stocks and Work in Progress	10	3,245		3,900
Debtors	12 / 16	104,829		103,643
Investments	11	113,592		136,320
Cash and Bank		<u>23,802</u>		<u>14,368</u>
			245,468	<u>258,231</u>
Less Current liabilities				
Short Term Borrowing	14	34,391		25,627
Creditors	15 / 16	<u>133,073</u>		<u>140,420</u>
			167,464	<u>166,047</u>
Total Assets less Current Liabilities			2,701,274	2,506,637
Less				
Long Term Borrowing	18 / 19	388,031		499,198
Deferred Credits	17	50,762		2,394
Capital Grants and Contributions Deferred		136,711		122,835
Provisions	20	24,818		18,581
Pensions Liability	26	<u>365,980</u>		<u>321,099</u>
			966,302	<u>964,107</u>
TOTAL ASSETS LESS LIABILITIES			1,734,972	1,542,530
Represented by				
Fixed Asset Restatement Account	21		1,468,791	1,354,175
Capital Financing Account	22		494,396	385,313
Capital Receipts and Grants Unapplied	23		24,088	28,060
Pensions Reserve	26		(365,980)	(321,099)
Major Repairs Reserve			118	-
Collection Fund			3,175	3,961
Street Trading Account	24		64	(2)
Balances:-				
General Fund			16,666	9,918
Housing Revenue Account			6,458	7,020
Earmarked Reserves	27		87,196	75,184
TOTAL EQUITY			1,734,972	1,542,530

The Statement of Accounts was authorised for issue by the Council's Director of Resources on 19th June 2006. This is the date up to which events after the balance sheet date of 31st March 2006 have been considered for final accounts purposes.

NOTES TO THE BALANCE SHEET

1. TANGIBLE FIXED ASSETS

	Council Dwellings £'000	Other Land and Buildings £'000	Infrastructure £'000	Equipment £'000	Community £'000	Non- Operational £'000	Totals £'000
Value as at 1st April 2005	1,890,387	545,528	84,941	26,845	35,903	56,200	2,639,804
Additions	35,752	32,743	7,228	1,782	1,510	78	79,093
Disposals	(481,146)	(286)				(1)	(481,433)
Revaluations	586,728	49,837			28	8,660	645,253
Transfers						(5,630)	(5,630)
Value at 31 March 2006	2,031,721	627,822	92,169	28,627	37,441	59,307	2,877,087
Depreciation as at 1st April 2005	128,391	77,238	13,921	22,491	0	8,288	250,329
Depreciation for the year	17,666	10,740	1,985	2,204			32,595
Depreciation as at 31st March 2006	146,057	87,978	15,906	24,695	0	8,288	282,924
TOTAL NET BOOK VALUE at 31st March 2006	1,885,664	539,844	76,263	3,932	37,441	51,019	2,594,163

Capital expenditure on dwellings relates principally to the conversion, improvement and enhancement of existing stock. Following a review of accounting practice, Private Finance Initiative schemes are no longer included as non-operational assets. See page 13 of "Accounting Policies".

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

	Council Dwellings £'000	Other Land and Buildings £'000	Infrastructure £'000	Equipment £'000	Community £'000	Non- Operational £'000	Totals £'000
Housing Revenue Account	1,885,664	38,007		920	307	46,299	1,971,197
General Fund		501,837	76,263	3,012	37,134	4,720	622,966
TOTAL NET BOOK VALUE at 31st March 2006	1,885,664	539,844	76,263	3,932	37,441	51,019	2,594,163

2. TANGIBLE FIXED ASSET VALUATION

	Council Dwellings £'000	Other Land and Buildings £'000	Infrastructure £'000	Equipment £'000	Community £'000	Non- Operational £'000	Totals £'000
Analysis of Revaluations of Fixed Assets							
Valued at historic cost			76,263		37,441		113,704
Valued at current value in:							0
2005/2006: dwellings and other HRA etc.	1,885,664	71,554		3,932		51,019	2,012,169
2004/2005: dwellings and other land and buildings		127,869					127,869
2003/2004: schools and leisure		301,733					301,733
2002/2003: offices and community buildings		38,688					38,688
							0
							0
Value at 31 March 2006	1,885,664	539,844	76,263	3,932	37,441	51,019	2,594,163

2. FIXED ASSET VALUATION (continued)

The freehold and leasehold properties which comprise the Council's property portfolio have been valued by the Council's Head of Corporate Property Services, Ian D Gillian, FRICS.

General Fund Property Valuation

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

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

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

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

Housing Revenue Account Property Valuation

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

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

Depreciation

Depreciation on a straight line basis is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation). The bases adopted for each type of asset is disclosed in the Statement of Accounting Policies on page 12.

3. LEASING

Operating Leases

The Council has no outstanding obligations or commitments under operating leases.

Finance Leases

The following value of assets is held under finance leases by the Council, accounted for as part of tangible assets (other land and buildings) :

	Other Land and Buildings £'000
Value at 1st April 2005	1,177
Additions	49,203
Depreciation	(588)
Value at 31st March 2006	49,792

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31st March 2006, accounted for as part of long-term liabilities, are as follows:

	Other Land and Buildings £'000
Obligations payable in 2006-07	1,803
Obligations payable in future years	47,989
Total Liabilities at 31st March 2006	49,792

4. INTANGIBLE FIXED ASSETS

These are computer software licences which are treated as non-financial fixed assets which do not have a substance but are controlled by and provide a future economic benefit to the Council. The cost of the licences is charged to revenue over the economic lives of the licences, which is currently one year. This is a change in accounting practice since 2004-05 when licences were classified as deferred charges (expenditure and revenue charge £685,000).

	Balance at 1/4/2005	Expenditure 2005-06	Revenue Charge 2005-06	Balance at 31/3/2006
	£'000	£'000	£'000	£'000
Software licences	-	745	(745)	-

5. DEFERRED CHARGES

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

	2005-06		2004-05	
	Expenditure £'000	Revenue Charge £'000	Expenditure £'000	Revenue Charge £'000
Improvement grants	1,809	(1,809)	1,396	(1,396)
Capitalised redundancies			1,257	(1,257)
Grants to voluntary organisations	1,792	(1,792)	981	(981)
Church schools	438	(438)	417	(417)
Cash incentive scheme	964	(964)	1,119	(1,119)
I.T. development	2,874	(2,874)	3,534	(3,534)
Other	5,548	(5,548)	6,132	(6,132)
TOTAL	13,425	(13,425)	14,836	(14,836)

6. CAPITAL EXPENDITURE AND FINANCING

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

	2005/2006 £'000	2004/2005 £'000
Expenditure		
Tangible Fixed Assets		
Operational	79,015	74,116
Non Operational	78	-
Intangible Fixed Assets	745	685
Deferred Consideration	2,355	5,965
Deferred Charges	13,425	14,836
	95,618	95,602
Source of Finance		
Borrowing	26,963	18,668
Capital Receipts and Contributions	48,208	51,874
Major Repairs Reserve	17,666	21,399
Direct Revenue Funding	2,781	3,661
	95,618	95,602

6. CAPITAL EXPENDITURE AND FINANCING (continued)

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

	2005/2006	2004/2005
	£'000	£'000
Opening Capital Financing Requirement	567,702	562,606
Capital Investment		
Operational Assets	79,093	74,603
Intangible Assets	745	685
Deferred Charges	13,425	20,116
Deferred Consideration *	2,355	-
Other Long Term Liabilities *	48,616	-
Sources of Finance		
Capital Receipts and Contributions	(48,208)	(51,874)
Major Repairs Reserve	(17,666)	(21,399)
Direct Revenue Funding	(2,781)	(3,661)
Net Revenue Provision	(101,630)	(13,374)
Closing Capital Financing Requirement	541,651	567,702
Explanation of movements in the year		
Increase (decrease) in underlying need to borrow (supported by Government financial assistance)	(78,740)	4,939
Increase in underlying need to borrow (unsupported by Government financial assistance)	52,689	157
Decrease in Capital Financing Requirement	(26,051)	5,096

* Reflects a change in practice in accounting for Private Finance Initiative schemes. See page 13.

7. ANALYSIS OF TANGIBLE FIXED ASSETS

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

	2005/2006	2004/2005
Land and buildings	<i>Number</i>	<i>Number</i>
Dwellings	17,649	22,217
Administrative buildings	52	51
Commercial properties	833	834
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	78	79
	<i>Hectares</i>	<i>Hectares</i>
Parks and open spaces	236	236
	<i>Kilometres</i>	<i>Kilometres</i>
Infrastructure	<i>Kilometres</i>	<i>Kilometres</i>
Principal built up roads	14.7	13.9
Other built up roads	248.2	217.3

8. CAPITAL COMMITMENTS

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £4.09 million at 31st March 2006. The main committed capital schemes are as follows:

	Committed sum £m	Costs to 31/3/2006 £m	2006/2007 onwards £m
Anchorage House (fitting out office building)	3.00	0.33	2.67
Kindersley/Langmore (housing refurbishment)	2.43	1.01	1.42
TOTAL	5.43	1.34	4.09

9. LONG TERM DEBTORS

	Balance at 1/4/2005 £'000	Advances £'000	Income and adjustments £'000	Balance at 31/3/2006 £'000
Mortgages				
Housing associations	263	0	(263)	0
Right to buy	1,215	181	(390)	1,006
Housing act advances	0	0	0	0
TOTAL MORTGAGES	1,478	181	(653)	1,006
Private Finance Initiative schemes	16,915	5,630	0	22,545
Premature loan redemption	5,386	0	(848)	4,538
Sundry loans	1,200	416	(598)	1,018
TOTAL LONG TERM DEBTORS	24,979	6,227	(2,099)	29,107

The inclusion of Private Finance Initiative schemes is a change in accounting practice. See page 13 of "Accounting Policies".

10. STOCK AND WORK IN PROGRESS

	2005/2006 £'000	2004/2005 £'000
Work in progress: rechargeable works	3,228	3,892
Stocks	17	8
TOTAL STOCKS AND WORKS IN PROGRESS	3,245	3,900

11. TEMPORARY INVESTMENTS

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

12. DEBTORS AND PAYMENTS IN ADVANCE	2005/2006	2004/2005
	£'000	£'000
Government	12,714	14,290
Inland Revenue/Customs and Excise	8,011	12,528
Other authorities	0	0
Rates, Community Charge and Council Tax payers	18,171	18,963
Rents: sundry tenants	5,006	6,484
Rents: homeless families	9,531	8,510
Employees	204	681
Payments in advance	3,749	2,272
Deferred considerations (see note 13)	24,840	23,635
Sundry other	65,599	58,426
TOTAL DEBTORS	147,825	145,789
Provisions for bad debts		
Rents: sundry tenants	(3,801)	(4,694)
Housing benefits overpayments	(4,184)	-
Rents: homeless families	(9,293)	(8,251)
Controlled parking fees	(3,929)	(8,617)
Rates, Community Charge and Council Tax payers	(8,706)	(8,675)
Sundry debtors	(13,083)	(11,909)
TOTAL PROVISIONS FOR BAD DEBTS	(42,996)	(42,146)
TOTAL NET DEBTORS	104,829	103,643

13. DEFERRED CONSIDERATIONS

"Deferred considerations" are in respect of initial capital contributions by the Council under Private Finance Initiative schemes. The balances are to be written off to the appropriate service revenue accounts over the lifetime of the contracts. The amounts charged are, however, reversed out of the Consolidated Revenue Account so that there is no impact on the level of council tax. This is a change in accounting practice - see page 13 of "Accounting Policies". Movements in the balance between years can be analysed as follows.

	2005/2006	2004/2005
	£'000	£'000
Balance at beginning of year	23,635	18,718
Expenditure during the year	2,355	5,965
Charged to revenue	(1,150)	(1,048)
Balance at end of year	24,840	23,635

14. SHORT TERM BORROWING

	2005/2006	2004/2005
	£'000	£'000
Borrowing payable within 1 year	17,948	17,887
Pension fund (see page 60)	16,443	7,740
TOTAL SHORT TERM BORROWING	34,391	25,627

15. CREDITORS AND RECEIPTS IN ADVANCE	2005/2006	2004/2005
	£'000	£'000
Government	33,558	48,148
Inland Revenue/Customs and Excise	6,912	6,355
Other authorities	64	221
Rates, Community Charge and Council Tax payers	21,177	17,747
Rents: sundry tenants	1,244	1,162
Rents: homeless families	254	259
Employees	0	0
Receipts in advance	1,461	1,290
Sundry other	68,403	65,238
TOTAL CREDITORS	133,073	140,420

"Sundry other" includes £21.765 million in 2005-06 (£7.741 million in 2004-05) in respect of agreements under section 106 of the Town and Country Planning Act 1990. This is a change in accounting practice and 2004-05 figures have been restated. Such balances have previously been treated as an earmarked reserve. See also note 27 to the Balance Sheet.

16. SINGLE REGENERATION BUDGET

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

Cityside Regeneration

Cityside Regeneration Ltd. was incorporated on 3rd June 1997 as a company limited by guarantee. Its mission was 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 the Council. 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 the Council and reflected in its 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 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 Council. The programme ended in 2003/2004 and Central Government provided £0.05 million to cover administration costs.

16. SINGLE REGENERATION BUDGET (continued)

Leaside Regeneration

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 and 4 Members of the Council sit on the Board. In 2004/2005 Central Government provided £3.3m (£5.12m in 2003/2004) in Single Regeneration Budget grant for projects managed by the Leaside company. This grant was administered by the Council and is reflected in the Council's accounts. The company is managing two project programmes - SRB4 concluded in 2004/2005 and SRB6 is due to end in 2006/2007.

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 Council was on the board. 2003/2004 was the last year of the project and Central Government provided £0.27m in Single Regeneration Budget grant.

17. DEFERRED CREDITS

Deferred credits consist of deferred liabilities for the element of lease payments which meets the capital cost of properties acquired under a finance lease; and deferred capital receipts in respect of the principal repayments due from mortgages granted for the purchase by individuals of council houses:

	2005/2006 £'000	2004/2005 £'000
Finance leases	49,792	1,177
Mortgages	970	1,217
	50,762	2,394

The significant increase between years in finance leases is the result of the acquisition of Anchorage House, an administrative building, on a long lease.

18. LONG TERM BORROWING

Source of loan:-	Interest rate payable %	2005/2006 £'000	2004/2005 £'000
Public Works Loans Board	4.5-9.7	388,031	499,198
TOTAL LONG TERM BORROWING		388,031	499,198

19. LOANS MATURITY SCHEDULE

	2005/2006 £'000	2004/2005 £'000
1-2 Years	19,520	22,069
2-5 Years	43,711	66,821
5-10 Years	120,616	127,288
In 10 years or more	204,184	283,020
TOTAL LOANS OUTSTANDING	388,031	499,198

20. PROVISIONS

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

	Balance at 1/4/2005 £'000	Used in Year £'000	Contribution in Year £'000	Balance at 31/3/2006 £'000
Insurance Fund (a)	9,236		1,021	10,257
Single Status (b)	1,105		700	1,805
Asylum Seekers (c)	1,250	625		625
Liability to DEFRA for BMW landfill usage			1,329	1,329
Administrative Buildings Lease Equalisation (d)	3,475		5,737	9,212
Ex-ILEA Debt (e)	1,100	1,100		0
Refund of residential and nursing care charges	656			656
Repayment of deposits	479	479		0
Blessed John Roche school - closure	422	343		79
Education salaries liability	261	65		196
Repayment of european funding			250	250
Miscellaneous	186	100	109	195
Schools' tax liability	134			134
Salaries protection	109	109		0
Recoupment	88	88		0
Pension liability - part time staff	50			50
E-procurement	30			30
TOTAL	18,581	2,909	9,146	24,818

Nature of material provisions and/or movements

- (a) to cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property. Amounts are transferred to the provision from the insurance reserve on an annual basis if a reliable estimate can be made of the likely settlement amount
- (b) for additional costs resulting from the single status agreement which changed employees' conditions of service. An element of uncertainty exists regarding the amount, which is a global estimate, and the timing of payments although there is a likelihood that payments will be made in 2006-07.
- (c) as cover for non-payment of Government grant in respect of payments by the Council for accommodation services. The provision was reduced during the year to reflect the amount being withheld.
- (d) the provision is used to equalise the economic benefits of an initial rent free period or reverse premium over the term of a lease. An element of uncertainty exists over annual amounts payable as interest rates and future uplift levels cannot be predicted with accuracy. The provision was increased significantly during the year to reflect new leases entered into.
- (e) relates to the requirement to make statutory provision for the repayment of debt transferred from the ex-ILEA. The requirement was confirmed during the year and the provision used.

21. FIXED ASSET RESTATEMENT ACCOUNT

	2005/2006 £'000	2004/2005 £'000
Balance at 1st April	1,354,176	1,073,548
Surplus on revaluation and restatement	596,048	358,025
Disposal of fixed assets (net)	(481,433)	(77,397)
BALANCE AT 31st MARCH	1,468,791	1,354,176

This account contains 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 38). The balance on the account is matched by fixed assets and does not represent resources available to the Council.

22. CAPITAL FINANCING ACCOUNT	2005/2006	2004/2005
	£'000	£'000
Balance at 1st April	385,313	366,373
Capital Financing		
Capital receipts	22,082	19,609
Capital grants	8,903	11,901
Revenue		
General Fund	881	775
Housing Revenue Account	1,900	2,886
Planning Gains	3,343	155
Other	5	-
Major Repairs Allowance	17,666	21,399
Minimum Revenue Provision (net of depreciation)	88,745	1,618
HRA depreciation	(19,123)	(23,519)
Write down of deferred charges	(15,319)	(15,884)
BALANCE AT 31st MARCH	494,396	385,313

The Capital Financing Account provides a balancing mechanism between the different rates at which assets are depreciated and financed. It also contains the amounts which are required by statute to be set aside for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. The balance on the account is matched by fixed assets and does not represent resources available to the Council. Minimum Revenue Provision incorporates £94.46 million (£7.43 million in 2004-05) in respect of the redemption of debt outstanding on Council housing transferred to Registered Social Landlords.

23. CAPITAL RECEIPTS AND GRANTS UNAPPLIED

	Housing	Other	Capital	Total
	£'000	£'000	Grants	£'000
			£'000	
Balance at 1st April, 2005	11,603	5,284	11,173	28,060
Receipts from sales of assets	44,184	2,406		46,590
Other receipts			26,335	26,335
Total receipts for year	55,787	7,690	37,508	100,985
Receipts paid to central government	(32,036)			(32,036)
Receipts applied to finance capital expenditure	(22,082)		(22,779)	(44,861)
BALANCE AT 31st MARCH 2006	1,669	7,690	14,729	24,088

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

24. STREET TRADING ACCOUNT

	2005/2006	2004/2005
	£'000	£'000
Expenditure		
Employee costs	823	725
Refuse collection and disposal	653	637
Support services	450	433
Other expenditure	110	174
Increase in provision for bad debts	40	0
Total Expenditure	2,076	1,969
Income		
Street trading charges	2,130	2,180
Other income	12	5
Decrease in provision for bad debts	0	11
Total Income	2,142	2,196
Deficit/(surplus) for the year	(66)	(227)
Balance at 1st April	(2)	(229)
Surplus for the year	66	227
BALANCE AT 31st MARCH	64	(2)

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

25. CONTINGENT LIABILITIES

Housing Transfers to Registered Social Landlords

Between March 1998 and March 2006 the Council transferred tenanted and leasehold properties to other landlords - 5,513 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 292 to Swan Housing Association; 2,792 to Eastend Homes; 984 to Toynbee Island Homes; and 238 to Bethnal Green and Victoria Park Housing Association. The Council has to offer warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council.

Further Stock Transfers

A number of further 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 Council 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.

26. RETIREMENT BENEFITS

(a) Note 11 to the Consolidated Revenue Account contains details of the Council's participation in the Local Government Pension Scheme (LGPS), administered either by the Council or the London Pensions Fund Authority (LPFA), and the Teachers' Pension Scheme. The underlying assets and liabilities attributable to the Council at 31st March in respect of the LGPS are shown below.

	The Council		LPFA		Total	
	2005/2006 £'000	2004/2005 £'000	2005/2006 £'000	2004/2005 £'000	2005/2006 £'000	2004/2005 £'000
Estimated assets	639,300	512,106	39,030	36,740	678,330	548,846
Estimated liabilities	(989,200)	(821,355)	(55,110)	(48,590)	(1,044,310)	(869,945)
Net liability	(349,900)	(309,249)	(16,080)	(11,850)	(365,980)	(321,099)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total net liability of £366 million has a significant impact on the net worth of the Council as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the schemes' actuary.

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

The main assumptions used in their calculations have been:

	The Council		LPFA	
	2005/2006 %	2004/2005 %	2005/2006 %	2004/2005 %
Rate of inflation	3.1	2.9	3.1	2.9
Rate of increase in salaries	4.6	4.4	4.6	4.4
Rate of increase in pensions	3.1	2.9	3.1	2.9
Rate for discounting scheme liabilities	4.9	5.4	4.9	5.4

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

	The Council			LPFA		
	Long Term Return %	2005/2006 %	2004/2005 %	Long Term Return %	2005/2006 %	2004/2005 %
Cashflow matching				4.2	83.0	
Equity investments	7.4	63.4	54.5	7.4	13.9	15.0
Bonds	4.6	21.7	30.7		3.1	77.0
Property	5.5	11.5	11.8			0.0
Cash	4.6	3.4	3.0	4.6		8.0

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

27. EARMARKED RESERVES

	2005/2006 £'000	2004/2005 £'000
Corporate		
Insurance Fund (a)	15,980	14,411
Housing Choice (b)	15,500	10,500
Underspend carried forward (c)	0	1,807
Final Accounts review (d)	2,325	1,790
Trading Account net balances (e)	1,676	864
Community use of buildings (f)	886	698
Personal Computers refresh (g)	751	-
Chief Executive's		
Corporate initiatives (h)	1,441	1,441
Miscellaneous Information Technology (IT) projects (i)	380	380
Underspend carried forward (j)	195	-
Development and Renewal		
Planning Obligations (k)	-	-
Building Control (l)	115	-
Environment and Culture		
Administrative Buildings Dilapidations (m)	4,411	4,411
Parking Control (n)	934	1,048
Underspend carried forward (o)	520	-
Administrative buildings car parks (p)	86	-
Canal side maintenance (q)	-	33
Water meters (r)	-	31
Education		
Schools delegated balances (s)	21,037	17,681
Unapplied Rate Rebate monies (t)	1,798	1,975
Recoupment (u)	524	525
Mandatory awards (v)	-	394
Transitional support (w)	147	-
Standards Fund (x)	702	-
Schools-specific contingency (y)	284	-
Underspend carried forward (z)	330	-
Housing		
Housing Revenue Account (HRA) Earmarked Reserve (aa)	16,000	16,000
Dilapidations (bb)	1,174	1,174
Social Services		
Comforts funds (cc)	-	21
TOTAL EARMARKED RESERVES AT 31st MARCH	87,196	75,184

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

- (a) The Council is self insured for most liability and property risks. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision.
- (b) The Council is currently considering the transfer of its housing stock, if agreed by tenants. This reserve represents the accumulated amount set aside towards meeting the anticipated future corporate cost to the General Fund of making the transfer. The reserve was increased during the year in accordance with the Council's budget.
- (c) Reserve in respect of service underspend carried forward and used in 2005-06.
- (d) Held to meet any unfunded expenditure identified following a review of the Council's final accounts.
- (e) This balance represents the accumulated net surpluses on internal trading accounts. See also note 6 to the Consolidated Revenue Account on page 23.

27. EARMARKED RESERVES (continued)

- (f) Reserve for future strategies in respect of community use of buildings.
- (g) Reserve established to meet the future cost of replacing personal computers.
- (h) Reserve established to meet one-off corporate service initiatives.
- (i) For various projects to achieve Best Value and help meet national "e-government" targets.
- (j) A new reserve established to carry forward into 2006-07 unspent budget for the scheme in 2005-06.
- (k) The Council receives monies under agreements with developers under Section 106 of the Town and Country Planning Act 1990. The agreements specify the purpose for which the monies can be used. In a change of accounting practice, and following advice from the Audit Commission, the balances held are now treated as receipts in advance in the Council's accounts. See page 9 - "Reserves".
- (l) Under Government regulations chargeable building control activities should break even over a 3 year period. The reserve represents the surplus on such activities in the year.
- (m) For necessary end of lease dilapidation repairs to administrative buildings utilised by the Council. Although there has been no movement on the reserve in 2005-06 it is likely that the reserve will be fully used in 2006-07.
- (n) Reserve operated in accordance with the Road Traffic Act 1991. See note 3 to the Consolidated Revenue Account on page 22.
- (o) A new reserve established to carry forward into 2006-07 unspent budget for cleansing and the installation of a fixed generator in the town hall in 2005-06.
- (p) An amount carried forward to fund the costs of green transport initiatives under the Green Transport Policy.
- (q) To meet the cost of maintenance of sites previously managed by the London Docklands Development Corporation. The reserve was fully used in the year.
- (r) An amount to pilot the use of water meters in buildings. The reserve was fully used in the year.
- (s) This represents unapplied revenue balances held by the Council on behalf of schools with delegated spending authority. The balance is committed to be spent on the education service.
- (t) Backdated National Non-Domestic Rate rebates on education buildings. The reserve is available to fund building improvements, and is likely to be used fully in 2006-07.
- (u) Reserve to meet unanticipated prior years' claims by other local authorities.
- (v) This reserve is no longer required and the balance was transferred to general balances in 2005-06.
- (w) A new reserve established to carry forward into 2006-07 unspent Government grant in 2005-06.
- (x) A new reserve established to carry forward into 2006-07 unspent matched funding in 2005-06.
- (y) A new reserve established to carry forward into 2006-07 the contingency for unexpected and unavoidable expenditure by schools, unspent in 2005-06.
- (z) A new reserve established to carry forward into 2006-07 unspent budget provision in 2005-06.
- (aa) The reserve is in accordance with the Housing Business Plan approved by Cabinet on 6th August 2003. It was created because of the potential disposal of a significant amount of the Council's housing stock as part of "Housing Choice". This could result in timing differences between the loss of income in respect of dwelling rents and service charges, and expenditure reductions. In addition there remain uncertainties regarding housing subsidy as the Government has changed the management and maintenance allowance within its calculation. The reserve has been established so that both the timing differences and subsidy uncertainty can be properly managed. This will ensure the Council has the ability to adjust financing to avoid significant future fluctuations in the Housing Revenue Account and thereby maintain overall financial stability.
- (bb) For the replacement of furniture in and repairs to properties used by the Homeless Persons Unit.
- (cc) Comfort funds available for clients, previously classified as a reserve but reclassified as trust funds from 2005-06 onwards (see note 28).

28. TRUST FUNDS

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

	Balance at 1/4/2005	Expenditure	Income	Balance at 31/3/2006
	£'000	£'000	£'000	£'000
Welfare Savings (a)	392	146	213	459
King Bequest Fund (b)	12	0	1	13
Childrens Trust Funds (c)	43	16	2	29
Social Services Trust Funds: sundry other (d)	77	100	122	99
Tower Hamlets Further Education Trust (e)	399	315	205	289
Globe Town Picture Fund (f)	142	0	7	149
Millwall Park Compensation Fund (g)	388	90	16	314
Sundry Other	6	0	0	6
Total Trust Funds	1,459	667	566	1,358

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

The Council also holds a number of deposits relating to Trust Funds administered by the Council. The funds are held in an interest bearing account maintained by the Council. The account is excluded from the financial statements relating to the Council. The relevant Trusts and transactions during the financial year ended 31st March 2006 may be summarised as follows:-

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

29. STATEMENT OF NET ASSETS EMPLOYED

Total assets less liabilities as at 31st March (see page 37) can be analysed as follows:

	2006	2005
	£'000	£'000
General Fund	11,030	67,982
Housing Revenue Account	1,723,942	1,474,548
TOTAL	1,734,972	1,542,530

- 30. The Statement of Accounts was authorised for issue on 19th June 2006 by the Council's Director of Resources, Martin Smith CPFA.

STATEMENT OF TOTAL MOVEMENTS ON RESERVES
for year ended 31st March 2006

	2005/2006 £'000	2005/2006 £'000	2004/2005 £'000	2004/2005 £'000
Surplus/(deficit) for the year:				
General Fund	6,748		(2,217)	
Housing Revenue Account	(562)		2,120	
Movements on earmarked reserves	12,012		11,302	
Total increase in revenue resources		18,198		11,205
Appropriation from Pensions Reserve	(5,240)		47	
Adjustment to opening balance	-		(2,036)	
Actuarial gains and losses relating to Pensions (1)	(39,641)		(119,850)	
Total decrease in Pensions Reserve		(44,881)		(121,839)
Increase/(decrease) in useable capital receipts	(7,528)		9,648	
Increase/(decrease) in unapplied capital grants	3,556		7,381	
Total increase/(decrease) in realised capital resources (2)		(3,972)		17,029
Gains/(losses) on revaluation of Fixed assets	596,048		358,025	
Impairment losses on Fixed Assets due to general changes in prices	-		-	
Total increase in unrealised value of fixed assets (3)		596,048		358,025
Value of assets sold, disposed of or decommissioned (4)		(481,433)		(77,397)
Total increase in Major Repairs Reserve		118		-
Capital receipts set aside	22,082		19,609	
Revenue resources set aside	78,098		(12,570)	
Net movement on Government Grants Deferred	22,779		32,110	
Total increase in amounts set aside to finance capital investment (5)		122,959		39,149
TOTAL RECOGNISED GAINS AND LOSSES		207,037		226,172

NOTES TO THE STATEMENT OF TOTAL MOVEMENTS ON RESERVES

1. Actuarial Gains and Losses on the Pensions Reserve

	2005-2006		2004-2005		2003-2004		2002-2003	
	£'000	%	£'000	%	£'000	%	£'000	%
The Council								
Differences between the expected and actual return on assets	82,900	13.0	19,911	3.9	47,396	10.4	(97,800)	(26.5)
Differences between actuarial assumptions about liabilities and actual experience	149	0.0	2,802	0.3	785	0.1	70,400	11.5
Changes in the demographic and financial assumptions used to estimate liabilities	(118,900)		(134,133)					
	(35,851)	(3.6)	(111,420)	(13.6)	48,181	7.4	(27,400)	(4.5)
London Pensions Fund Authority								
Differences between the expected and actual return on assets	1,453	3.7	197	0.5	1,194	3.1	(364)	(1.0)
Differences between actuarial assumptions about liabilities and actual experience	(103)	(0.2)	(1,741)	(3.6)	(72)	(0.2)	96	0.2
Changes in the demographic and financial assumptions used to estimate liabilities	(5,140)		(6,886)					
	(3,790)	(6.9)	(8,430)	(17.3)	1,122	2.6	(268)	(0.6)
Total								
Differences between the expected and actual return on assets	84,353		20,108		48,590		(98,164)	
Differences between actuarial assumptions about liabilities and actual experience	46		1,061		713		70,496	
Changes in the demographic and financial assumptions used to estimate liabilities	(124,040)		(141,019)		0		0	
	(39,641)		(119,850)		49,303		(27,668)	

2. Movements in realised capital resources

	2005/2006		2004/2005	
	£'000		£'000	
	Useable Capital Receipts	Unapplied Capital Grants and Conts.	Useable Capital Receipts	Unapplied Capital Grants and Conts.
Amounts receivable	46,590	26,335	88,644	39,491
Applied to finance new capital investment	(22,082)	(22,779)	(19,609)	(32,110)
Paid to Central Government	(32,036)		(59,387)	0
Total increase/(decrease) in realised capital resources	(7,528)	3,556	9,648	7,381
Balance brought forward at 1st April	16,887	11,173	7,239	3,792
Balance carried forward at 31st March	9,359	14,729	16,887	11,173

	Fixed Asset Restatement Account	
	2005/2006 £'000	2004/2005 £'000
3. Movements in unrealised value of fixed assets		
Gains/(losses) on revaluation of Fixed assets	596,048	358,025
Impairment loss on Fixed Assets due to general changes in prices		
Total increase/(decrease) in unrealised capital resources	596,048	358,025
4. Value of assets sold, disposed of or decommissioned		
Amounts written off fixed asset balances for disposals	(481,433)	(77,397)
Total movement on account	114,615	280,628
Balance brought forward at 1st April	1,354,176	1,073,548
Balance carried forward at 31st March	1,468,791	1,354,176

	2005/2006 £'000	2005/2006 £'000	2005/2006 £'000	2004/2005 £'000	2004/2005 £'000	2004/2005 £'000
	Capital Financing Account £'000	Government Grants Deferred £'000	Total £'000	Capital Financing Account £'000	Government Grants Deferred £'000	Total £'000
5. Movements in amounts applied to finance capital expenditure						
Capital receipts						
Useable receipts applied	22,082	-		19,609	-	
Total capital receipts applied	22,082	-	22,082	19,609	-	19,609
Revenue resources set aside						
Capital expenditure financed from revenue	6,124	-		3,816	-	
Reconciling amount for provisions for loan repayment	71,974	-		(16,386)	-	
Total revenue resources set aside	78,098	-	78,098	(12,570)	-	(12,570)
Grants applied to capital investment	8,903	22,779		11,901	32,110	
Amounts credited to Asset Management Revenue Account		(8,903)			(11,901)	
Net movement on Government Grants Deferred	8,903	13,876	22,779	11,901	20,209	32,110
Total increase/(decrease) in amounts set aside to finance capital investment	109,083	13,876	122,959	18,940	20,209	39,149
Balance brought forward at 1st April	385,313	122,835	508,148	366,373	102,626	468,999
Balance carried forward at 31st March	494,396	136,711	631,107	385,313	122,835	508,148

CASH FLOW STATEMENT

for year ended 31st March 2006

	2005/2006 £'000	2005/2006 £'000	2004/2005 £'000	2004/2005 £'000
REVENUE ACTIVITIES				
Expenditure				
Cash paid in respect of employees	348,390		314,842	
Other operating costs	557,860		520,287	
Housing Benefit paid out	75,401		61,774	
Payments to NNDR Pool	215,966		206,659	
Payments of precepts	18,446		17,107	
Payments to Capital Receipts Pool	32,036		59,387	
		1,248,099		1,180,056
Income				
Rents (after rebates)	(31,426)		(34,629)	
Receipts from Council Tax payers	(58,545)		(50,036)	
Receipts from NNDR Pool	(68,844)		(57,776)	
Non domestic rate income	(219,841)		(205,701)	
Receipts from Community Charge payers	(1)		(1)	
Revenue Support Grant	(310,279)		(293,823)	
DSS grants for rent allowances	(73,605)		(60,284)	
Other Government grants (2)	(301,429)		(277,046)	
Other revenue income	(256,912)		(213,449)	
		(1,320,882)		(1,192,745)
NET CASH INFLOW FROM REVENUE ACTIVITIES (1)		(72,783)		(12,689)
SERVICING OF FINANCE				
Expenditure: interest paid	35,279		45,919	
Lease rentals	3,686		2,506	
Income: interest received	(7,946)		(7,880)	
NET CASH OUTFLOW FROM THE SERVICING OF LOANS		31,019		40,545
CAPITAL ACTIVITIES				
Expenditure				
Purchase of fixed assets	71,092		74,211	
Advances to long term debtors	6,227		0	
Deferred charges	13,425		20,800	
		90,744		95,011
Income				
Sale of fixed assets	(46,590)		(88,644)	
Other capital cash payments/(income)	(89,401)		(70,343)	
Receipts from long term debtors	(2,099)		(465)	
		(138,090)		(159,452)
NET CASH INFLOW FROM CAPITAL ACTIVITIES		(47,346)		(64,441)
NET CASH INFLOW FROM ALL ACTIVITIES BEFORE FINANCING		(89,110)		(36,585)
MANAGEMENT OF LIQUID RESOURCES				
Short Term Investments	(22,728)		(1,617)	
Short Term Borrowing	(8,764)		15,953	
		(31,492)		14,336
FINANCING				
Repayments of amounts borrowed	111,167		17,886	
NET CASH OUTFLOW FROM THE REPAYMENT OF LOANS		111,167		17,886
INCREASE IN CASH AND CASH EQUIVALENTS (3)		(9,435)		(4,363)

NOTES TO THE CASH FLOW STATEMENT

	2005/2006 £'000	2004/2005 £'000
(1) Reconciliation of Revenue Cash Flow		
Net General Fund Revenue Expenditure (see page 21)	(6,748)	2,217
Net Housing Revenue Account Expenditure (see page 30)	562	(2,120)
Net Statutory Street Trading Account Expenditure (see note 24 page 48)	(66)	(227)
Net Collection Fund Revenue Expenditure (see page 34)	786	1,026
Deduct interest paid	(38,964)	(48,425)
Deduct Minimum revenue provision	(7,166)	(5,355)
Deduct Amortisation of premiums and discounts	(2,301)	0
Deduct Revenue Contributions to Capital	(6,129)	(3,817)
Payments to Capital Receipts Pool	32,036	59,387
(Increase)/decrease in revenue creditors	(23,746)	6,355
Increase/(decrease) in stocks	(655)	(10)
Add interest received	7,946	7,880
Deduct contributions to Reserves and Provisions (net)	(27,152)	(17,844)
Increase/(decrease) in revenue debtors	(1,186)	(11,756)
Revenue net cash flow	(72,783)	(12,689)

	£'000	£'000
(2) Other Government Revenue Grants		
Alcohol and Drug Misuse	1,339	1,639
HIV/Aids	260	280
Asylum Seekers Accommodation	1,535	2,573
Promoting Independence	1,615	1,091
Preserved Rights	1,322	1,714
Children's Services	264	882
Dept of Health: Other	2,907	6,684
Other Social Services	3,787	3,581
DSS: Benefits: Administration	5,565	3,649
DSS: Benefits: Prior Years	0	3,698
DSS: Benefits: Council Tax	22,312	22,561
DSS: Benefits: Rent Rebates	80,934	78,204
DCLG: Housing Subsidy	66,810	45,486
DCLG: Single Regeneration Grant	2,760	7,914
DCLG: Home Insulation & Improvement Grants	0	272
Home Office: Civil Defence	0	93
Standards Fund	27,478	24,950
Mandatory Awards	467	0
FEFC Access	428	510
Education maintenance allowances	0	2,731
Learning Schools Council - sundry	1	11,107
Other Education and Training	20,485	11,377
Nursery and other childrens grants	3,043	4,038
European Regional Development Grants	178	69
European Social Grants	31	1,150
New Deal	6,269	6,270
Neighbourhood Renewal Fund	18,175	13,647
Supporting People	15,451	16,088
Connexions	2,524	639
Bed and Breakfast Action Plan	0	1,354
Other Revenue Grants	15,489	2,795
Total other revenue grants	301,429	277,046

(3) Movement in cash equivalents	31/3/06	31/3/05	Movement	31/3/05	31/3/04	Movement
	£'000	£'000	£'000	£'000	£'000	£'000
Cash overdrawn	(16,024)	(22,846)	6,822	(22,846)	(23,026)	180
Other cash and officer balances	39,826	37,213	2,613	37,214	33,031	4,183
Net increase in cash and cash equivalents	23,802	14,367	9,435	14,368	10,005	4,363

PENSION FUND ACCOUNT for year ended 31st March 2006

DEALINGS WITH MEMBERS ACCOUNT

	Note	2005/2006 £'000	2004/2005 £'000
Income			
Contributions receivable			
Employees	3	7,519	7,112
Employers	3	30,977	30,811
		38,496	37,923
Transfer values receivable		6,443	4,842
Total income		44,939	42,765
Expenditure			
Benefits payable	4	25,653	23,813
Transfer values payable		7,018	4,604
Payments to leavers - repayment of contributions		9	90
Administration		917	797
Other expenses		56	(7)
Total expenditure		33,653	29,297
NET ADDITIONS FROM DEALINGS WITH MEMBERS		11,286	13,468

		2005/2006 £'000	2004/2005 £'000
RETURN ON INVESTMENTS			
Investment income	11	17,009	13,001
Change in market value: Realised		34,314	21,361
Change in market value: Unrealised		73,531	10,180
		107,845	
Investment management expenses		(1,900)	(1,084)
NET RETURN ON INVESTMENTS		122,954	43,458

CLOSING NET ASSETS			
Net assets brought forward		514,586	457,660
Net increase during the year		134,240	56,926
CLOSING NET ASSETS OF THE SCHEME		648,826	514,586

		2005/2006 £'000	2004/2005 £'000
NET ASSETS STATEMENT			
Investments Assets			
Fixed interest securities - Public Sector		44,782	51,185
Fixed interest securities - Private Sector		9,593	21,903
Fixed interest securities - Overseas		12,488	-
Index Linked Securities		73,416	85,994
Equities - UK		205,396	160,621
Equities - Overseas		196,481	46,882
Managed and Unitised Funds			
Property		74,237	61,145
Other		39	0
		616,432	427,730
Other Net Assets			
Debtors less Creditors	5/6	9,648	1,596
Cash	7	22,746	85,260
TOTAL NET ASSETS		648,826	514,586

NOTES TO THE PENSION FUND ACCOUNT

1. The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management, that is the accountability of management for the resources entrusted to it and the disposition of its assets at the period end. The only items that are required to be excluded by regulations are liabilities to pay pensions and other benefits in the future which are reported on separately in the actuary's statement.

The Pension Fund is a funded, defined benefits scheme which provides for the payment of benefits to former employees of the Council. Benefits include retirement pensions, widows' pensions, death grants and, in certain circumstances, lump sum payments. The Fund is financed by contributions from employees and the Council, and by interest and dividends from investments.

2. Accounting Policies

(a) Accounts

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

(b) Basis of preparation

Except where otherwise stated, the accounts have been prepared on an accruals basis - income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2006.

(c) Investments

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

- i) Listed securities are shown by reference to mid-market price at the close of business on 31 March 2006
- ii) Unit trust and managed fund investments are stated at the mid point of the latest prices quoted by their respective managers prior to the 31 March 2006.
- iii) Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on the 31 March 2006.
- iv) Freehold property and leasehold property are included on the basis of their open market value.

3. Contributions

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. The employers' contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rate used during the financial year ended 31st March 2006 was 14.5%. Contributions shown in the revenue statement may be categorised as follows:

	2005/2006			2004/2005		
	Council £'000	Bodies £'000	Total £'000	Council £'000	Bodies £'000	Total £'000
From employees						
Ordinary contributions	7,331	188	7,519	7,032	80	7,112
From employers						
Ordinary contributions	17,577	267	17,844	15,334	67	15,401
Additional contribution	13,133		13,133	15,410		15,410
	30,710	267	30,977	30,744	67	30,811
Total contributions	38,041	455	38,496	37,776	147	37,923

4. Benefits, Refunds of Contributions and Transfer Values

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

	2005/2006			2004/2005		
	Admitted			Admitted		
	Council £'000	Bodies £'000	Total £'000	Council £'000	Bodies £'000	Total £'000
Pension payments to retired members	22,599	0	22,599	21,824	0	21,824
Lump sums paid on retirement	3,054	0	3,054	1,781	0	1,781
Death grants		0	0	208	0	208
Total benefits payable	25,653	0	25,653	23,813	0	23,813

5. Debtors

	2005/2006 £'000	2004/2005 £'000
Dividends receivable	2,117	1,890
Tax recoverable	115	0
Interest receivable	433	0
Investment sales	7,899	1,531
Total debtors	10,564	3,421

6. Creditors

	2005/2006 £'000	2004/2005 £'000
Administration	689	309
Benefits payable	54	30
Investment purchases	173	1,486
Total creditors	916	1,825

7. Cash

Cash was held as follows.

	2005/2006 £000	2004/2005 £000
GMO	2,122	-
INVESTEC	1	-
Aberdden	344	1,782
Schroders	3,808	75,590
Martin Currie	28	-
London Borough of Tower Hamlets	16,443	7,740
Royal London Asset Management	-	148
Total cash	22,746	85,260

8. Taxation

UK Income Tax

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

Value Added Tax

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

Overseas Tax

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

9. Membership of the Fund

The following table sets out the membership of the Pension Fund at 31st March 2006

	2005/2006	2004/2005
London Borough of Tower Hamlets		
Active Members	5,430	5,374
Pensioners	3,485	3,480
Deferred Pensioners	3,610	3,553
	12,525	12,407
Admitted Bodies		
Active Members	137	63
Pensioners	32	32
Deferred Pensioners	178	178
	347	273

The following bodies have been admitted into the Fund.

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

10. Investment

New investment management arrangements were implemented in the year with the transition from a balanced to a specialist mandate management structure. The structure is as follows.

Manager	Mandate
GMO	Global Equity
Martin Currie	UK Equity
Schroders	Active Balanced and Property
Investec	Residual Venture Capital Fund
Aberdeen	Fixed Interest

The market value of the fund comprises the following.

	2005/2006		2004/2005	
	£ million	%	£ million	%
GMO	138.9	21.6		
Martin Currie	98.7	15.3		
Schroders	292.2	45.4	343.5	67.0
Aberdeen	95.0	14.8	161.5	31.5
LBTH Cash	18.4	2.9	7.4	1.5

The high level of trading activity in the year reflects the transition from a balanced to a specialist management structure.

Purchases and sales in the year were as follows.

	2005/2006	2004/2005
	£'000	£'000
Purchases	95,323	256,600
Sales	(210,483)	(272,200)
Net Sales	(115,160)	(15,600)

There were no stocklending arrangements operational in the year.

11. Investment income

	2005/2006	2004/2005
	£'000	£'000
Dividends from equities	12,191	12,657
Interest from fixed interest securities	4,571	-
Interest on cash deposits	132	380
Taxation	115	-
Underwriting commission	-	(36)
Total	17,009	13,001

12. Unlisted Securities

The value of listed and unlisted securities is as follows.

	2005/2006	2004/2005
	£000	£000
Unlisted	40	161
Listed	641,138	512,828
Working Capital	9,648	1,596
	650,826	514,585

13. Actuarial Position

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

The statutory triennial revaluation undertaken by the actuary (Hymans Robertson) in 2004 estimated 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 £68 million and a corresponding funding level of 88%.

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

	£ Million
2002/2003	9.40
2003/2004	10.70
2004/2005	12.00

In addition the contributions are increased by RPI plus 1.5% with effect from 1st April 2005.

The method of calculating the employers' contribution rate derives the cost of the benefits building up over the year following the valuation date. This method is known as the "Projected Unit Method". It is a method considered appropriate by the Actuary for a Fund open to new members. As the Fund remains open to new members, its age profile is not currently rising significantly. If the age profile began to rise significantly, the projected unit method would calculate an increase in current service cost as scheme members approached retirement. In completing the valuation, the Actuary has adopted a market value method to derive the financial assumptions by considering various average yields and average market values in the 12 months leading to the valuation date. This represents a change from previously adopted traditional techniques where the assumptions adopted have reflected expectations of long term averages. The assumptions used in the calculation and applied during the intervaluation period are summarised as follows.

	2004	2001
Investment Returns (Equities)	6.7%	6.8%
Pay Increases	4.4%	4.8%
Price Inflation	2.9%	2.5%

The next statutory revaluatun is due in 2007 with the results to be implemented in April.

14. Related Party Transactions

Information in respect of material transactions with related parties is disclosed elsewhere within the Pension Fund accounts.

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

15. Contingent Liabilities

There were no contingent liabilities as at 31 March 2006

16. Post Balance Sheet Events

There are no significant post balance sheet events to report.

17. Regulations

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

- a) Contributors now have the right to make additional voluntary contributions to enhance their pension. The Council made such a scheme available to staff through Equitable Life. During 2000/2001, Equitable Life announced itself closed to new business. Speculation concerning Equitable Life's situation has continued throughout the last year. As an interim arrangement, employees have the option to pay current contributions into a Norwich Union Fund.
- b) Permanent full time employees can now opt out of the Local Government Scheme and make their own pension fund arrangements.
- c) Since 1995, all employees (except teachers) are eligible to join the scheme.
- e) The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 - SI 2002 No. 1852, require administering authorities to update and publish a Statement of Investment Principles and Myners Compliance Statement. These documents are available on the Council's website.
- f) The Council is also required to prepare and publish a Communications Strategy, Governance Statement and Funding Strategy Statement all of which are available on the Council's website.



Martin Smith CPFA
Director of Resources
19th June 2006

AUDITOR'S REPORT

At the date of publication of the Statement of Accounts (30th June 2006) the auditor had not completed the audit of the statement and had therefore not issued an opinion on it.

GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

FINANCIAL TERMS

Accounting Period	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.
Accrual	The recognition of income and expenditure as it is earned or incurred viz not as cash received or paid.
Actuary	Independent advisor to the Council on the financial position of the Pension Fund.
Actuarial Valuation	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.
Amortisation	The writing off of intangible assets or loan balances to revenue service accounts over an appropriate period of time.
Balances	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.
Budget	A statement defining the Council's policies over a specified period of time in terms of finance.
Capital Charges	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).
Capital Expenditure	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.
Capital Financing Charges	The annual cost of capital, including principal repayments, interest charges and leasing costs.
Capital Receipts	Income received from the sale of capital assets.
Contingent Liabilities	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.
Council Tax	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.
Creditors	Amounts owed by the Council at the end of the accounting period.
Debtors	Amounts owed to the Council at the end of the accounting period.
Earmarked Reserves	Balances set aside to meet specific future, usually non-recurring, commitments.
Fees and Charges	Income receivable as payment for goods or services provided.
Formula Grant	A grant paid by the Government made up of redistributed NDR and RSG.
Intangible Assets	Capitalised expenditure not resulting in a tangible asset. Such amounts are amortised over an appropriate period.

(National) Non-Domestic Rate(s)	A levy on businesses based on the rateable value of the premises they occupy. It is also known as “business rates”, the “uniform business rate” and the “national non-domestic rate”. Local authorities collect the rate as agents for the Government which then redistributes the income to authorities on the basis of population.
Post Balance Sheet Events	Significant events which occur after the end of the accounting period but prior to the date when the accounts are issued.
Precept	The precepting authorities’ council tax. This is collected by billing authorities on behalf of the precepting authorities.
Precepting Authorities	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.
Private Finance Initiative	Contracts whereby private sector suppliers provide services and/or capital investment in return for unitary payment; subject to agreed performance
Provisions	Amounts set aside to meet probable "one-off" future liabilities or losses but where exact dates and amounts are uncertain.
Revenue Expenditure	This is the routine day to day cost of providing the Council services.. Under the Local Government and Housing Act 1989, all expenditure is regarded as revenue unless it is specifically classified as capital.
Revenue Support Grant	A grant paid by central government as part of "formula grant" to support local authority services in general, as opposed to specific grants which may only be used for a prescribed purpose.
Support Services	Professional, technical and administrative activities, such as Finance, Information Technology and Human Resources, which support the provision of front line services

ABBREVIATIONS

AMRA	Asset Management Revenue Account
BMW	Biodegradable Municipal Waste
CIPFA	Chartered Institute of Public Finance and Accountancy
DCLG	Department for Communities and Local Government
DEFRA	Department for Environment, Food and Rural Affairs
DfES	Department for Education and Skills
FRS	Financial Reporting Standard
GLA	Greater London Authority
HRA	Housing Revenue Account
LATS	Landfill Allowance Trading Scheme
LEA	Local Education Authority
LGPS	Local Government Pension Scheme
LPFA	London Pensions Fund Authority
MRA	Major Repairs Allowance
MRP	Minimum Revenue Provision
(N)NDR	(National) Non-Domestic Rate(s)
ODPM	Office of the Deputy Prime Minister (now defunct and replaced by DCLG)
PFI	Private Finance Initiative
PWLB	Public Works Loans Board
RSG	Revenue Support Grant
SORP	Statement of Recommended Practice
SRB	Single Regeneration Budget
SSAP	Statement of Standard Accounting Practice
WDA	Waste Disposal Authority

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank