



Meeting of the

# AUDIT COMMITTEE

---

Tuesday, 26 June 2012 at 7.00 p.m.

---

## A G E N D A

---

### VENUE

**C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE  
CRESCENT, LONDON, E14 2BG**

<b>Members:</b>	<b>Deputies (if any):</b>
<b>Chair: Councillor Carlo Gibbs</b> <b>Vice Chair:</b>	
<b>Councillor Khales Uddin Ahmed</b>	Councillor David Edgar, (Designated Deputy representing Councillors Carlo Gibbs, Anwar Khan, Abdal Ullah, Khales Uddin Ahmed and Carli Harper-Penman)
<b>Councillor Craig Aston</b>	Councillor Marc Francis, (Designated Deputy representing Councillors Carlo Gibbs, Anwar Khan, Abdal Ullah, Khales Uddin Ahmed and Carli Harper-Penman)
<b>Councillor Stephanie Eaton</b>	Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston)
<b>Councillor Carli Harper-Penman</b>	Councillor Motin Uz-Zaman, (Designated Deputy representing Councillors Carlo Gibbs, Anwar Khan, Abdal Ullah, Khales Uddin Ahmed and Carli Harper-Penman)
<b>Councillor Anwar Khan</b>	
<b>Councillor Abdal Ullah</b>	

**[Note: The quorum for this body is 3 Members].**

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Simone Scott-Sawyer, Democratic Services  
Tel: 020 7364 4651, E-mail: [simone.scott-sawyer@towerhamlets.gov.uk](mailto:simone.scott-sawyer@towerhamlets.gov.uk)



# LONDON BOROUGH OF TOWER HAMLETS

## AUDIT COMMITTEE

Tuesday, 26 June 2012

7.00 p.m.

### 1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

### 2. DECLARATIONS OF INTEREST (Pages 1 - 2)

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. See attached note from the Chief Executive.

### 3. APPOINTMENT OF VICE-CHAIR

To appoint a Vice-Chair of the Audit Committee for the Municipal Year 2012/13.

	PAGE NUMBER	WARD(S) AFFECTED
4. UNRESTRICTED MINUTES	3 - 10	
To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 20th March 2012.		
5. UPDATE ON THE COUNCIL'S WORK PREPARING FOR THE OLYMPICS		
6. AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP	11 - 18	
7. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION		
7.1 PROGRESS REPORT	19 - 40	
8. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION		
8.1 INTERNAL AUDIT REPORT	41 - 106	

<b>8 .2</b>	<b>ANNUAL GOVERNANCE STATEMENT 2011/12</b>	<b>107 - 128</b>
<b>8 .3</b>	<b>ANNUAL FINANCIAL REPORT 2011/12</b>	<b>129 - 244</b>
<b>8 .4</b>	<b>2011/12 TREASURY MANAGEMENT OUT-TURN REPORT - UPDATE TO 31ST MAY 2012</b>	<b>245 - 256</b>

# Agenda Item 2

## DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

This note is guidance only. Members should consult the Council's Code of Conduct for further details. Note: Only Members can decide if they have an interest therefore they must make their own decision. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending at a meeting.

### Declaration of interests for Members

Where Members have a personal interest in any business of the authority as described in paragraph 4 of the Council's Code of Conduct (contained in part 5 of the Council's Constitution) then s/he must disclose this personal interest as in accordance with paragraph 5 of the Code. Members must disclose the existence and nature of the interest at the start of the meeting and certainly no later than the commencement of the item or where the interest becomes apparent.

You have a **personal interest** in any business of your authority where it relates to or is likely to affect:

- (a) An interest that you must **register**
- (b) An interest that is not on the register, but where the well-being or financial position of you, members of your family, or people with whom you have a close association, is likely to be affected by the business of your authority more than it would affect the majority of inhabitants of the ward affected by the decision.

Where a personal interest is declared a Member may stay and take part in the debate and decision on that item.

**What constitutes a prejudicial interest?** - Please refer to paragraph 6 of the adopted Code of Conduct.

**Your personal interest will also be a prejudicial interest in a matter if (a), (b) and either (c) or (d) below apply:-**

- (a) A member of the public, who knows the relevant facts, would reasonably think that your personal interests are so significant that it is likely to prejudice your judgment of the public interests; AND
- (b) The matter does not fall within one of the exempt categories of decision listed in paragraph 6.2 of the Code; AND EITHER
- (c) The matter affects your financial position or the financial interest of a body with which you are associated; or
- (d) The matter relates to the determination of a licensing or regulatory application

The key points to remember if you have a prejudicial interest in a matter being discussed at a meeting:-

- i. You must declare that you have a prejudicial interest, and the nature of that interest, as soon as that interest becomes apparent to you; and
- ii. You must leave the room for the duration of consideration and decision on the item and not seek to influence the debate or decision unless (iv) below applies; and

- iii. You must not seek to improperly influence a decision in which you have a prejudicial interest.
- iv. If Members of the public are allowed to speak or make representations at the meeting, give evidence or answer questions about the matter, by statutory right or otherwise (e.g. planning or licensing committees), you can declare your prejudicial interest but make representations. However, you must immediately leave the room once you have finished your representations and answered questions (if any). You cannot remain in the meeting or in the public gallery during the debate or decision on the matter.

**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7 P.M. ON TUESDAY, 20 MARCH 2012**

**MEETING ROOM M71, 7TH FLOOR TOWN HALL, MULBERRY PLACE, 5 CLOVE  
CRESCENT, LONDON, E14 2BG**

**Members Present:**

Councillor Carlo Gibbs (Chair)  
Councillor Alibor Choudhury (Cabinet Member for Resources)  
Councillor Stephanie Eaton  
Councillor David Edgar (Vice-Chair)  
Councillor Denise Jones

**Other Councillors Present:**

Nil

**Officers Present:**

Steve Vinall	– Service Manager, Deloitte & Touche
Sally Ann Eldridge	– Service Manager, Audit Commission
Jon Hayes	– District Auditor, Audit Commission
Peter Hayday	– Interim Service Head, Financial Services Risk & Accountability, Corporate Finance
Tony Qayum	– Corporate Fraud Manager, Internal Audit Resources
Kate Bingham	– Acting Service Head [Resources] – CSFD
Minesh Jani	– Head of Risk Management
Simone Scott-Sawyer	– Democratic Services

**1. APOLOGIES FOR ABSENCE**

Apologies were submitted on behalf of Councillors Khales Uddin Ahmed and Craig Aston.

**2. DECLARATIONS OF INTEREST**

There were none.

**3. UNRESTRICTED MINUTES**

**RESOLVED**

That the minutes of the meeting of the Audit Committee held on 12<sup>th</sup> December 2011 be agreed as a correct record of the meeting and the Chair be authorised to sign them accordingly.

#### **4. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION**

##### **4.1 Audit Plan 2011/12 - Council Accounts**

Mr Jon Hayes, District Auditor, Audit Commission introduced the report. He updated Committee Members about the externalisation process and informed the Committee that the Town Hall would be audited by KPMG from November.

Ms Sally Ann Eldridge, Senior Audit Manager, Audit Commission referred Members to the Audit risks on page 14 and outlined specific risks and noted that the Town Hall would adopt the requirements of the Financial Reporting Service [FRS].

On the subject of value for money, it was anticipated that the Town Hall's 're-used' governance arrangements under the revised Mayoral arrangements will be examined. It was also expected that the planned fees would be 10% lower than the previous year's fees.

One Member asked the following questions about heritage assets:

- How does the Council insure assets?
- How much value is placed on assets unlikely to sell?
- Could we look at ways of using regalia assets?

She also requested more detail on governance issues.

Ms Eldridge stated that with regards to value for money, the Council was at an early stage and officers were currently identifying assets and looking at assets held outside the borough. Items that were never to be sold, would be accounted for in the figures.

With reference to Governance arrangements, she stated that the Internal Audit works carried out last year had been looked at, but she would revisit these to ensure that they had been properly embedded.

Another Member enquired about any changes to the 'value for money' conclusions. He referred to the first bullet point on page 23, about strengthening the quality review of the financial statements and wondered how confident officers were about achieving those objectives.

Another Member commented that an audit was carried by the Mayor in 2000 and the maintenance of artworks and sale of assets by auction could be looked at. She also referred to the proposed section 106 agreement and the proposal for changes.



Mr Hayes stated that auction sales had been looked at, but there were no concerns at this stage. However, his intention was to look at all proposals.

**RESOLVED:**

That the Council Accounts be noted.

**4.2 Audit Plan 2011/12 - Pensions Fund Accounts**

Ms Sally Ann Eldridge, Senior Audit Manager, Audit Commission introduced the report. She reported that there were no new accounting issues for this year.

In response to a Member's query about getting assurances about the accuracy of funds, Ms Eldridge explained that actuaries gave an assessment about funds and the Commission in turn examined the assessment made by the actuaries.

Mr Jon Hayes also added that the Audit Commission ensured that the Town Hall was following the correct procedure by ensuring that accurate information was given to the actuaries in the first place.

**RESOLVED:**

That the Pension Fund Accounts be noted.

**4.3 Certification of claims and returns Annual Report - LBTH Audit 2010/11**

Ms Sally Ann Eldridge, Senior Audit Manager, Audit Commission introduced the report.

With regards to Sure Start weaknesses, Ms Eldridge pointed out that the expenditure figures for 2010/11, had also been included erroneously in 2011/12. Officers were aware of the error and would ensure that it does not happen again, so that the income and expenditure was accounted for in the correct accounting period.

In response to a query by the Chair about further improvements to be made, Ms Eldridge stated that the current arrangements were very good, citing the Housing Benefits department as a good example.

**RESOLVED:**

That the Certification of claims and returns Annual report be noted.

## **5. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION**

### **5.1 Quarterly Internal Audit Assurance Report**

Mr Minesh Jani, Head of Risk Management and Audit, introduced the report.

He made the following points:

- There appeared to be no clear scheme of delegation by schools;
- The Finance Sub-Committee was lacking a current set of Terms of Reference;
- There was a need to look at proper controls with regards to procurement matters and goods and services;
- The annual report due out in September will capture a larger sample of schools.

In response to a query by the Chair about having an officer update as opposed to a member of staff from the school attending committee, Ms Kate Bingham, Acting Service Head [Resources] - CSFD updated the Committee as follows:

- Officers have looked at emerging themes to establish whether protocols and/or relevant documents were up-to-date;
- Training sessions had been carried out;
- School Governance issues were causing some concern, so these will be closely examined;
- The Assets Register – officers will be consulting the guidance notes to determine whether they needed enhancing. They will try to identify which assets were available and which were the higher-spending schools, the intention being to achieve efficiencies across the borough;
- The scheme of delegation in schools was also of some concern and would be looked at.

In response to questions by Members, Ms Bingham and Mr Jani made the following points:

- Support was provided to schools and academies, however, there was now a need to appoint a responsible officer i.e. an internal officer dedicated to the role of giving support;
- Officers were assessing levels of exposure and would look at the findings in totality. They would also benchmark with other schools to ascertain what the level of expectation should be.

Mr Jani further observed that although the assurances assigned can be subjective, he had endeavoured to make it as objective as possible.

However, in forming the opinion, the number and priority of recommendations would be taken into account in assigning assurances.

In response to a Member's question whether Deloitte & Touche were satisfied with the assurances, Mr Steve Vinall, Service Manager, Deloitte & Touche, confirmed that despite the degree of subjectivity, assurances were accurate.

Mr Jani added that he was satisfied with the assurances assigned by Deloitte & Touche and rarely needed to challenge their opinion. Generally, they looked at schools over a five year period, unless something untoward was to surface.

**RESOLVED:**

That the Quarterly Internal Audit be noted.

**5.2 Annual Internal Audit Plan for 2012/13 Financial Year**

Mr Minesh Jani, Head of Risk Management and Audit, introduced the report.

He indicated that four criterion were used in the Plan and officers engaged with Corporate Directors and Service Heads to contribute to it accordingly. He also referred to the table on page 96 as contained in the report. In response to a Member's question about risk, Mr Jani explained that a balance of risk and reward was favoured. The approach adopted in the Risk Management policy was for 'positive risk taking'; the emphasis was placed on the benefits of the risk taking. He described the Council's approach as 'risk aware' or 'risk savvy'.

One Member said she welcomed the section 106 agreement in the Plan, but queried how the funds would be generated and governed.

Mr Jani stated that a section 106 audit was conducted approximately five years ago which captured the aforementioned points.

With regards to tele-care, the Chair observed that it would be appropriate for the Audit to include any investment in the service.

**RESOLVED:**

That the Annual Audit Plan for 2012/13 financial year be endorsed.

**5.3 Anti Fraud and Corruption Strategy and Proactive Anti Fraud Plan 2012-13**

Mr Tony Qayum, Corporate Fraud Manager, Internal Audit, Resources, introduced the report.

He remarked that this was the fifth year of reporting the Audit arrangements for Tower Hamlets Council and made the following points:

- Several services came under the Corporate Fraud umbrella;
- Appendix 1 contained in the report focused on the Anti Fraud and Corruption Strategy. Housing or Council Tax Benefit fraud details were referred to on page 165 contained in the report;
- They had separate telephone numbers for various types of fraud;

- There was now a robust *Money Laundering* policy in place, for e.g. loopholes in revenue refunds were now being tightened up;
- Bribery – officers were benchmarking with other organisations to ensure best practice.

In response to a question by one Member about ways of closing the loopholes in the 'Right to Buy' scheme, Mr Qayum stated that the Anti Corruption and Fraud Strategy served as a 'Whistle blowing' policy as well to possibly cover situations like this.

In response to the Chair's query about the best way of disseminating such information to Members, Mr Jani proposed that a session could be set up prior to a Committee meeting, with the sole purpose of training and raising awareness.

Mr Peter Hayday, Corporate Finance, also endeavoured to raise the matter with Isabella Freeman, Assistant Chief Executive [Legal Services].

**RESOLVED:**

That the Anti Fraud and Corruption Strategy and Proactive Anti Fraud Plan be noted.

#### **5.4 Consultation on Social Housing Fraud**

Mr Jani, Head of Risk Management and Audit, introduced the report.

He informed Members that the Government was seeking to criminalise Social Housing Fraud and this was their opportunity to respond to the consultation document by April 2012.

Members outlined the following points in relation to the consultation:

- How would the Council deal with long term absences from the home by residents, for e.g. in the case of ill health?
- Where for e.g. a property was vacant for a period of 3 years, could there be an option to let the property?

Mr Qayum observed that it was always a fine balancing act where there was a case of genuine illness, as the Council needed to be fair, but at the same time cut down on fraud to ensure the best use of its assets. The real issue was often being able to garner sufficient evidence to support a criminal conviction.

Mr Hayes pointed out that unfortunately, seeing enforcement through to the end was often compromised and therefore not as straightforward.

**RESOLVED:**

That the Consultation on Social Housing Fraud be noted.

**5.5 Treasury Management Investment Activity to 31st January 2012**

Mr Peter Hayday, Interim Service Head, Financial Services Risk & Accountability, introduced the report.

He pointed out and corrected some typographical errors on page 313.

One Member queried what other local authorities were doing with regards to the Fitch ratings. Mr Hayday explained that in theory, there was potential to half investment income when coming out of institutions. For e.g., the maximum figure of £45 million could be invested in investment schemes and this would be virtually risk-free as it would be underwritten by the British Government. However, given the current economic climate, Mr Hayday urged caution about this approach.

Another Member asked how and when does the Council's risk profile change. Mr Hayday explained that the process would involve full Council, whereby information would be distributed beforehand in order that all Members were fully apprised of the risks.

In response to the Chair's question about profiling the market to ascertain the best investment vehicle, Mr Hayday confirmed that this was done whenever the opportunity presented itself.

**RESOLVED:**

That the Treasury Management Investment Activity to 31<sup>st</sup> January 2012 be noted.

The meeting ended at 9.05 pm.

Chair, Councillor Carlo Gibbs  
Audit Committee

This page is intentionally left blank

# Agenda Item 6

<b>Committee</b>	<b>Date</b>	<b>Classification</b>	<b>Report No.</b>	<b>Agenda Item No.</b>
Audit Committee	26 <sup>th</sup> June 2012	Unrestricted		6
<b>Report of:</b> Assistant Chief Executive		<b>Title :</b> Audit Committee Terms of Reference, Membership, Quorum and Dates of meetings		
<b>Originating Officer(s) :</b> Simone Scott-Sawyer, Democratic Services		<b>Ward(s) affected: N/A</b>		

## 1. Summary

- 1.1 This report sets out the Terms of Reference, Membership, Quorum and Dates of meetings of the Audit Committee for the Municipal Year 2012/13 for the information of members of the Committee.

## 2. Recommendation

- 2.1 That the Audit Committee notes its Terms of Reference, Membership, Quorum and Dates of future meetings as set out in Appendices 1, 2 and 3 to this report.

## 3. Background

- 3.1 At the Annual General Meeting of the full Council held on 16<sup>th</sup> May 2012, the Authority approved the proportionality, establishment of the Committees and Panels of the Council and appointment of Members thereto.
- 3.2 It is traditional that following the Annual General Meeting of the Council at the start of the Municipal Year, at which various committees are established, that those committees note their terms of reference, Membership and Quorum for the forthcoming Municipal Year. These are set out in Appendix 1 and 2 to the report respectively.
- 3.3 The Committee's meetings for the remainder of the year, as agreed at the meeting of the Council on 16<sup>th</sup> May 2012, are as set out in Appendix 3 to this report.
- 3.4 Meetings are scheduled to take place at 7.00 pm in accordance with the programme of meetings for principal meetings.

## 4. Comments of the Chief Financial Officer

Matters brought before the Committee under its terms of reference during the year will include comments on the financial implications of

decisions provided by the Chief Finance Officer. There are no specific comments arising from the recommendations in this report.

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

The information provided for the Committee to note is in line with the Council's Constitution and the resolutions made by Full Council on 16<sup>th</sup> May 2012.

**6. One Tower Hamlets Considerations**

There are no specific One Tower Hamlets considerations arising from the recommendation in the report.

**7. Sustainable Action for a Greener Environment**

There are no specific SAGE 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.

**9. Crime and Disorder Reduction Implications**

There are no Crime and Disorder Reduction implications arising from the recommendations in the report.

---

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

Brief description of "background paper"	If not supplied Name and telephone number of holder
NONE	N/A



## APPENDIX 1

### 3.3.11 Audit Committee

<p><b>Membership:</b> Seven Members of the Council. Up to three substitutes may be appointed for each Member. The Audit Committee shall not be Chaired by a Member of the Executive.</p>	
<p><b>Functions</b></p>	<p><b>Delegation of Functions</b></p>
<p>1. To consider the Audit Plan and review the performance of Internal Audit against this target;</p> <p>2. To review internal audit findings and the annual report from the Head of Audit and seek assurance that action has been taken where necessary;</p> <p>3. To act as a forum for the Audit Commission (external audit) to bring issues to Members' attention including both specific reports and general item such as the Annual Audit Letter and the Annual Governance Report;</p> <p>4. To be satisfied that the authority's assurance statements, including the Annual Governance Statement properly reflect the risk environment and any actions required to improve it;</p> <p>5. To enable the Council to demonstrate a response to its fiduciary responsibilities in preventing fraud and corruption;</p> <p>6. To consider reports of audit activity together with specific investigations;</p> <p>7. To monitor the Authority's Risk Management arrangements and seek assurance that action is being taken on risk related issues identified by auditors and inspectorates;</p> <p>8. To make arrangements for the proper administration of the Council's financial affairs and for the proper stewardship of public funds expect the appointment of the Chief Finance Officer which shall remain the duty of the Council; and</p> <p>9. To meet the obligations of the Accounts and Audit Regulations 2011 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).</p>	<p>No delegations</p>
<p><b>Quorum</b> Three Members of the Committee</p>	

This page is intentionally left blank

**APPENDIX 2**

<b>Labour Group Nominations (and deputies)</b>	<b>Conservative Group Nominations (and deputies)</b>	<b>Liberal Democrats Nominations (and deputies)</b>
Cllr Carlo Gibbs (Chair)	Cllr Craig Aston	Cllr Stephanie Eaton
Cllr Anwar Khan		
Cllr Abdal Ullah		
Cllr Khales Uddin Ahmed		
Cllr Carli Harper- Penman		
Deputies: - Cllr Marc Francis Cllr Motin Uz- Zaman Cllr David Edgar	(Deputy:- Cllr David Snowdon)	

This page is intentionally left blank

### **APPENDIX 3**

#### **AUDIT COMMITTEE**

#### **SCHEDULE OF MEETING DATES 2012-13**

- Tuesday 26<sup>th</sup> June 2012
- Tuesday 25<sup>th</sup> September 2012
- Tuesday 11<sup>th</sup> December 2012
  - 26<sup>th</sup> March 2013

This page is intentionally left blank

# **Progress report**

---

**Audit Committee 26 June 2012**

**London Borough of Tower Hamlets**

**Audit 2011/12**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**



# Contents

<b>Introduction .....</b>	<b>2</b>
<b>Progress report .....</b>	<b>3</b>
Financial statements.....	3
Assurances from the Audit Committee .....	3
VFM conclusion .....	3
<b>Update on outsourcing the work of the Audit Practice .....</b>	<b>4</b>
<b>Update on the residual Audit Commission.....</b>	<b>5</b>
<b>Other matters of interest .....</b>	<b>6</b>
2012/13 audit fees .....	6
2010/11 National Fraud Initiative .....	6
Public Sector Internal Audit Standards .....	7
Payment by results .....	8
The rights of local electors.....	8
NAO role in local VFM studies.....	9
CIPFA's brief guide to Local Government Finance reforms.....	9
<b>Key considerations .....</b>	<b>10</b>
<b>Contact details .....</b>	<b>11</b>
<b>Appendix 1 Enquiries of those charged with governance .....</b>	<b>12</b>
Enquiries of those charged with governance.....	12
Enquiries of management.....	15

# Introduction

- 1** The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2** If you require any additional information regarding the issues included within this briefing, please contact your District Auditor or Engagement Manager.
- 3** Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign up to be notified of any new content that is relevant to your type of organisation.

# Progress report

## Financial statements

**4** Our 2011/12 audit is progressing well. We have continued to liaise effectively with the corporate finance team. The work proposed remains as set out in the detailed 2011/12 audit plans agreed by the Audit Committee in March 2012.

**5** We have substantially completed our interim audit. This has involved updating our understanding of the Council's control environment, updating our documentation of the key financial systems and testing the key controls within those systems. The one key area where work is outstanding is our review of the accounts receivable system.

**6** We will feed our findings into our testing strategies for our work on the Council's financial statements, but there are no matters that we wish to bring to your attention at this stage.

## Assurances from the Audit Committee

**7** In order to comply with International Standards on Auditing (UK&I) 240 and 250, we are required to obtain an understanding of how the Audit Committee, as those charged with governance, exercises oversight of management's arrangements to prevent and detect fraud and to maintain legality.

**8** A paper entitled 'Enquiries of those charged with Governance' has been shared with the Council to support our work in this area. Responses from management and the Chairman of the Audit Committee, on behalf of those charged with governance, are attached at appendix 1.

## VFM conclusion

**9** The audit plan presented to the Audit Committee at its last meeting outlined two specific risks to consider in the context of our work to support the 2011/12 VFM conclusion:

- financial resilience; and
- governance.

**10** Our work to address these risks is ongoing. As part of our ongoing review of the Council's governance arrangements, we will consider the Council's arrangements for the appointment of a new Chief Executive.

# Update on outsourcing the work of the Audit Practice

**11** Following the award of geographical contracts for the audit of principal local authorities and NHS bodies, the Audit Commission has held meetings in each contract area to introduce the winning firms to audited bodies.

**12** It has in parallel commenced consultation on the appointment of auditors to individual bodies with a view to making those appointments at its Board meeting on 26 July 2012. Firms will take up audit appointments for the 2012/13 audit year from 1 September 2012 when the interim appointment of the current auditor will come to an end.

**13** Following consultation with audit suppliers, the Audit Commission has put in place arrangements to facilitate the smooth transfer of any part-completed 2011/12 work from the Audit Practice to incoming audit firms so that they can maximise reliance on the work of the Audit Practice and complete the work expeditiously.

# Update on the residual Audit Commission

**14** The Commission is reducing and reshaping its workforce so that it can deliver its remaining core functions of audit regulation, contract management and sector support.

**15** The Department of Communities and Local Government has advertised for a new Chairman of the Audit Commission to lead through the period of transition and downsizing. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

# Other matters of interest

## 2012/13 audit fees

### Fee scales for 2012/13 audits of local government and NHS bodies

**16** Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of local government and NHS bodies. It sent out letters notifying organisations of the new fees on Wednesday 11 April 2012.

**17** As previously advised, the outsourcing of the Audit Commission's in-house Audit Practice means that these fees will be fixed for a five-year period, irrespective of the rate of inflation.

### Fee scales for 2012/13 National Fraud Initiative

**18** The Audit Commission's consultation on its proposals for the 2012/13 National Fraud Initiative (NFI) work programme and scale of fees ended in March 2012 and the results of this exercise were published on 30 May 2012.

**19** The Commission did not propose to introduce any new mandatory data matches in the NFI for 2012/13, so the main work programme will remain unchanged from 2010/11.

**20** In recognition of the financial pressures that public bodies are facing in the current economic climate, the scale of fees for mandatory participants will also remain the same as for NFI 2010/11.

## 2010/11 National Fraud Initiative

**21** In May 2012 the Audit Commission published the results of the NFI for 2010/11.

**22** The NFI is a data matching exercise which is hosted on a secure website. It compares information held by around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments.

**23** When there is a 'match', there may be something that warrants investigation and examples of the data matches the NFI undertakes are set out in the table below.

Table 1: **Examples of data matches covered by the NFI**

Data Match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a deceased person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Council tax records to electoral register.	A council taxpayer gets single person discount whilst living with other countable adults and thus being ineligible.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

**24** The latest NFI in England identified almost £229 million of fraud, overpayments and errors. This is made up of £139 million for 2010/11 plus £90 million not previously reported from earlier exercises. Over the same period, £47 million was identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million.

**25** The highest value categories identified in England continue to be pensions (£98 million), council tax single person discount (£50 million) and housing benefit (£31 million).

**26** The latest report is accompanied by a series of case studies from the private and public sectors and a briefing for elected members. The briefing includes a series of questions that members can put to officers.

**27** Since the initiative's start in 1996, the programme has helped detect £939 million, taking it a step closer to achieving a £1 billion payback to the public purse.

## Public Sector Internal Audit Standards

**28** The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) announced a formal collaboration in May 2011.

**29** This collaboration has recently led to the formation of the UK Internal Audit Standards Advisory Board, which will provide oversight and challenge to the development of UK-wide Public Sector Internal Audit Standards.

**30** The new unified set of internal audit standards will be based on the mandatory elements of the IIA's International Professional Practices Framework and it is proposed that they will apply across the UK to central and local government and the NHS (excluding foundation trusts).

## Payment by results

**31** The Audit Commission published *Local payment by results* on 5 April 2012. This is a briefing paper which considers potential issues arising from local authorities using payment by results (PbR) as a method of commissioning and paying for services.

**32** PbR is a new approach, where commissioners pay service providers according to how well they achieve specified outcomes, rather than by outputs or volumes of service. These outcomes may be social, economic, financial, or a combination of all three. PbR is not the only contract type that rewards good performance, and commissioners should always consider other options alongside PbR to choose the most suitable approach.

**33** What sets PbR apart from other contract types is that a significant amount of payment is withheld until the results are delivered. The payment is directly related to the level of success.

**34** National PbR schemes are developing quickly. Some early schemes include reducing reoffending; diverting young offenders from custodial sentences; helping the unemployed to find work; preventing children from being taken into care; keeping frail older people in their own homes; and improving the management of chronic health conditions.

**35** The briefing sets out to help councils understand what PbR might entail. As most schemes are at an early stage, the Audit Commission has identified a range of issues that local commissioners should consider if they are to use PbR successfully, drawing on some national and international examples.

**36** The briefing suggests that there are five principles that any PbR scheme needs to meet if it is likely to succeed:

- a clear purpose;
- a full understanding of the risks;
- a well-designed payment and reward structure;
- sound financing; and
- effective management and evaluation.

**37** The Audit Commission has sent the briefing to council chief executives and other key stakeholders.

## The rights of local electors

**38** The Audit Commission has published an updated version of *Council accounts: a guide to your rights*. The publication aims to help local electors by explaining their rights and how to engage with auditors in relation to the accounts. It also points electors to other sources of advice and more information where they have concerns that are not about the accounts.

**39** The publication is accompanied by a Notice of an Objection form designed to assist electors wishing to present their objection to an item or items of accounts to the auditor.



**40** Members of the Audit Committee may find it helpful to familiarise themselves with the document which can be found on the Audit Commission's website.

## **NAO role in local VFM studies**

**41** The NAO currently carries out around 60 VFM studies on central government initiatives and programmes each year. From next year, it will produce an increasing number of studies focusing on the local government sector.

**42** A new Local Government Reference Panel has been set up to give councils an input to the NAO's programme of local government value for money studies. The panel, which will meet twice a year, includes representatives from nine local authorities as well as from CIPFA, Community Service Volunteers and the University of Birmingham.

**43** The programme comprises three studies in 2012/13, the first being communication between central and local government, rising to four in 2013/14 and six in 2014/15.

**44** Subject to Parliamentary approval, the NAO eventually expects to assume the Audit Commission's role in setting the framework for local audit, through a code of audit practice.

## **CIPFA's brief guide to Local Government Finance reforms**

**45** As the Local Government Finance Bill enters its concluding stages in the House of Commons, CIPFA has published a guide to some of the proposed changes.

**46** CIPFA's *Brief Guide to Local Government Finance Reforms* seeks to answer some common questions that local government officers and elected members may have surrounding the localisation of support for council tax and business rate retention.

**47** The guide explains the purpose of the proposals and their impact. It includes simplified examples of the proposed changes. At the time of writing, all the legislation and guidance has yet to be published, so the guide represents the latest known position. CIPFA will publish additional guidance once the detail becomes known.

# Key considerations

**48** The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Committee asked officers the questions set out in the Audit Commission's NFI briefing for elected members? Is the Committee satisfied with the answers?
- Have officers considered the Audit Commission's briefing paper on local payment by results agreements?

## Contact details

**49** If you would like further information on any items in this briefing, please contact either your District Auditor or Engagement Manager.

**50** Alternatively, all Audit Commission reports – and a wealth of other material – can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

Jon Hayes

District Auditor

0844 798 2877

[j-hayes@audit-commission.gov.uk](mailto:j-hayes@audit-commission.gov.uk)

Sally-Anne Eldridge

Senior Audit Manager

07815 954026

[s-eldridge@audit-commission.gov.uk](mailto:s-eldridge@audit-commission.gov.uk)

# Appendix 1 Enquiries of those charged with governance

## Enquiries of those charged with governance

Table 2: **ISA 240 The auditor's responsibilities relating to fraud in an audit of financial statements**

Question	Response
Are you aware of any actual, suspected or alleged fraud?	<p>Yes, the audit committee receives regular reports from the anti fraud team setting out the types and significance of frauds across the authority. In line with our protocols, all significant frauds in between meetings would be reported to the Cabinet Member and me as the Chair of the Audit Committee.</p> <p>At the end of the financial year, the Audit Committee also receives an annual report summarising the work of the anti fraud team.</p> <p>In September 2011, the Committee also received a paper from the Audit Commission setting out how the Council was performing against frauds raised in Protecting the Public Purse 2010.</p>
Has management disclosed to you the conclusion of its assessment over the risk of fraud within the financial statements of both the Council and the Pension Fund?	<p>The briefing note accompanying the statement of accounts highlights any significant risk around fraud within the financial statement of both the Council and Pension Fund. This was presented to the Audit Committee on 29 June 2011. A similar note will accompany the 2011/12 Accounts.</p>
Have you considered the risk of material misstatements (misreporting) by management in relation to both the Council and the Pension Fund?	<p>This was discussed at the Audit Committee on 29 June 2011 And will again be discussed as part of the review of the 2011/12 Accounts.</p>
What is the Audit Committee's assessment of the impact of misappropriation on the financial statements of both the Council and the Pension Fund?	<p>From the information we have received from officers and the anti fraud team, the impact of material misappropriation on the financial statements is regarded as low.</p>

Question	Response
<p>What oversight have you exercised over management's processes for identifying and responding to the risks of fraud, and the controls put in place by management to mitigate those risks? See appendix 1.</p>	<p>The Audit Committee's TOR set out clearly the role of the committee in being the body responsible for receiving and scrutinising the authority's arrangements for fraud. A number of processes are in place for management to report fraud such as whistle blow procedures / audit / fraud team etc and for these to be reported regularly to the committee. Over the last year, we have received reports from the Anti Fraud team that have highlighted reactive and proactive fraud work and the nature and range of frauds.</p>
<p>How do you exercise oversight of management's processes in relation to:</p> <ul style="list-style-type: none"> <li>■ communication to employees of views on business practice and ethical behaviour; and</li> <li>■ communication to those charged with governance the processes for identifying and responding to fraud.</li> </ul>	<p>There has been some communication to staff of business practices via Tower Hamlets Now, the intranet, and posters advising of the Council's whistle blow number. The communication arrangements for those charged with governance is in place via the Audit Committee via the annual refresh of the Council's anti fraud arrangements.</p>

Table 3: **ISA 250 Consideration of laws and regulations in an audit of financial statements**

Question	Response
<p>Are you aware of any non-compliance, by either the Council or the Pension Fund, with relevant laws and regulations?</p>	<p>Not aware of any material non-compliance by the council or the Pension Fund with relevant laws or regulations.</p>
<p>If there have been instances of non-compliance, has the Audit Committee ensured that these have been brought to the attention of the auditor?</p>	<p>There have not been any such instances but protocols are in place for raising matters with those charged with governance and the external auditor and for ensuring the matter is pursued as necessary.</p>
<p>If there have been instances of non-compliance, what oversight has the Audit Committee had to ensure that actions are taken by management to address any gaps in control?</p>	<p>There have not been any instances of non-compliance but the Audit Committee receives regular reports that highlight failure to comply with laws, regulations, policies, procedures etc. The reports set out the nature of the issue(s) and management is asked to respond to the matter raised at the Committee (as the accountable person). The matter is minuted and the audit committee receives updates to ensure appropriate action can be taken, including further updates from management and the Audit Committee recommendation to improve governance.</p>

Question	Response
How do you gain assurance that all relevant laws and regulations have been complied with?	<p>From a number of sources including:</p> <ul style="list-style-type: none"> <li>■ having appropriate compliance requirements built into the Councils constitution and regulatory framework (including job descriptions);</li> <li>■ the external and internal audit of the compliance requirements;</li> <li>■ monitoring and performance reports from management; and</li> <li>■ risk management assessments.</li> </ul>

Table 4: **ISA 570 Going concern**

Question	Response
Have you assessed the process management has followed in forming a view on going concern of the Council and the assumptions on which that view is based?	The assessment of the process followed formed part of the papers submitted to the Audit Committee in June / September each year as part of the annual Financial Report.
Have you assessed the process management has followed in forming a view on going concern of the Pension Fund and the assumptions on which that view is based?	The assessment of the process followed formed part of the papers submitted to the Audit Committee in June / September each year as part of the annual Financial Report.

Table 5: **ISA 580 Written representations**

Question	Response
Have you made suitable arrangements to consider the letter of management representations, acknowledging their collective responsibility towards the financial statements?	This is an agreed protocol with the Audit Commission and includes the roles and responsibilities around the financial statements.

## Enquiries of management

Table 6: **ISA240 The auditor's responsibilities relating to fraud in an audit of financial statements**

Question	Management Response
<p>What was management's assessment of the risk that the financial statements may be materially misstated due to fraud and what were the principal reasons?</p>	<p>The risk that the financial statements may be materially misstated due to fraud is regarded as being low. In making this assessment, management has relied upon the a number of assurance providers, chiefly:</p> <ul style="list-style-type: none"> <li>■ the risk of fraud identified by management on risk registers is low;</li> <li>■ the annual governance statement has not identified fraud risk as an area of concern; and</li> <li>■ the work of the corporate anti fraud team and that of other fraud teams across the authority.</li> </ul>
<p>What process was employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?</p>	<p>Broadly, the general risks around fraud were considered and their implications of financial statements assessed. From this exercise, none of the fraud that we are aware of was regarded significant in relation to the financial statement.</p>
<p>Management's awareness of any actual or alleged instances of fraud?</p>	<p>The S151 officer and the monitoring officer receive regular updated on actual or alleged instances of fraud from the Head of Audit and the Service Head, Risk Management and Audit. Both officers also receive updates from their management. The Corporate Management team is appraised of all actual or alleged frauds by regular reports of the Anti fraud team.</p>
<p>How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties (including employees) and when?</p>	<p>A governance framework is in place through various policies / procedures and guidance that set out the ethics and behaviour standards including; codes of conduct, procedures around hospitality and gifts, declarations of interests, member officer protocols etc. These are all maintained on the Council intranet. The Standards Committee receives regular updates and would look into any suggestion of poor governance in this area. The Audit Committee will also have a role around internal control / risk and governance.</p> <p>Appropriate training is also provided for management, their staff and Members.</p>

Question	Management Response
<p>What arrangements are in place to report fraud to those charged with governance?</p>	<p>The Audit Committee is the body charged with delivering good governance. The Audit Committee receives quarterly updates on the Council's response to actual and purported fraud including work on NFI / Parking Fraud / Homelessness / Benefit Fraud and any other types of fraud. The Audit Committee also receives an annual report summarising the activity for the year.</p>
<p>Do all of the above arrangements and responses also apply to the Pension Fund? Are there any additional anti-fraud arrangements in place for the Pension Fund, particularly in relation to outsourced administration function and fund management?</p>	<p>The activities of the anti fraud team capture all activities of the Council which includes the pension fund. In addition however, the authority also employs a private company to act as the custodian of the council's pension investment, who would bring fraud related matters to the attention of the Council.</p>

Table 7: **ISA 570 Going concern**

Question	Management Response
<p>How has management formed a view on going concern?</p>	<p>From a review of the council's Medium Term Financial Plan and the annual financial report (including the statement of accounts) consideration of reserves and balances, future commitments, contingencies and liabilities, and cashflows. For the Pension Fund, there are specific statutory regulations that govern the assessment of going concern including full triennial valuations and interim annual valuations.</p>
<p>What principal assumptions have been used in reaching this view and why does management feel the assumptions are appropriate?</p>	<p>The principal assumptions are:</p> <ul style="list-style-type: none"> <li>■ a balanced budget and Medium Term Financial Plan;</li> <li>■ the affordable borrowing assessment reflected in the annual Treasury and Investment Strategy;</li> <li>■ the level of reserves and supporting evidence set out in the Medium Term Financial Plan; and</li> <li>■ the Council's governance framework and associated systems of financial control.</li> </ul> <p>In deciding on the going concern of the authority, assurances have been sought from management over the principal assumptions built into the Medium Term Financial Plan, the contingent liabilities set out in the annual statement of accounts and comfort obtained therein.</p>



Question	Management Response
<p>Is the above consistent with the strategic business plan and the financial information provided to you throughout the year?</p>	<p>Yes, reported to the Cabinet quarterly and CMT monthly.</p>
<p>Have there been any significant issues raised with you during the year (eg, adverse comment by internal and external audit on weaknesses in systems of financial control, or significant variances to activity levels compared to those planned), which could cast doubts on the assumptions made?</p>	<p>None</p>
<p>Have the implications of any known statutory or policy changes been appropriately reflected in the business plan and financial forecasts (eg the impact of IFRS)?</p>	<p>Yes, all statutory and policy changes have been reported to Cabinet and Full Council with appropriate Financial Comments and have been fully reflected in both the Medium Term Financial Plan and the Annual Financial Report.</p>
<p>Does a review of available financial information (annual accounts, in-year financial monitoring reports, future year financial forecasts) identify any of the following adverse financial indicators:</p> <ul style="list-style-type: none"> <li>■ negative cash flow (ie, expenditure greater than income); and</li> <li>■ the need to take out new loans.</li> </ul> <p>If so, what action is being taken to improve financial performance?</p>	<p>None of these adverse financial indicators have been identified. The Council has a robust Medium Term Financial Plan and Treasury Management Strategy. The MTFP balances over a three-year period with an appropriate application of Reserves and the capital programme within the MTFP is fully financed.</p>
<p>Does the organisation have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes; the level and competency of staff resources required to deliver the Council Strategic Plan are reflected in the team plans and staff PDRs which in turn have been reflected in the resource budgets built into the MTFP. The level of vacancy at senior levels and use of agency staff has been reduced significantly and there has been considerable additional investment in apprenticeships and graduate training opportunities.</p>
<p>Have management formed a view on the going concern status of the Pension Fund, taking into account relevant financial and performance information, known statutory and policy changes and organisation capacity? Why does management feel that this view is appropriate?</p>	<p>Yes, management has considered the status of the pension fund and consider it a going concern based on the information contained in the annual Financial Report and the independent valuation by the Fund's Actuaries Provision has been included in the MTFP for additional future employer contributions and regular monitoring reports are presented to Pension Committee.</p>

Table 8: **ISA 250 Consideration of laws and regulations in an audit of financial statements**

Question	Management Response
<p>How have you gained assurance, for both the Council and the Pension Fund, that all relevant laws and regulations have been complied with?</p>	<p>Assurance obtained from management in the form of completion of a Cipfa checklist to assess compliance, accounts and audit regs and the legal sign off together with a comprehensive audit programme that includes the review of such compliance as part of all systems and probity audits</p>
<p>Are there any potential litigations or claims that would affect the financial statements of either the Council or the Pension Fund?</p>	<p>None that have not been fully provided for within the Council's accounts.</p>
<p>Are there any related parties, any changes in related parties from prior period, the nature of the relationships, and any transactions during the period with the related parties?</p>	<p>Related party transactions are identified in the notes to the accounts and brought to the Audit Committee's attention annually.</p>
<p>What controls are in place to identify, account for, and disclose, related party transactions and relationships?</p>	<p>A system is in place for members to declare relationships with organisations as part of their declaration(s) of interests. The declarations are all retained on line and the Democratic Services team regularly monitor and update the declarations as necessary.</p>

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor

Millbank Tower

Millbank

London

SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

June 2012

This page is intentionally left blank

# Agenda Item 8.1

<b>REPORT TO:</b>	<b>DATE</b>	<b>CLASSIFICATION</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>Audit Committee</b>	<b>26 June 2012</b>			<b>8.1</b>
REPORT OF:  <b>Corporate Director, Resources</b>		Internal Audit Annual Report 2011/12		
ORIGINATING OFFICER(S):  <b><i>Minesh Jani, Head of Risk Management and Audit</i></b>				
		<b><i>Ward(s) Affected: N/A</i></b>		

## 1. Summary

- 1.1 This report provides the annual internal audit opinion in accordance with the CIPFA Code of Practice for Internal Audit. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended).
- 1.2 The report concludes that the Council has an effective system of internal control which was in operation throughout 2011/12. The Head of Audit opinion is attached to this report at appendices 4 and 5.

## 2. Recommendation

- 2.1 Audit Committee is asked to note the content of the annual audit report, the summary of audits undertaken which have not been previously reported and the Head of Audit opinion.

## 3. Introduction

- 3.1 The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises that this report includes an opinion on the overall adequacy and

effectiveness of the organisation's internal control environment and presents a summary of the audit work undertaken to formulate the opinion.

3.2 This report is set out as follows:

- § **Opinion and basis of opinion**
- § **Summary of audit work undertaken in 2011/12**
- § **Appendix 1 – Audit Resources**
- § **Appendix 2 – Summaries of reports not previously reported.**  
Summaries of all audit reports are submitted to the Audit Committee.
- § **Appendix 3 – Summaries of reports on specific commissioned work from Corporate Directors**
- § **Appendix 4 – List of planned audits undertaken in 2011/12**
- § **Appendix 5 – Summary Head of Audit Opinion**
- § **Appendix 6 – Detailed Head of Audit Opinion**
- § **Appendix 7 – Benchmarking club**

#### **4. Statement of Responsibility**

- 4.1 The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 4.2 In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

#### **5. Opinion**

- 5.1 It is my opinion that I can provide satisfactory assurance that the authority has a reasonable system of internal control and that this was operating effectively during 2011/12. The basis for this opinion is set out below.

## **6. Basis of Opinion**

- 6.1 The annual internal audit opinion is derived primarily from the work of Internal Audit during the year as part of the agreed internal audit plan 2011/12. A summary of that work is set out in paragraph 8 below. Internal Audit has been given unfettered access to all areas and systems across the Authority and has received appropriate co-operation.
- 6.2 Internal audit work has been carried out in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from its own internal quality assurance systems.
- 6.3 My opinion is primarily based on the work carried out by Internal Audit during the year on the principal risks, identified within the organisation's Assurance Framework. Where principal risks are identified within the organisation's framework that are not included in Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.
- 6.4 In planning audit coverage and in forming the annual opinion, I have taken account of other sources of assurance, including the work of the Audit Commission and other inspectors pertaining to or reported during 2011/12. Details of the other sources of assurances and the assurances obtained from the work of audit are attached at appendix 4.
- 6.5 The Annual Fraud report will be presented to the Audit Committee in September 2012, but I have taken account of significant governance matters raised by the Anti Fraud team in 2011/12.

## **7 Audit Resources**

- 7.1 The resources available to Internal Audit are set out in appendix 1 below. Internal Audit is provided in partnership with Deloitte as part of Croydon Framework contract. An in-house team of four auditors together with the elements of the senior management team works with resources provided under the Croydon framework arrangement.
- 7.2 The resources made available were adequate for the fulfilment of the Authority's duties. The partnership with Deloitte has given the authority access to greater capacity, particularly in computer audit.
- 7.3 Productivity was maintained at planned levels, although sickness absence for the team was 32.4 days per person on average, compared to 4.4.days

in 2010/11. Sickness was higher in 2011/12 as a member of the audit team was on long term sickness absence as reported previously to CMT and the Audit Committee.

7.4 During the year, there was an emphasis on carrying out risk based audits from the approved audit plan for 2011/12, which reflects the internal audit strategy in providing assurance to the Council over its systems of internal control to manage risks. The level of computer audit and contract audit has been maintained at a reasonable level throughout the year. In addition, a number of specific pieces of audit work were commissioned by Corporate Directors. Details of the work done are attached at Appendix 3.

## 8 Summary of Audit Work

8.1 A list of the audits undertaken in 2011/12 is attached to main body of the report at appendix 4 including the assurance levels assigned. Audit assurance is assigned one of four categories: Nil, Limited, Substantial and Full. Audits are also categorised by the significance of the systems. These are defined in appendix 2.

8.2 Summaries of the audit reports are reported quarterly to CMT and the Audit Committee. Appendix 2 provides the summaries of those reports not complete at the time of the last report on audit findings for 2011/12.

8.3 A summary of the audit assurance resulting from audit reports in 2011/12 is provided in the table below.

Audits 11/12		Assurance				
		Full	Substantial	Limited	Nil	N/A
Significance	Extensive	2	44	8	-	2
	Moderate	-	31	10	-	3
	Low	-	2	-	-	1
Total		2	77	18	-	6



- 8.4 The table shows that of 103 systems audits assigned an assurance, 77% of the systems audited achieved an assurance level of full or substantial. Full or substantial assurance means that an effective level of control was in place, although this does not mean the systems were operating perfectly. 17% of systems audited were rated as limited or nil assurance, and the remainder have not been assigned an assurance.
- 8.5 Limited assurance means that there are controls in place, but that there are weaknesses such that undermine the effectiveness of the controls. In all cases actions are identified to rectify these weaknesses.
- 8.6 From the Internal Audit work during 2011/12 financial year, we identified risks in the Council's systems for management of asbestos and legionella, contract management and monitoring of the vehicle removal contract, management of void dwellings, management of s.17 payments for children's services, management of assets in schools, management of direct payments to adults social care clients and implementation of the new parking system.
- 8.7 From our Internal Audit work during 2011/12, we can provide an overall assurance that the Council has an 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 audit recommendations.

## 9 Audit Performance

- 9.1 Internal Audit report two core performance indicators as part of Chief Executives performance monitoring and quarterly to the Audit Panel. The performance for 2011/12 is set out in the table below.

Performance Measure	2011/12	
	Target	Actual
Percentage of operational plan completed in the year	100%	99.7%
Percentage of priority 1 recommendations followed up that have been implemented by 6 month review date (*).	100%	95% 18 out of 19
Percentage of priority 2 recommendations followed up that have been implemented by 6 month review date	95%	79% 101 out of 128

\* - One recommendation was outstanding at the time of the follow up, but I have received confirmation and evidence to show the recommendation has now been implemented.

- 9.2 As at the 31<sup>st</sup> March 2012, 99.7% of the operational plan was completed in terms of days used. There were a few audits still in progress, but have now been completed/ or are awaiting management comments.
- 9.3 Internal Audit's planned programme of work includes a check on the implementation of all agreed recommendations. This review is carried out six months after the end of the audit. For 2011/12 as a whole, 95% of priority 1 recommendations had been implemented and 79% of priority 2 recommendations had been implemented against a target of 95%. Corporate Directors are being regularly updated with the progress and performance of follow up audits and Internal Audit maintains a record of outstanding recommendations and carry out further checks on recommendations not complete at the six month review. The outstanding one priority 1 recommendations relates to an audit of Climate Change and the Corporate Director has confirmed, since the follow up audit, the recommendation has now been implemented.
- 9.4 The budget outturn is set out in appendix 1. Internal Audit is benchmarked against a basket of authorities as part of the CIPFA benchmarking club. Data for 2011/12 will be submitted and key points will be reported to a future CMT and Audit Committee. The results of benchmarking exercise for 2010/11 are attached at Appendix 7.

## **10 Comments of the Chief Financial Officer**

- 10.1 These are contained within the body of this report.

## **11 Concurrent Report of the Assistant Chief Executive (Legal Services)**

- 11.1 The council is required by regulation 6 of the Accounts and Audit Regulations 2011 to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices. It is appropriate to have regard to the CIPFA Code of Practice to determine what are proper practices.
- 11.2 The council is further required to conduct a review of the effectiveness of its internal audit at least once a year. The review findings must be considered by the council's audit committee as part of the consideration of the committee's consideration of the council's system of internal control. The subject report is intended to discharge these functions. The audit committee is designated as the

appropriate body for this purpose by paragraph 3.3.11 of the council's constitution.

## **12 One Tower Hamlets**

- 12.1 The maintenance of an effective system of internal control assists the Council to meet its responsibilities in paragraph 4.1 above. This in turn contributes to the discharge of the Council's functions in accordance with its Community Plan objectives, including the cross-cutting theme of One Tower Hamlets.

## **13 Risk Management Implications**

- 13.1 This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. This risk highlights risks for the attention of management so that effective governance can be put in place to manage the authority's exposure to risk.

## **14 Sustainable Action for a Greener Environment (SAGE)**

- 14.1 There are no specific SAGE implications.

---

Local Government Act, 1972 SECTION 100D (AS AMENDED)

### ***List of "Background Papers" used in the preparation of this report***

Brief description of "background papers"

Contact :

*None*

*N/A*

APPENDIX 1

*Internal Audit – Resources 2011/12*

	Revised Plan	%	Outturn	%
In-house staff days	1250	69	1250	70
Deloitte / external	558	31	548	30
	<b>1808</b>		<b>1798</b>	
Gross days				
<i>less</i> Leave	124	38	114	36
<i>less</i> Sickness absence	114	36	114	36
<i>less</i> Non Operational Time	82	26	87	28
Unproductive time	<b>320</b>		<b>315</b>	
Net productive days	<b>1488*</b>		<b>1483 *</b>	

*Internal Audit Budget 2011/12*

	Budget £000	Actual £000	Variance £000
Salaries	441	438	3
Contract costs	207	206	1
Running costs	36	36	-
Central Recharges	115	115	-
<b>Gross cost recharged</b>	<b>799</b>	<b>795</b>	<b>4</b>

## Internal Audit Reports 2011/12 – Summary of Audit Reports

### Assurance ratings

#### Level

- |                                |  |
|--------------------------------|--|
| <b>1 Full Assurance</b>        | <b>Evaluation opinion</b> - There is a sound system of control designed to achieve the system objectives, and<br><b>Testing opinion</b> - The controls are being consistently applied.   |
| <b>2 Substantial Assurance</b> | <b>Evaluation opinion</b> - While there is a basically sound system there are weaknesses which put some of the control objectives at risk, and/ or<br><b>Testing opinion</b> - There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk. |
| <b>3 Limited Assurance</b>     | <b>Evaluation opinion</b> - Weakness in the system of controls are such as to put the system objectives at risk, and/or<br><b>Testing opinion</b> - The level of non-compliance puts the system objectives at risk.  |
| <b>4 No Assurance</b>          | <b>Evaluation opinion</b> - Control is generally weak leaving the system open to significant error or abuse, and/or<br><b>Testing opinion</b> - Significant non-compliance with basic controls leaves the system open to error or abuse.   |

#### Significance ratings

- |                  |   |
|------------------|---|
| <b>Extensive</b> | High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m. |
| <b>Moderate</b>  | Medium impact, key systems and / or Scale of Service £1m- £5m.  |
| <b>Low</b>       | Low impact service area, Scale of Service below £1m.  |

## APPENDIX 2

### Summaries of 2011/12 audit reports not previously reported

Assurance level	Significance	Directorate	Audit title
<b>LIMITED</b>			
	Extensive	Council wide	Management of Asbestos and Legionella
	Extensive	Tower Hamlets Homes	Management of Voids
	Moderate	Communities, Localities and Culture	Vehicle Removal – Contract Monitoring - Systems Audit
	Moderate	Children, Schools and Families	Kobi Nazrul Primary School
	Low	Development and Renewal	Cash Incentive Schemes – Systems Audit
<b>SUBSTANTIAL</b>	Extensive	Tower Hamlets Homes	Risk Management
	Extensive	Tower Hamlets Homes	Housing Repairs – Systems Audit
	Extensive	Council wide	Control and Monitoring of Temporary Workers
	Extensive	Council wide	Establishment Control – Follow Up
	Extensive	Council wide	Core Management
	Extensive	Council wide	Back up and Disaster Recovery
	Extensive	Adults, Health and Wellbeing	Assessments and Income Collection – Systems Audit
	Extensive	Resources	Bank Reconciliation – Systems Audit
	Extensive	Resources	Pensions
	Extensive	Resources	HR and Payroll Systems
	Extensive	Resources	NNDR
	Extensive	Resources	Debtors
	Extensive	Resources	Council Tax
	Extensive	Resources	BACS Payments Follow Up

<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
	Extensive	Development and Renewal	Homeless Assessment – Systems Audit
	Extensive	Communities, Localities and Culture	Prosecution Case Management – Systems Audit
	Moderate	Children, Schools and Families	Stewart Headlam Primary School
	Moderate	Children, Schools and Families	Arnhem Wharf Primary School
	Moderate	Children, Schools and Families	Cherry Trees Special School
<b>FULL</b>			
	Extensive	Tower Hamlets Homes	Plan for Continuous Improvement
	Extensive	Resources	General Ledger Systems

## Summary of Audits Undertaken

### Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Management of Asbestos and Legionella</p> <p>Corporate Review</p> <p>Page 52</p>	<p>May 2012</p>	<p>This audit sought to provide assurance over the Council's arrangements for the management of Asbestos and water installations to ensure compliance with relevant legislation, regulations and Council's H&amp;S Policy. The Council has both specific and general duties to identify, assess and control the risk from asbestos containing materials in its buildings. There is also legal duty to ensure that Legionella control risk assessment of water systems are conducted and managed across Directorates.</p> <p>The Council's governance arrangement is to make each directorate responsible for the management of buildings under its use. Each Corporate Director is responsible for complying with the borough's Corporate H&amp;S Policy, including Asbestos and Legionella management for their buildings. This is achieved by appointing an officer at second tier management level to lead on the coordination and management of health and safety responsibilities within each Directorate.</p> <p>Our review showed that the Council has both Asbestos and Legionella management policies. However, we noted that due to administrative errors, the implementation of these policies could not always be demonstrated. From a sample of 22 properties tested, we noted that in 13 cases, either surveys had been carried out, but not shared with the responsible building managers / attendants to action or surveys were due for survey re-inspection but this had not happened. For water installation, we tested a sample of 22 properties and in 7 cases, we were unable to obtain evidence of timely inspections.</p> <p>We noted information of surveys and water risk assessments is held locally, and is managed locally by directorates. We have recommended consideration be given to holding information of surveys centrally to ensure all surveys are planned, coordinated or actioned in a timely manner. This will reduce the risk of survey re-inspections or full surveys not being carried out in a timely and organised manner and the consequential risk of the Council being in breach of HSE regulations.</p>	<p>Extensive</p>	<p>Limited</p>



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Asbestos and Legionella  Corporate Review	May 2012	<p>We also noted each directorate has local arrangements for procuring a supplier to carry out surveys for asbestos and legionella. We have recommended consideration be given to the creation of a corporate contract and that a cost-benefit analysis be conducted, considered and discussed at an appropriate forum to deliver, possibly, better value for money. Finally, we also recommended risks associated with asbestos and water installation management be recorded on the Council's JCAD risk management system as none had been identified on the system.</p> <p>All findings and recommendations were agreed with the Service Head, -Property Services and Corporate Director, Communities, Localities and Culture. Final report was issued to all Corporate Directors and Directorate H&amp;S Champions.</p>		

**Management Comments**

Management Comments CSF

- All non-school premises and all but 1 (a VA primary) non-PFI primary school have had asbestos surveys carried out, which comply with current legislation. However, asbestos management action plans need to be produced by the premises users on how they intend to manage any asbestos in their buildings. Corporate Health and Safety have met with all non-school premises managers and most schools to advise them on doing these. Advice had also been issued to schools through the Head teachers' Bulletin on how to produce an action plan. Secondary schools have been surveyed in the context of the BSF works, and where identified asbestos has been removed. PFI contractors have action plans in place. As part of the 2012/13 programme, arrangements are being made to remove as much of the asbestos as possible from non-school premises. The data collected as part of the asbestos survey will be transferred into CAPS.
- All CSF premises, including schools, are informed each year that they have to comply with the requirements to manage legionella. This involves undertaking a survey and risk assessment every 2 years and to undertake the maintenance identified. Where schools use BaTS this is carried out. All premises are asked, on an annual basis, to confirm that they are meeting these requirements whether they use BaTS or not. In the case of schools, this is not always confirmed. The surveys and risk assessments are held at site level, so would need to be collected if they are to be added to CAPS.

Comments of D&R (Head of Property and Capital Delivery), including Adults Health and Wellbeing

- These comments are written in the context of the management of our community and corporate buildings for which D&R Asset Management and FM teams are

responsible for.

- Legionella – a new contract is being awarded for the legionella checking of the community buildings, so as to ensure it is in line with policy. Our corporate buildings are checked with a risk assessment being undertaken as required every two years by a firm of specialists consultants, last checked in 2011. All highlighted issues have been dealt with relating to upgrading water pipes and valves.
- Asbestos inspections have been carried out on all our community and corporate buildings, actions have been taken where appropriate. There are no outstanding asbestos issues at the moment. Asbestos re-inspections are carried out every year.
- The above surveys are being uploaded onto the CAPs system so that we have robust records of survey that have been undertaken, including the verification of the actions being implemented

#### Comments from Communities localities and Culture (CLC)

CLC has undertaken the following work for its portfolio of buildings:

- Spring/summer 2009 - a full programme of asbestos surveys across the entire portfolio was carried out. The surveys produced state the re-inspection date as one year from the survey.
- Following the initial survey programme, a major programme of remedial works was commissioned. This programme was completed in autumn 2011.
- After completion of the remedial works programme a programme of re-inspections was commissioned and is nearing completion.

#### Overarching Comment of Head of Property and Capital Delivery

- There is a renewed focus on ensuring that the CAPs system is being fully utilised to hold all evidence, monitoring and risk assessments on all statutory testing that the Council needs to undertake on its assets. The working group will also be required to identify their budgets for the statutory testing, and there in an in principle agreement, that the commissioning of all testing is managed centrally, to ensure the efficient use of human and financial resources, as well as managing the quality of the process with regard to the surveys and reports. The current position is a gap analysis review on the statutory testing so as to ensure that all records are up to date and where they are identified as being missed, they are commissioned as a matter of urgency. New contracts are being awarded for the testing and risk assessment of community buildings for legionella to ensure compliance and that no buildings are missed off the list.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Voids  Systems Audit	May 2012	<p>The objective of this audit was to provide assurance that the systems in place for identifying, inspecting, repairing and re-letting the void properties are sound and secure.</p> <p>Our review showed that within their Initial Delivery Plan for the period up to March 2012, THH have a performance target for void turnaround of 24 days. Operational procedures for managing and monitoring void dwellings were in place. However; these had not been revised to include the Decent Homes Standards which have now been undertaken. The Void Monitoring Panel meets on a weekly and monthly basis and identifies the number of voids and their stages, achievement against targets and any specific problems and issues. Higher level performance monitoring is provided by the Head of Service to the THH Senior Management Team which considers more strategic and developmental issues.</p> <p>However, we highlighted a number of key weaknesses which could undermine the quality of data in the system as key dates recorded on SX3 system were not accurately recorded. Out of the 21 cases we tested, we were unable to find 6 completed V2's within the Comino system. We also identified differing interpretations made by officers of the dates recorded on SX3 as the notice received date that differed from the actual date recorded on the V2 notice of termination. There was also concern around the record keeping controls to ensure that all the required legal documents such as V2 Termination of Tenancy forms and other records such as Void key record sheets, safety certificates etc, were Scanned to the Comino System to ensure that the integrity of key data is preserved.</p> <p>All findings and recommendations were agreed with Director of Neighbourhood Services and final report issued to the Chief Executive.</p>	Extensive	Limited

## Management Comments

Although limited assurance this audit is positive in the sense that it found a robust management of voids within the department ensuring the properties are let and managed quickly and effectively and within the required targets.

It is also positive that the items that have made the assurance limited are very easily fixed and are “administrative”, i.e. not showing a underlying failing. From discussions with audit the two main issues were the dates of V2 forms matching with SX3 and not being able to find paperwork. We are currently investigating if a) the paperwork was never completed b) it was completed and lost between Neighborhoods and scanning; or c) it was never scanned onto Comino. Actions being taken:

Review of all scanning processes and test of scanning systems being undertaken by Head of Neighborhoods

Process review and annual update being undertaken by head of Neighborhoods including dates on V2 forms.

As suggested by audit a new tick sheet to be added to all tenancy files to ensure that all documents are present before being send for scanning.

All actions are due to be completed by end of June.

**Limited**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Vehicle Removal – Contract Monitoring</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 57</p>	<p>April 2012</p>	<p>The objective of this audit was to provide assurance that there were sound controls in place for managing and monitoring the contract to ensure that the contractor delivered the services contracted for economically, efficiently and effectively. The contract was awarded following approval by the Cabinet on 10th March 2010. The Cabinet also agreed the draft policy statement governing the removal of vehicles.</p> <p>Our testing showed that there was a detailed contract specification, performance monitoring standards and default procedures included in the contract documentation. The contract was signed by the relevant parties.</p> <p>However, the audit identified that sufficient guidance needed to be offered to the Officers now charged with the contract administration. We have highlighted weaknesses in contract administration that could have been addressed had there been proper procedures and risk assessments of the contract, which could have resulted in more effective monitoring of the contract. Variations needed to be priced and controlled. Any permanent changes to the removal policy needed to be finalised and approved. Audit could not verify that the rates and prices being invoiced by the contractor had been checked prior to payments being made.</p> <p>All findings and recommendations were agreed with the Service Head, Public Realm and final report was issued to the Corporate Director, Communities, Culture and Localities.</p>	<p>Moderate</p>	<p>Limited</p>

**Management Comments**

Staff are fully aware of their responsibilities in regard to the monitoring of the Vehicle Removals Contract. It should be noted that whilst formal invoice checks were not evidenced, the audit did not uncover any mistakes with payments to the contractor. Formal systems have now been introduced.



**Management Comments**

The procedure for CIS has been updated to reflect the recommendations made. The CIS report to Cabinet to will be submitted when the capital estimates are adopted, which will be submitted to Cabinet on the 25th of July.

The review of policy and system for awarding grants to tenants on the basis of earnings of another person will be completed by the end of this month.



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Kobi Nazrul Primary School	Apr. 2012	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review showed that the school has a full Governing Body and Finance Committee and retains minutes of the meetings. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; collecting and recording of income; payroll management; school meals; procurement; disaster recovery; risk management and insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The Scheme of Delegation was found to be out of date.</li> <li>• The Governing Body and Sub-Committees were not clearly defined and ratification of policies and key documents were missed from the minutes. Furthermore policies and key documents were not signed as evidence of ratification.</li> <li>• Declarations of business interest forms are not always retained.</li> <li>• Official order forms are not always completed.</li> <li>• Leaver forms were not always retained on the personnel files.</li> <li>• Whilst monthly payroll reconciliations are being undertaken, these are not signed by the Head Teacher to formally evidence the independent review.</li> <li>• Records to show how the school journeys had been costed were not presented to the Finance &amp; General Purposes Committee prior to the journey.</li> <li>• Inventory records are not up to date. In addition results of the annual inventory had not been presented to the Governing Body.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Limited

## Management Comments

The Children, Schools and Families (CSF) Directorate have put the following systems and processes in place:-

- Internal audit reports on schools are now a regular item on the DMT agenda for discussion.
- Internal audit reports are used by CSF schools Finance team to feed into systems to determine schools requiring priority support.
- Internal Audit assurance rating is used to target specific support to schools.

In addition, necessary intervention is put in place by CSF Finance to assist and support schools in improving governance, financial management and control in specific areas of business activities. .

Comments:

The school have acted immediately and agreed to complete all actions with a defined timeframe.

The school and the governing body are fully committed to the recommendations made in the Audit report by:

- by tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate
- confirming additional steps that the school are planning to take in light of the audit findings
- to take immediate action in mitigating exposure to risks arising from weaknesses in the control environment

Schools Finance manager has contacted the school and their external finance support officer to review and support the school in its recommendations.



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Repairs – Systems Audit	May 2012	<p>The objective of this audit was to assure management that there were sound and adequate systems in place for managing and controlling repairs to housing dwellings managed by THH. Review of the latest monthly Repairs &amp; Maintenance budget monitoring report showed that total gross spend of £10.5M was forecasted against a full year budget of £11.0M.</p> <p>Our testing showed that an up to date booklet for managing repairs and maintenance was in place and available to residents on the website. Process maps had been developed and agreed with the contractor. The number of customer complaints and the number of complaints upheld had reduced significantly. Members enquires concerning housing repairs had also greatly reduced. Regular monitoring of the contract and contractors performance was undertaken via service critical indicators. The results were reported to the Repairs Board, Core Group and at operational Neighbourhood level.</p> <p>However, we were not able to fully verify that value for money was being obtained for the fixed average cost for internal repairs by way of benchmarking these costs against other similar organisations or evidencing actual costs from the contractor through cost analysis for the works. Matters concerning contractor’s insurances were not flagged up for monitoring purposes at the contract review meetings and it was not always possible to evidence that results of post inspections were being reported and used to identify any areas of poor performance. Furthermore, our testing showed that the job completion information was not being updated on the client system by the contractor within 24 hours of job completion on site.</p> <p>All findings and recommendations were agreed with the Interim Director of Neighborhood Services and final report was issued to the Tower Hamlets Homes Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Temporary Staff	April 2012	<p>This audit was undertaken at the request of the Audit Committee held on 20<sup>th</sup> September 2011. The objective was to provide assurance that the systems for procuring, controlling and monitoring temporary staff were sound and secure. The audit work started on 30<sup>th</sup> October 2011. The scope of the Audit was agreed with the Chair of the Audit Committee.</p> <p>The governance arrangement for controlling and monitoring of temporary staff is through the People Board and individual Directorate DMTs. The guidance notes for managers together with supporting protocols and procedures on procuring and managing temporary staff was revised in October 2011 and is available on the staff Intranet and covers temporary workers procured via an employment agency, a sole trader or a Limited Company. Audit testing showed that overall there were satisfactory systems in place for controlling and monitoring agency staff provided via the Comensura contract. All current assignments had been booked through Comensura, and employing agencies were required to carry out pre-recruitment checks. Good quality and comprehensive management information was being provided to the Council by the Comensura Relationship Manager. This data was analysed and specific management reports were being produced and reported to DMTs and the People Board for control and monitoring of levels and spend on Agency Staff. The People Board provides scrutiny of Directorate agency spend, length of assignments and other key issues.</p> <p>However, although managers have responsibility to carry out checks when appointing temporary staff, we recommended that there should be regular publicity and reminders to managers of Council procedures around pre-recruitment checks. All findings and recommendations were agreed with the Service Heads HR&amp;WD and Procurement and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Establishment Control Follow Up audit	May 2012	<p>The objective of the follow up audit was to assess the progress made in implementing the recommendations made at the conclusion of the original report finalised in February 2011.</p> <p>Our testing showed that six of the seven priority 1 recommendations had been fully implemented and the remaining recommendation partially implemented. An Establishment Control Process and Procedure advising managers on creating, amending and deleting posts and undertaking staff structure was written up in August 2011 and posted on the Intranet. From our sample testing we can conclude that the Council's Establishment List as at 9<sup>th</sup> December 2011 was up to date. Budgeted posts reflected the actual number of posts and the Benefits Realisation Team conducted an analysis of the Establishment List as part of their monthly monitoring. There was a system in place for reporting Establishment Lists to service managers for regular review and monitoring. The maintenance of the Establishment List is carried out by Human Resources and Workforce Development (HR&amp;WD).</p> <p>However, audit reconciliation between the staffing budget for the 10 service areas in the audit sample and the Establishment List costing contained some anomalies. The staffing budgets on JDE against which budgets are monitored did not accurately reflect the salary totals as per approved Establishment Lists in 6 service areas. There were cases where staffing budgets on JDE exceeded the establishment levels and also where staffing budgets on JDE were below the establishment levels. Necessary action needed to be taken to ensure that staffing budget fully reflected the level of establishment within each service as required by the Council's Financial Regulation CR 9.3.</p> <p>All findings and recommendations were agreed with the Service Head HR&amp;WD and Interim Service Head, Corporate Finance and final report was issued to Corporate Director Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Core Management Processes	Mar. 2012	<p>The purpose of this audit was to provide assurance to management as to whether the systems of control over the Core Management Processes functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• Corporate Policies to direct core management processes have been developed and publicised on the Council's intranet.</li> <li>• There is a robust monitoring and management of sickness absence process in place.</li> <li>• Disciplinary procedures which should be adopted in the event of a major/minor breach of the employee's code of conduct are in place.</li> <li>• The Workforce Development Team perform a training needs analysis to identify common learning and development needs across the organisation</li> </ul> <p>The main weaknesses are:</p> <ul style="list-style-type: none"> <li>• There is no corporate policy for managing employees who are consistently late for work. In addition, we found evidence of inconsistencies in how line managers treat lateness in commencing the core working hours.</li> <li>• Testing identified that the template of the flexi-time does not account for 'other breaks' (if taken). One time sheet was arithmetically incorrect (overstated by 15 minutes), and flexi-time sheets were not checked and signed by the respective line managers.</li> <li>• Sample testing identified that only 60% of staff had an annual PDR at the time of audit. Data provided by the HR &amp; WD showed a completion rate of approximately 68% with individual directorates ranging between 37% and 100%.</li> <li>• There is no evidence that employees are signing to confirm their understanding of the Acceptable Conduct Code.</li> </ul> <p>The findings and recommendations were agreed with the Senior Manager, HR Strategy and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Back up and Disaster Recovery	March 2012	<p>This audit was designed to provide assurance over the Council's ICT Back up and Recovery arrangements. The audit covered the following areas:- Back up Procedures, Management of Back up Media, Back up Testing, Disaster Recovery Plan Management, Business Continuity Alignment, Disaster Recovery Testing, Alternative Processing Arrangements and Disaster Recovery Plan Maintenance.</p> <p>We raised six recommendations:-</p> <ul style="list-style-type: none"> <li>• Procedures should be adopted to ensure that regular tests are carried out on a sample of backup media before they are placed into storage to confirm that media can be read.</li> <li>• The review of the ICT DR Plan should be finalised and the plan should be formally approved. The plan should be subject to regular review and procedures should be in place to help ensure that all key members of staff are provided with the most up to date version of the plan.</li> <li>• Documentation relating to the system configurations within ICT should be readily available along with the ICT DR Plan. This documentation should be reviewed and updated on a regular basis.</li> <li>• The Backup System policies should be subject to a regular review.</li> <li>• Procedures should be in place to proactively monitor the quality of tape media in the rotation cycle for all the backup tools in use.</li> <li>• The Council should ensure that there are documented restoration procedures for all backup systems in use. These procedures should be reviewed on an annual basis or following system change.</li> </ul> <p>The findings and recommendations were agreed with the ICT Operations Manager and ICT Business Support Manager and a copy of the final report was issued to the Service Head Customer Access and ICT and Corporate Director – Resources.</p>	Extensive	Substantial



Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Assessment and Income Collection</p> <p>Systems Audit</p>		<p>This audit sought to provide assurance that sound controls were in place for managing assessments for charges for clients in residential care and nursing homes and the collection of associated income. A project was set up to procure an ICT system to replace the present mix of MS Access Database and Excel spreadsheets. This should improve the workflow processes and should make processes more efficient and effective.</p> <p>Our testing showed that in absence of an ICT system, there was initial screening of cases allocated to Assessment Officers. This kept the work flow assigned to officers who could effectively deal with it as effectively and efficiently as possible. Clear written operational procedures, protocols and templates required to be developed to ensure that high standards and consistent approach was adopted to achieve service objectives. A risk assessment needed to be undertaken to identify key risks around this service. A code of practice for encouraging Council 'appointee ships' from vulnerable adults needed to be set out and approved. The policy of billing service users outside the Council's Debtor's system required to be reviewed as part of the procurement of the new ICT system. This will ensure that all income is invoiced, collected and recovered via the Council's sundry debtors system, which should interface with newly procured system. We also recommended that the new ICT system should be capable of producing detailed management information and reconciliations on a range of key activities including the control and monitoring of debts and recovery action.</p> <p>All findings and recommendations were agreed with the Head of Finance and final report was issued to the Corporate Director, Adults, Health and Wellbeing.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bank Reconciliation  Systems Audit	March 2012	<p>The objective of this audit was to provide assurance that sound controls were in place for managing and controlling bank reconciliations.</p> <p>From our audit testing, we could provide assurance that the reconciliation of the main bank account was carried out each month and all balances on the bank accounts were matched to the general ledger and subsidiary account balances. The reconciliation statements were reviewed, signed and dated by a senior officer. In addition to the subsidiary bank accounts feeding into the main bank account, there were a number of other bank accounts administered by individuals across the Directorates and a record of these other bank accounts was held.</p> <p>The Council's Financial Regulations require that reconciliations are undertaken in a regular and timely manner to ensure that transactions are correctly recorded on the accounting systems. However, there were no written procedures in place and that there was a single officer who completed bank reconciliation. In absence of written procedures, there is complete reliance on one officer. We recommended that the risk of a single officer creating the accounting entries and journaling these, where there is no other system/person generating them, should be assessed and mitigated by having compensatory checks/controls in place. There were significant inter-dependencies in carrying out bank reconciliation effectively. Hence we recommended that a pre-agreed time table for the process should be in place so that contributory information to be provided by other parties such as Cashiers, was provided on a timely basis. We noted that although each reconciliation was reviewed and signed by a supervising officer, in absence of a documented procedure, we were not clear as to what checks and sample tests were carried out by the reviewing officer.</p> <p>All findings and recommendations were agreed with the Chief Accountant and final report was issued to the Service Head, Corporate Finance and Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions	Mar. 2012	<p>The objective of this audit was to provide assurance to management as to whether the systems of control over the Pension functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• The Pensions Team have comprehensive policies and procedures in place.</li> <li>• Pension transfers in are authorised and the calculations are independently checked.</li> <li>• Reports are run on a weekly basis to enable employee change details on Resource Link to be reflected in AXIS.</li> <li>• Resource Link automatically calculates the employee contribution rate based upon the employee's salary or the Full Time Equivalent (FTE) pay for those working part time. These rates correspond to the rates prescribed by the UK Government Department for Communities and Local Government in England.</li> <li>• Life certificates are issued on an annual basis to all individuals receiving a pension abroad. Payments are withheld where life certificates are not returned.</li> </ul> <p>The main weaknesses are:</p> <ul style="list-style-type: none"> <li>• P3 (Opt out) forms are not always actioned in a timely manner. In addition P1 forms are not always held on file.</li> <li>• Final payment calculations are not always signed off by the officer completing it.</li> <li>• Dummy payment details are not always removed from the system once the estimate had been calculated.</li> <li>• Pension leaver forms are not always signed off by the officer certifying them.</li> <li>• Although reconciliations had been completed, they are not always signed off as evidence of review.</li> </ul> <p>The findings and recommendations were agreed with the Pensions Manager and Service Head HR&amp;WD. The final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
HR and Payroll systems	Mar. 2012	<p>This audit sought to provide assurance to management as to whether the systems of control over the Payroll functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• Payroll policies and procedures are reviewed on an annual basis and are available to all staff.</li> <li>• Deductions are paid over to the relevant bodies in a timely manner.</li> <li>• The payroll run is completed efficiently and effectively in line with the payroll timetable.</li> <li>• P45s are produced in a timely manner for all leavers.</li> <li>• Payroll exception reports are reviewed in advance of each payroll run.</li> <li>• Regular reconciliation of the payroll system is undertaken and differences are investigated with details narrated on the reconciliation reports.</li> </ul> <p>The main weaknesses are:</p> <ul style="list-style-type: none"> <li>• New starter checklists are not always signed by one authorised signatory</li> <li>• Overpayment had occurred due to incorrect or untimely information being supplied.</li> <li>• Payroll amendment form had not been certified.</li> <li>• Documentation or approval for deductions is not always maintained on employee's file.</li> <li>• There are no performance indicators in place for the Payroll Team.</li> <li>• Evidence of the spot checks of starters and leavers payroll personnel files is not evidenced.</li> </ul> <p>The findings and recommendations were agreed with the Payroll Manager, Central Service Manager, Senior Manager - HR Operations and Service Head HR&amp;WD and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
NNDR	Jun. 2012	<p>This audit was undertaken to provide assurance to management as to whether the systems of control over the NNDR functions are sound, secure and adequate. The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• Key procedure notes have been drafted and are available to staff.</li> <li>• Parameters in the NNDR management system are updated, checked and rate payers are notified of their annual liability in writing.</li> <li>• The Business Rate team reconcile the rateable list to the Valuation Agency Office's listings on a regular basis.</li> <li>• A dedicated bank account and accounting codes have been established for the collection of council tax.</li> <li>• NNDR suspense account postings are investigated and cleared on a daily basis.</li> <li>• Segregation of duties are in place between those raising invoices and the receipting of income.</li> <li>• The NNDR system is password protected to prevent unauthorised access to data. Amendments to standing data are verified by the Head of Service.</li> <li>• NNDR reductions are supported by a signed application from the ratepayer</li> <li>• Periodic inspections of void properties are undertaken.</li> <li>• Senior managers authorise write-off of irrecoverable debts once recovery action has been pursued.</li> <li>• Income collected is reported monthly to the Corporate Management Team.</li> <li>• The Council is part of a CIPFA NNDR benchmarking club.</li> </ul> <p>The main weaknesses are:</p> <ul style="list-style-type: none"> <li>• There were no major weaknesses identified as a result of our testing. However we did identify that internal procedures covering the key processes relevant to NNDR do not have version controls.</li> <li>• The findings were agreed with the Service Head, Revenue Services and the final report was issued to the Corporate Director, Resources.</li> </ul>	Extensive	Substantial

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Debtors	Jun. 2012	<p>The objective of this audit to provide assurance to management as to whether the systems of control over the Debtors functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• Up to date policies and procedures are in place that have been communicated to the relevant officers.</li> <li>• Invoice requests are scanned on to the IBS system and an accurate invoice is subsequently raised.</li> <li>• The suspense account is reviewed and cleared regularly with a full audit trail being maintained.</li> <li>• Extensive actions are taken to recover sundry debts before write off is considered. All write offs below £20,000 are authorised by the Head of Revenue Services and the Director of Resources.</li> <li>• Password controls are in operation on the IBS system whereby restrictions according to job type and job role are applied.</li> <li>• Monthly performance indicators are completed to illustrate the amount of sundry debt that is collected, and whether this is in line with monthly targets</li> </ul> <p>The main weaknesses are:</p> <ul style="list-style-type: none"> <li>• Unreconciled amounts are noted with an explanation detailing the reason for the item. A number of items which have remained unreconciled for over four months.</li> <li>• Ledger reconciliations had not been completed consistently for every code. However, the reconciliation in subsequent months would have identified anomalies.</li> </ul> <p>The findings were agreed with the Service Head, Revenue Services and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Council Tax	June. 2012	<p>The objective of this audit was to provide assurance to management as to whether the systems of control over the Council Tax functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• Service objectives and priorities have been documented and are reviewed on an annual basis. Following review, they are communicated to all relevant members of staff.</li> <li>• There are clear policies and procedures for the administration and management of Council Tax collection and recovery.</li> <li>• There are effective systems in place for prompt billing and payment methods are sound and secure.</li> <li>• There are effective controls for amending standing data. Amendments to the standing data for 2011/12 council tax year were carried out accurately and in a timely manner.</li> <li>• The Council's financial procedures are complied with in managing arrears and write-offs. There are robust systems in place to ensure all recovery procedures are exhausted prior to writing off irrecoverable debt.</li> <li>• Suspense accounts are managed effectively and systems reconciliations are carried out in full on a regular basis.</li> <li>• Management information including performance data is produced, reported to management and monitored on a regular basis.</li> </ul> <p>The main weaknesses are:</p> <ul style="list-style-type: none"> <li>• There were no major weaknesses identified as a result of our testing. However we did identify that the reason for raising and subsequently cancelling council tax refunds were not always documented.</li> </ul> <p>The findings were agreed with the Service Head, Revenue Services and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payments by BACS  Follow Up audit  Page 76	April 2012	<p>BACS (Banks Automatic Clearing System) is an electronic method of payment by which the system amalgamates all payments to the same creditor and batch processes straight through to the banks clearing system.</p> <p>This was a follow up audit and the objective was to give assurance that recommendations agreed at the conclusion of the original audit in March 2011 had been implemented. Our testing showed that both Priority 1 recommendations had been implemented. Out of the six Priority 2 recommendations, four had been implemented in full and two were not implemented. We reported that the risks associated with BACS payments had been identified and documented. The BACS failure form had been improved and a spreadsheet was maintained to capture the data. Monthly monitoring of the spreadsheet takes place and corrective action is taken within the month of where an errors occur.</p> <p>However, procedures for managing and controlling BACS payments, including roles, responsibilities and accountabilities for Financial Systems and the Payments team and any other parties needed to be formalised. An AP4 voucher was sent to the Financial Systems team to initiate or amend regular payments, but there was no standard format used when requests were made to terminate payments.</p> <p>All findings and recommendations were agreed with the Chief Accountant and final report was issued to the Service Head Corporate Finance and Corporate Director, Resources.</p>	Extensive	Substantial







**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stewart Headlam Primary School	Mar. 2012	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review showed that the school has a Governing Body and Finance Committee. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; collecting and recording of income; payroll management; procurement; disaster recovery; risk management and insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Copies of the Finance &amp; Premises Committee minutes are not always signed or dated by the Chair of the Committee.</li> <li>• Declarations of business interest are not always completed by the governors.</li> <li>• The Health and Safety Policy and Write-Off Policy are not up to date and there is no evidence that the Acceptable Use Policy has been reviewed.</li> <li>• Official order forms for purchases are not always completed.</li> <li>• Whilst monthly payroll reconciliations are being undertaken, these are not signed by the Head Teacher to formally evidence the independent review.</li> <li>• Testing revealed that there was a lack segregation of duties between completing the leavers' forms and authorising the forms.</li> <li>• Inventory records are not fully complete and results of the annual inventory check was not presented to the Head Teacher or the Governing Body.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial



**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cherry Trees Special School	Mar. 2012	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review showed that the school has a full Code of Financial Practice that includes a Scheme of Delegation. Controls were adequate in updating the School Development Plan; control and monitoring of school bank accounts; accounting for income and expenditure; collecting and recording of income; personnel and payroll management; procurement; disaster recovery; risk management and insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• The School does not have Declarations of Business Interest forms for staff members with financial responsibilities.</li> <li>• The School currently reimburses staff cash amounts over the £50 threshold limit set by the Local Authority</li> <li>• The School does not bank the school meal income received from the only student to pay as a result of the small amount involved. Instead the school records the amount as received on the system and uses this amount for staff reimbursement.</li> <li>• The School does not have any record of the decision not to utilise a high interest bearing account to maximise the value obtained from surplus funds.</li> </ul> <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Children, Schools and Families.</p>	Moderate	Substantial

**Full Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Plan for Continuous Improvement  Systems Audit  Page 82	March 2012	<p>This audit sought to provide assurance over the procedures and controls in place for monitoring the Plan for Continuous Improvement which is a key planning document within THH. The Plan picks up improvement areas identified by management and the Audit Commission during their inspection.</p> <p>Our testing showed that there were 28 milestones, each with the measure of success, officer responsible for their achievement and expected dates for completion. THH developed a set of business critical indicators with which to monitor the progress of the Plan and reports were submitted to the SMT, the THH Board and the Council. The tracker and exception report were distributed to THH Heads of Services and the Strategic Management Team (SMT) monthly, and to the LBTH Client team (D&amp;R) bi-monthly for their information and review. On a monthly basis, each deliverable was given a RAG status depending on its progress.</p> <p>Overall there were sound controls and monitoring in place. We made only one priority 3 recommendation to ensure that owners of milestones communicate all key changes in a deliverable to the Business Development Team within the agreed deadlines so that most up to date status regarding the progress of completing the deliverable can be made.</p> <p>The recommendation was agreed by the Director of Finance and Customer Services and final report was issued to the THH Chief executive.</p>	Extensive	Full

**Full Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>General Ledger</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 83</p>	<p>Mar. 2012</p>	<p>To provide assurance to management as to whether the systems of control over the General Ledger functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> <li>• The Financial System Team has developed nine end-user manuals which have been updated within the last twelve months.</li> <li>• The coding structure is consistently adhered to and this is evident from the account code master directory. Amendments to codes, the introduction of new codes and deletion of old codes are controlled and co-ordinated strictly by the Financial Systems Team.</li> <li>• Feeder systems are run in a timely manner in accordance with the timetable.</li> <li>• The OneWorld GL system allows a user to notify a journal transfer, but will not allow the same user to post the journal to the accounts. The journal must be authorised for posting by a separate user and all journals are annotated with appropriate narrative.</li> <li>• A Closure of Accounts Group (CAG) has been established to facilitate the closure process, discuss and monitor ongoing progress and solve any problems arising.</li> </ul> <p>The main weaknesses are:</p> <ul style="list-style-type: none"> <li>• It is pleasing to report that no weaknesses were identified as a result of our audit testing.</li> </ul> <p>The findings were agreed with the Chief Accountant and the final report was issued to the Corporate Director, Resources.</p>	<p>Extensive</p>	<p>Full</p>

**Summaries of Reports on Specific Commissioned Work by Corporate Directors**

**Appendix 3**

Title	Date of Report	Comments / Findings
<p>Bangladeshi Parents and Carers Association (BPCA)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 84</p>	<p>May 2012</p>	<p>This review was requested by the Corporate Director, Adults, Health and Wellbeing. The purpose of this audit was to provide assurance to the Council and Bangladeshi Parents and Carers Association (BPCA) that sound governance, financial control and financial management processes and systems were in place. The BPCA had been victim to financial mismanagement leading to fraud being committed.</p> <p>Testing of financial records showed that since April 2009, the reserve account had been depleted as at January 2012. A substantial amount of money had been transferred from the reserve account to the current account, from where a significant number of apparently unauthorised expenses and payments had been made with no audit trail being available. Severe financial mismanagement had occurred and the Management Committee had failed to take timely action. We recommended that both the police and the Charities Commission should be notified immediately. The organisation confirmed it had done so. The Chair of the Management Committee has now been replaced pending a possible appeal.</p> <p>The present Management Committee has undertaken to implement a series of 20 key recommendations to improve governance, financial control, personnel management, asset management and other areas of weakness identified by this audit.</p>



Title	Date of Report	Comments / Findings
Bancroft Tenant Management Co-operative (TMC).	August 2011 and March 2012	<p>The purpose of this audit was to provide assurance to the Council and Tower Hamlets Homes (THH) that appropriate governance and financial management systems were in place at Bancroft Tenant Management Co-operative (TMC). The audit was undertaken at the request of THH and Service Head, Resources - Development and Renewal.</p> <p>Testing showed that the TMC changed their bankers in 2008 to obtain favourable interest on deposits. The bank posted two cheques to the TMC; one for £100,000 and another for £50,000, so that these can be deposited into the new bank account. However, the cheque for £50,000 was not received by the TMC. The Police was eventually informed to investigate the matter. However, the Police have indicated that as the bank was not co-operating, the money would be unlikely to be recovered. Overall, the TMC has failed to react to this serious incident in a coordinated and vigorous manner.</p> <p>Our review showed that the governance of the TMC through the Management Committee was required to be improved significantly. Financial control and management needed significant improvement.</p> <p>We raised 24 key recommendations to improve governance and financial management. A subsequent follow up audit in March 2012, showed that 21 recommendations had been implemented. A new Management Committee had been established; a Finance &amp; HR Sub-Committee had also been established – both with clear Terms of Reference. Financial systems and controls in some areas had been reviewed and improved. The TMC reported the bank maladministration to the Financial Ombudsman Service and anticipates that, if the Ombudsman finds Barclays were at fault, the bank will repay the stolen monies. The police have arrested an individual who has been charged and a trial is to taken place in a crown court.</p> <p>Overall, our follow up audit showed some improvement, but significant embedding of sound control was still required and THH needed to keep the TMC under regular review and monitoring.</p>

Title	Date of Report	Comments / Findings
Saffron Homes	Nov 2012	<p>The financial review was undertaken as part of the Action Plan for Safeguarding LBTH service users placed in supported accommodation with Saffron Care Homes. The action plan was prepared by the Team Manager, Community Learning Disability Services (CLDS), who requested the audit review. The audit was carried out at four different placements and the visits were undertaken with the support of the social worker - CLDS. Our detailed examination of financial records raised the following issues:-</p> <ul style="list-style-type: none"> <li>• Cash drawings were made by a member of staff using a service user's cash card and PIN number over a period of time - none of these cash drawings were recorded in the cash book and accounted for. In total, some £7,910 of cash was withdrawn which was not accounted for and therefore, missing.</li> <li>• There was a practice prevalent in the homes for monies to be loaned from one service user to another without service user' knowledge and approval.</li> <li>• Financial record keeping was generally poor and in some cases expenditure recorded in cash book for each service user was not supported by receipts/invoices. Cash sums withdrawn from ATMs were not supported by ATM receipts.</li> <li>• Bank statements were not kept in order and were missing in some case which made the audit trail difficult to be established at the time of audit.</li> <li>• There was no regular checking of accounts and cash books by the proprietor and hence no early warning system was in place.</li> </ul> <p>The loss of cash was reported to the Police for investigation. Reviews of service users in the three Homes were commissioned. Meetings were held with the proprietor to seek assurances that financial recordkeeping and security of cash cards is improved. Regular audits of accounts have also been introduced by the proprietor.</p>

Title	Date of Report	Comments / Findings
Raines Foundation School	Nov 2011	Following a series of allegations around impropriety within the financial function at the school an investigation was undertaken. The review found that there were a series of minor procedural weaknesses around the adequacy and transparency of audit trails. Collectively these weaknesses compromised the control environment .Following a disciplinary process revised controls were introduced and enhanced performance management was to be developed.

Title	Date of Report	Comments / Findings
Health and Safety Governance	April 2012	<p>This audit was requested to provide assurance that the systems in place for managing and controlling Health and Safety in the work place were sound, secure and adequate.</p> <p>The Council has a Corporate Health and Safety Policy dated November 2010. The governance of H&amp;S is exercised through the CMT, the Corporate Joint Safety Audit Review Panel, the Corporate Joint H&amp;S Committee, the Directorate Management Teams and the Directorate Health and Safety Committees. There is a Corporate Health and Safety unit within CLC whose role is to advise and support managers and staff across the Council to ensure that the Council is fulfilling its obligations under the Health and Safety at Work etc Act 1974 and associated legislation, and carry out programmed H&amp;S audits. There are Directorate based H&amp;S Champions nominated to perform the duties of lead DMT members for their respective Directorates to ensure compliance with the Corporate and Directorate Health And Safety Policy and Procedures.</p> <p>Our review showed that whilst there were both comprehensive Corporate and Directorate H&amp;S policies and procedures in place, compliance with these procedures needed to be improved. Corporate and Directorate Joint H&amp;S Committee meetings needed to be convened on a regular basis and in some cases regularly attended by officers who had key responsibility for taking Corporate and Directorate H&amp;S issues forward. A separate review carried out by the Service Head, Community Safety highlighted similar issues and programme of action has already been implemented. The Corporate Director, CLC has requested audit to monitor the progress of the action plan by having monthly review meetings with the Service Head, Community Safety.</p>

## Internal Audit Coverage – 2011/12

Audit Description	Significance	Assurance
<b>Corporate Systems</b>		
Control and Monitoring of Hospitality and Gifts	Extensive	Substantial
Asset Management and Disposal	Extensive	Substantial
HR Improvement – Self Service and Claims	Extensive	Substantial
Agency Staff and Consultants	Extensive	Substantial
CRB Checks	Extensive	Limited
Performance Management	Extensive	To be confirmed (TBC)
Management of Asbestos and Water Installations	Extensive	Limited
Leaver FU	Extensive	Substantial
Sickness Management	Extensive	TBC
Core Management Processes	Extensive	Substantial
<b>Assistant Chief Executive's</b>		
Members Enquiries	Extensive	Substantial
Members Allowances FU	Low	Substantial
Registrars FU	Extensive	Substantial

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
<b>Children, Schools and Family</b>		
Schools Admissions and Exclusions	Extensive	TBC
Payments Control – S.17 of Children's Act 1989	Extensive	Limited
Quality Assurance Systems for Child Protection cases	Moderate	TBC
Contractors Final Accounts incl LAD's & Claims	Extensive	Substantial
Control of Special Education Fees Payments	Moderate	Substantial
Payments to Claims Based Staff	Moderate	Substantial
Purchases of Provisions Central Kitchen - FU	Moderate	Substantial
Raines Foundation School	Moderate	N/A
Youth Offending Team - FU	Extensive	Substantial
Common Assessment Framework - FU	Moderate	Substantial
<b>Schools</b>		
Beatrice Tate Special School	Moderate	Substantial
The Cherry Trees Special Primary School	Moderate	Substantial
Culloden Primary School	Moderate	Substantial
Globe Primary School	Moderate	Substantial
Guardian Angels Roman Catholic Primary School	Moderate	Limited
John Scurr Primary School	Moderate	Limited
St Luke's Primary School	Moderate	Limited
William Davis School	Moderate	Substantial
Arnhem Wharf Primary School	Moderate	Substantial
Holy Family Catholic Primary School	Moderate	Substantial

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
Kobi Nazrul Primary School	Moderate	Limited
Lansbury Lawrence Primary School	Moderate	Limited
Lawdale Junior School	Moderate	Limited
Old Palace Primary School	Moderate	Substantial
Redlands Primary School	Moderate	Substantial
St Agnes Catholic Primary School	Moderate	Substantial
St Elizabeth Catholic Primary School	Moderate	Substantial
St Mary and St Michael Catholic Primary School	Moderate	Limited
St Peters (London Docks) CoE Primary School	Moderate	Substantial
St Saviours CoE Primary School	Moderate	Substantial
Stewart Headlam Primary School	Moderate	Substantial
Woolmore Primary School	Moderate	Substantial
<b>Communities, Localities and Culture</b>		
Case Management of Prosecution Cases for Trading Standards, Food Safety and Licences	Moderate	Substantial
Life Long Learning	Moderate	Substantial
Vehicle Removal – Contract Management	Extensive	Limited
Overtime	Moderate	Substantial
Control & Monitoring of PCN Income	Extensive	TBC
Parking Appeals	Extensive	TBC
Grant Certification	Moderate	Substantial
Health and Safety - Governance	Extensive	N/A
Highways Works - FU	Moderate	Substantial
Environmental Protection and Pollution Control	Extensive	Substantial

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
<b>Tower Hamlets Homes</b>		
Bancroft TMO	Moderate	N/A
Housing Repairs	Extensive	Substantial
Financial Systems	Extensive	Substantial
Donegal and Sovereign Houses Current Contract Audit	Moderate	Substantial
Budgetary Control	Extensive	Substantial
Risk Management	Extensive	Substantial
Voids Management	Extensive	Limited
Plan for continuous Improvement	Extensive	Full
Caretaking Services FU	Moderate	Substantial
Probationary Tenancies FU	Extensive	Limited
Garages, Sheds and Parking Places FU	Moderate	Substantial
Health and Safety FU	Extensive	Substantial
Performance Management FU	Moderate	Substantial
Service Charges	Extensive	TBC
<b>Development and Renewal</b>		
Overcrowding Strategy	Extensive	Substantial
Community Building Portfolio Management	Extensive	Substantial
Homelessness Assessment	Extensive	Substantial
Cash Incentives	Extensive	Limited
Management of FM Contracts	Extensive	Substantial
Morpeth and Swanlea Schools BSF	Extensive	Substantial
Management of Climate Change FU	Extensive	Substantial
Homeless Payments and Placements FU	Extensive	Substantial



<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
<b>Adults Health and Wellbeing</b>		
Assessment and Income Control	Moderate	Substantial
Direct Payments	Extensive	TBC
Court of Protection (Receivership)	Moderate	Limited
Occupational Therapy Service	Moderate	Substantial
Older Peoples Day Centres	Low	Substantial
Framework I	Extensive	Substantial
Out of Hours Social Care - FU	Moderate	Substantial
Quality Assurance FU	Extensive	Substantial
Saffron Homes	Low	N/A
BPCA	Moderate	N/A
<b>Resources</b>		
Bank Reconciliation	Extensive	Substantial
Treasury Management	Extensive	Substantial
HR/Payroll	Extensive	Substantial
General Ledger	Extensive	Full
Creditors/R2P	Extensive	TBC
Debtors	Extensive	Substantial
N.N.D.R.	Extensive	Substantial
Council Tax	Extensive	Substantial
Capital Programme & Accounting	Extensive	TBC
Cashiers	Extensive	Substantial
Pensions	Extensive	Substantial
HB Overpayments & Recovery	Extensive	TBC
Housing & Council Tax Benefit	Extensive	Substantial
Housing Rents	Extensive	Substantial
Medium Term Financial Plan	Extensive	Substantial
Occupational Health	Moderate	TBC
Corporate Budgetary Control	Extensive	TBC

<b>Audit Description</b>	<b>Significance</b>	<b>Assurance</b>
Grant Claim - Teachers Pensions Return	Extensive	Substantial
Establishment Control – Follow UP	Extensive	Substantial
BACS Payments - FU	Extensive	Substantial
CHAPS Payments - FU	Extensive	Substantial
VAT FU	Extensive	Substantial
<b>Value for Money</b>		
Energy Payments	Extensive	Substantial
Asset Registers at Schools (CSF)	Moderate	Limited
Competitive Tendering	Extensive	Limited
Sickness Absence	Extensive	TBC
<b>Computer Audit</b>		
Council Tax	Extensive	Substantial
Chipside Parking	Extensive	Limited
Backup/Disaster Recovery	Extensive	Substantial
ISO Gap Analysis	Extensive	N/A
Network Security and FU	Extensive	TBC

## Head of Audit Opinion – Summary

## APPENDIX 5

### Background

The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises at paragraph 10.4 that the report should:

- a) Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
- d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement on internal control;
- e) Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and
- f) Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

The Code of Practice also states at Paragraph 10.4 that:

“The Head of Internal Audit should provide a written report to those charged with governance.”

Therefore in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Council in meeting the requirements of Regulation 4 the Accounts and Audit Regulations. These state that:

“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.”

### Head of Internal Audit Opinion on the Effectiveness of Internal Control 2011/12

This opinion statement is provided for the use of London Borough of Tower Hamlets Council (hereafter referred to as the Council) in support of its Statement on Internal Control (required under Regulation 4(2) of the Accounts and Audit Regulations 2003) that is included in the statement of accounts for the year ended 31 March 2012.

## **Scope of Responsibility**

The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

## **The 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 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 efficiently, effectively and economically.

## **The Internal Control Environment**

The Internal Audit Code of Practice states that the internal control environment comprises three key areas, internal control, governance and risk management processes. Our opinion on the effectiveness of the internal control environment is based on an assessment of each of these three key areas.

## **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 of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual audit letter and other reports.

## **Head of Internal Audit Annual Opinion Statement**

My opinion is derived from work carried out by Internal Audit Services during the year as part of the agreed internal audit plan for 2011/12, including an assessment of the Council's corporate governance and risk management processes.

The internal audit plan for 2011/12 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

### **Basis of Assurance**

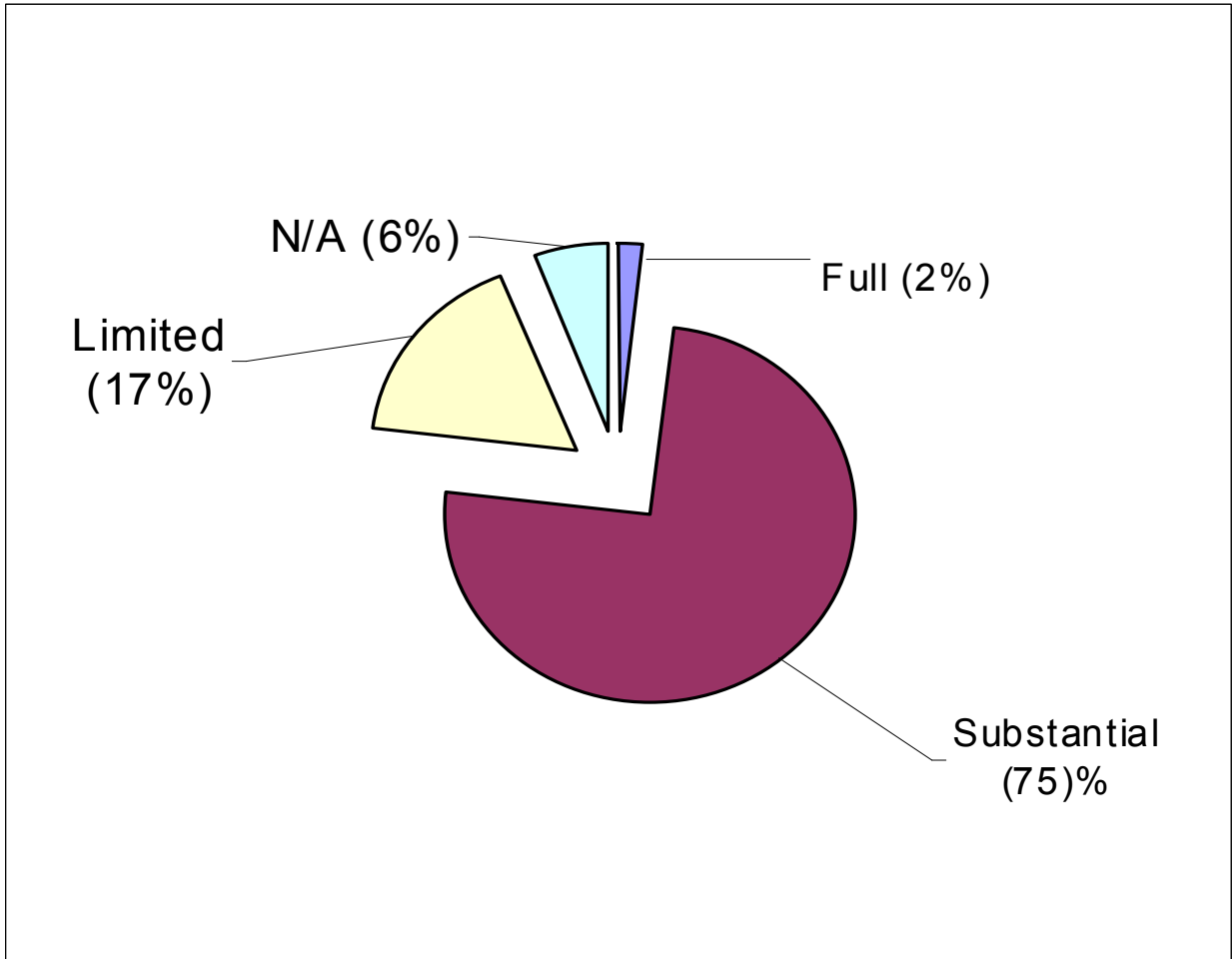
Audits have been conducted in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from internal quality assurance systems. This programme of work is outlined at [Appendix 4](#).

My opinion is limited to the work carried out by Internal Audit during the year on the effectiveness of the management of those principal risks, identified within the organisation's Assurance Framework, that are covered by Internal Audit's programme. Where principal risks are identified within the organisation's framework that do not fall under Internal Audit's coverage, I am satisfied that a system is in place that provides reasonable assurance that these risks are being managed effectively.

99.7% of Internal Audit work for the year to 31 March 2012 was completed in line with the operational plan. The percentage levels of assurance achieved for reports submitted to the CMT in 2011/12 are depicted in Graph 1 below. This shows that 77% of the systems audited achieved an assurance level of full or substantial assurance, whereas only 17% of systems audited achieved limited or nil assurance. This is a good performance by the council particularly as only one system was assigned nil assurance in the financial year.

Internal Audit's planned programme of work also includes following-up all agreed recommendations. I believe this also to be a fair performance by the Council, particularly given that 95% of priority 1 and 79% of priority 2 recommendations followed up had been implemented when the audit revisited the area. Escalation procedures have been developed over the last year to improve on current performance and these have been agreed by the Corporate Management Team and the Audit Committee.

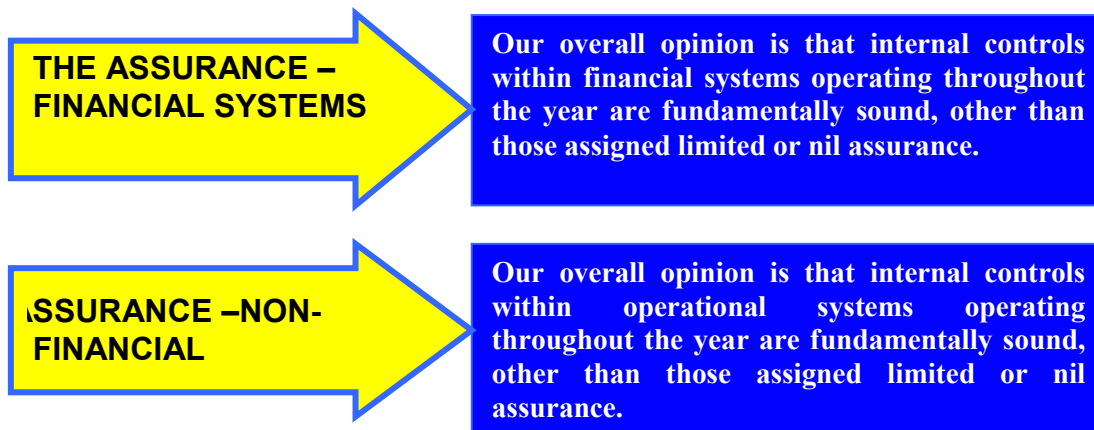
**Graph 1**



**2011/12 Year Opinion**

**Internal Control**

From the Internal Audit work undertaken in 2011/12, it is my opinion that I can provide satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31<sup>st</sup> March 2012 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on **pages 59- 60**. The assurance can be further broken down between financial and non-financial systems, as follows:



*In reaching this opinion, the following factors were also taken into particular consideration:*

- 1 In its Annual Audit and Inspection Letter 2009/10, the Audit Commission gave the Council an overall score of three out of four for the Use of Resources judgement. The Audit Commission’s definition of the Council’s achievement of a score of three means that the Council is performing well and the direction of travel was positive.**

### **Risk Management**

In my opinion, risk management within the Council continues to be embedded, with increased emphases on buy in from staff, Member and the Corporate Management Team. Embedding risk management within the culture is a lengthy process, continuing to improve the management information in the form of risk registers and reporting of risks and control will ordinarily assist this process.

I would like to take this opportunity to formally record my thanks for the co-operation and support received from the management and staff during the year, and I look forward to this continuing over the coming years.

**Minesh Jani – Head of Audit and Risk Management**

**June 2012**

## DETAILED REPORT

### Introduction

This section is a report detailing:

- 1 any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- 1 any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- 1 the identification of work undertaken by other assurance bodies upon which Internal Audit has placed reliance to help formulate its opinion;
- 1 the management processes adopted to deliver risk management and governance requirements;
- 1 comparison of the work undertaken during the 2011/12 year against the original Internal Audit plan; and
- 1 a brief summary of the audit service performance against agreed performance measures.

### Significant Control Issues

Internal Audit is required to form an opinion on the robustness of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which have arisen during the financial year 2011/12. Key issues included:

***Asbestos and Legionella Management*** – Our review showed that the Council has both Asbestos and Legionella management policies. However, we noted that due to administrative errors, the implementation of these policies could not always be demonstrated. From a sample of 22 properties tested, we noted that in 13 cases, either surveys had been carried out, but not shared with the responsible building managers / attendants to action or surveys were due for survey re-inspection but this had not happened. For water installation, we tested a sample of 22 properties and in 7 cases, we were unable to obtain evidence of timely inspections.

We noted information of surveys and water risk assessments is held locally, and is managed locally by directorates. We have recommended consideration be given to holding information of surveys centrally to ensure all surveys are planned, coordinated or actioned in a timely manner. This will reduce the risk of survey re-inspections or full surveys not being carried out in a timely and organised manner and the consequential risk of the Council being in breach of HSE regulations.



We also noted each directorate has local arrangements for procuring a supplier to carry out surveys for asbestos and legionella. We have recommended consideration be given to the creation of a corporate contract and that a cost-benefit analysis be conducted, considered and discussed at an appropriate forum to deliver, possibly, better value for money. Finally, we also recommended risks associated with asbestos and water installation management be recorded on the Council's JCAD risk management system as none had been identified on the system

***Contract Management and Monitoring*** – our audit of this area found that effective contract management and monitoring was required to ensure that there was clear corporate guidance and governance on contract management of revenue contracts so that benefits are derived from improved monitoring. Individual contracts were not risk assessed to ensure that monitoring effort was focussed on key risks. Monitoring meetings needed to be more effective and benefits e.g. efficiencies and savings emerging from each procurement needed to be clearly identified.

***Management of Void Dwellings*** - we highlighted a number of key weaknesses which could undermine the quality of data in the system as key dates on SX3 system were not accurately recorded. Record keeping controls were weak and there was risk that the required legal documents such as V2 Termination of Tenancy forms and other records such as Void key record sheets, safety certificates etc, were accurately scanned to the Comino System to ensure that the integrity of key data was preserved. We also identified differing interpretations made by officers of the dates recorded on SX3 e.g. the notice received date differed from the actual date recorded on the V2 notice of termination. These inconsistencies increased the risk of the integrity of data within the IT system.

***Management of S.17 Payments*** - This audit reviewed the systems for governing payments made under S. 17 of the Children's Act 1989 which are made to safeguard the welfare of children who are in need and, to promote the upbringing of such children by their families by providing a range of services appropriate to those children's requirements, including giving assistance in kind or in exceptional circumstances, cash. We found significant payments made to a company providing short-term accommodation for families assessed as having 'no recourse to public funds'. It was not clear how this company was sourced to meet the Council's procurement procedures. Corporate Director's Approval was completed to approve the waiver of procurement procedures for 2010/11, however the actual expenditure exceeded the approved amount. For 2011/12, approval was not obtained to use this company for accommodation. The policy on the use of S.17 was established in January 2011. However, we found a few examples of non-compliance with the policy. Payments made by cash should only occur in exceptional circumstances, but this type of payments appeared to be frequently used. Payments were also made outside R2P by using AP Vouchers. Recurring payments were made to the same creditor for long period of time without a review process.

**Asset Management in Schools** – Each school is responsible for the safeguarding and security of its assets. A register of assets should be maintained, kept up to date and subject to regular review. Our review identified that schools are failing to adequately record all their assets in their respective asset registers. Of the schools visited, a number did not have any policies and procedures in place in relation to the management of their assets. Although the Council has a dedicated software package for the recording of assets this is not being consistently used. Our testing also identified that the processes for recording and amount of details related to the assets differs significantly between schools. The school's assets are not always security marked and evidence of periodic assets checks was not maintained. Evidence of formal reporting of school assets to those charged with Governance was not routinely evidenced.

**Implementation of Chipside Case Manager Parking System** – The Council has been using Chipside since July 2011. Our review identified that the contract for the Case Manager application has not yet been signed despite requests from the Head of Parking for the prompt release of the contract so that it can be signed and the system licensed. In addition the Service Level Agreement (SLA) between Parking Services and Chipside Ltd has not been signed and does not have a start date. The SLA schedules cover standard and non standard services, service availability, problem resolution, service level reporting, support & service desk services, problem escalation, changes to the agreement and under schedule D, Change Control procedures.

**Direct Payments** - The Council uses direct payments for social care as part of the government's personalization agenda. The audit highlighted some weaknesses in the system around the need for direct payments Policy & Procedure to be updated; panel authorisation or Manager approval for the Service User Care Plan had not always been obtained; there is no system in place to undertake spot checking of service user expenditure and there was a backlog in Brokerage team in respect of monitoring of Service User expenditure.

## **Qualifications to the Opinion**

Internal Audit has had unfettered access to all areas and systems across the authority and has received appropriate co-operation from officers and members.

## **Other Assurance Bodies**

In formulating the overall opinion on internal control, I took into account the work undertaken by the following organisation, and their resulting findings and conclusion:

- a) Audit Commission
- b) Care Quality Commission
- c) Ofsted

## **Risk Management Process**

The principle features of the risk management process are described below:

**Risk Management Strategy:** The Council has established a Corporate Risk Management Strategy that sets out the Council's attitude to risk and to the achievement of business objectives and has been communicated to key employees. The policy:

- 1 Explains the Council's underlying approach to risk management;
- 1 Documents the roles and responsibilities of the Council, Cabinet and Directorates;
- 1 Outlines key aspects of the risk management process; and
- 1 Identifies the main reporting procedures.

**Corporate Risk Register:** This register records significant risks that affect more than one directorate. The register also includes major corporate initiatives, procurement and projects.

**Directorate Risk Registers:** Each directorate maintains its own register recording the major risks that it faces.

**Corporate Risk Group:** The Group identifies and oversees the management of corporate risk, and reviews directorate registers to identify emerging corporate risks.

## **Comparison of Internal Audit Work**

The Operational Plan for 2011/12 was based on an Audit Risk Assessment. This assessment model takes into account four assessment categories for which each auditable area is scored to gauge the degree of risk and materiality associated with each area. Auditable areas were prioritised according to risk and a plan was prepared in consultation with Heads of Service, the Section 151 Officer and the Council's external auditors.

The Internal Audit plan was agreed at the start of the year and revised in December 2011. A summary of the revised plan is provided at Appendix 1 for information. The table compares the plan to the work actually completed during the year.

## **Internal Audit Performance**

A table is provided at [section 9](#) of the main body of report setting out the pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against the targets that were set in advance.

Internal audit is subject to benchmarking exercise as part of the IPF Benchmarking Club. The results of these reviews are at [Appendix 7](#).

External Audit continues to rely fully on the work undertaken by Internal Audit. This has resulted in the harmonisation of internal and external audit plans, so that external audit can place greater reliance on the work of internal audit. During the course of the year we have worked closely with the External Auditors to ensure that this approach is followed.

### **Compliance with CIPFA Code of Internal Audit Practice**

Internal Audit has comprehensive quality control and assurance processes in place to confirm compliance with the CIPFA standards. Assurance is drawn from:

- 1 The work of external audit; and
- 1 My own internal quality reviews.

External audit carried out a review of internal audit for the financial year 2009/10 and reported their findings in March 2010. The main conclusions of their review were: -

Internal Audit is compliant against the 11 code of the CIPFA code of Practice;

The Internal Audit Service has appropriate governance arrangements, internal policies and sufficient resources to enable an independent, objective and ethical audit to be completed in line with the code.

That audit files contained sufficient information for an experienced auditor with no previous connection with the audit to re-perform the work and if necessary support the conclusions reached.

Minor recommendations were raised which are being addressed.

**Benchmarking Club Results**

**1. Benchmarking Club Results**

- 1.1. Internal Audit has participated in the Audit Benchmarking Club administered by the Institute of Public Finance (IPF) since 1999/2000. IPF is a division of the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.2. The purpose of the benchmarking exercise is to provide comparative information which can form the basis upon which performance comparisons and value for money judgements can be made. Moreover, this information can also feed into the team planning process.
- 1.3. As part of the 2010/11 CIPFA benchmarking club the London Borough of Tower Hamlets was benchmarked against a range of Unitary Authorities selected either because the level of annual General Fund financial activity was similar, or annual total revenue, i.e., General Fund and HRA was similar. For the purpose of the benchmarking review the group with which LBTH internal audit was compared comprised 11 London Boroughs.
- 1.4. In terms of cost analysis, LBTH Internal Audit cost per audit day was £326 compared with the comparator group average of £367 per day. In comparison with the other 11 London Boroughs, LBTH was a medium cost service.

This page is intentionally left blank

# Agenda Item 8.2

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	26 June 2012	Unrestricted		8.2
REPORT OF: <b>Corporate Director, Resources</b>	Annual Governance Statement 2011/12 <b>Ward(s) Affected: N/A</b>			
ORIGINATING OFFICER(S): <b>Minesh Jani</b> <i>Head of Risk Management and Audit</i>				

## 1. Summary

- 1.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements in line with regulation 4(2) of the Accounts and Audit Regulations 2003. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.
- 1.2 The output from the review is the Annual Governance Statement which forms part of the annual accounts and identifies areas of good governance and gaps in management of risks and control which may prevent the Council from achieving its desired outcomes.

## 2. Recommendation

**The Audit Committee is recommended to: -**

- 2.1 Consider the process and findings set out in paragraphs 4.1 – 7.4; and
- 2.2 Agree the Draft Annual Governance Statement for the financial year 2011/12 at Appendix 3.

## 3. Background

- 3.1 The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendments) (England) Regulations 2006 require the Council to conduct an annual review of its governance arrangements and to publish an Annual Governance Statement (AGS) with the published financial statements. The Statement of Recommended Practice 2011

requires that the AGS be approved by the committee approving the Annual Financial Report (including the Statement of Accounts), which is the Audit Committee.

- 3.2 The statement will be signed by the Chief Executive and the Mayor. In order to sign the AGS they will need to be satisfied that the statement accurately reflects the governance arrangements and is supported by sufficient evidence. A review of the AGS by the Audit Committee and CMT is an integral part of providing sufficient assurance to the Chief Executive and the Mayor.

#### **4. Reviewing the Internal Control Environment**

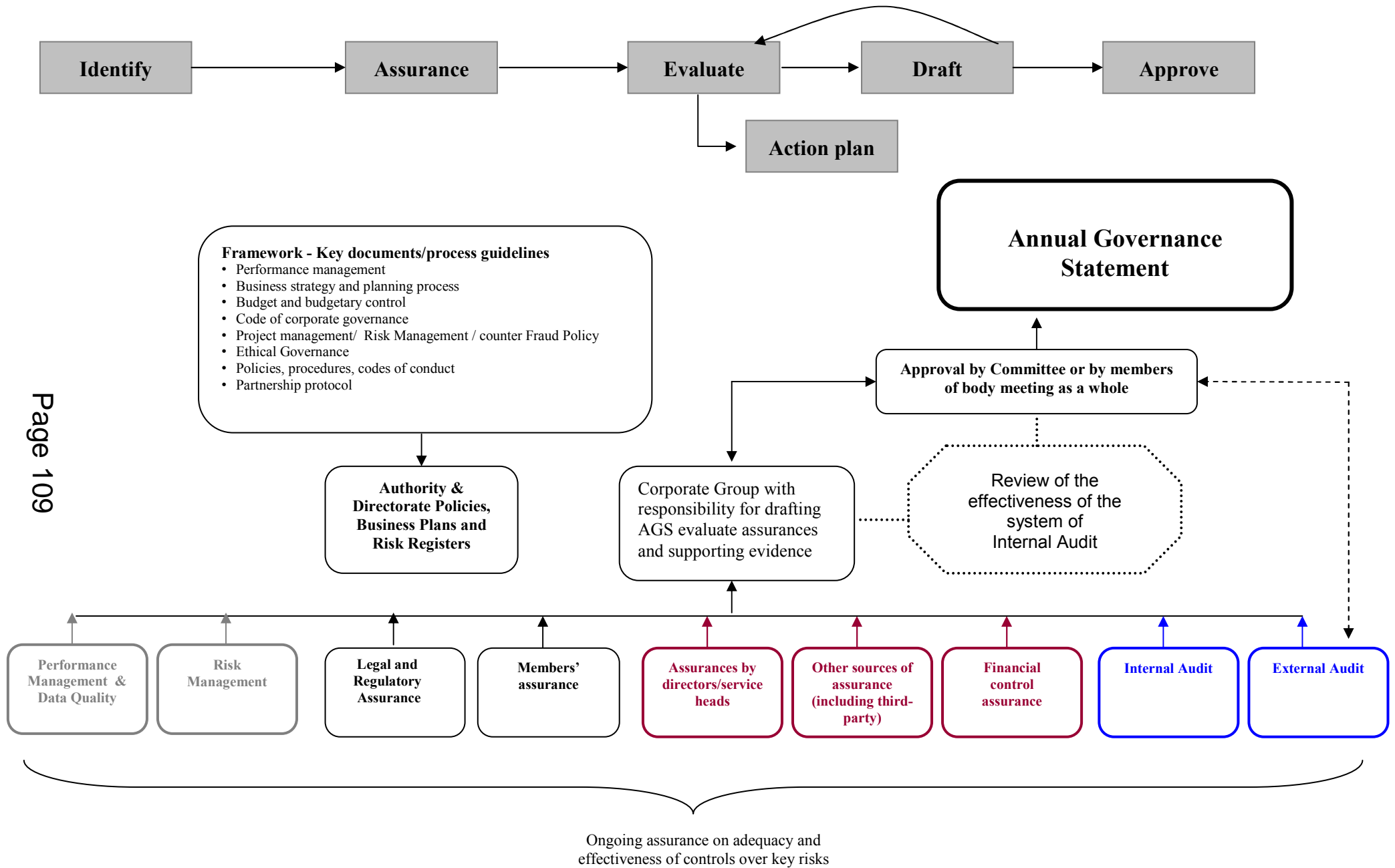
- 4.1 CIPFA guidance sets out a process for gathering assurance on the system of internal control. This Assurance Framework is shown diagrammatically below. The key stages are:

- § 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; and
- § Draft the Annual Governance Statement.

- 4.2 The principal risks, controls and sources of assurance have been identified and considered by senior officers, which included a review of the control environment and issues raised in the 2010/11 statement.



## Assurance Framework and the production of the Annual Governance Framework



## 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; and
  - ◆ 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 and findings arising from these are considered in compiling the Annual Governance Statement for 2011/12.
- 5.3 No gaps were identified in the arrangements for **establishing principal statutory obligations & organisational objectives**. The Council has a defined Constitution, which was refreshed in November 2011. The Constitution has been subject to a review in 2011/12 and officers assessed the Council's arrangements following publication of the CIPFA/SOLACE Code on Corporate Governance in June 2007. A report was presented to the Standards Committee in July 2011 with an action plan setting out additional steps the authority would take following an assessment against the code.
- 5.4 The Council has a 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 been revised and tested in July and February 2010. In 2011/12, the Business Continuity Planning team have carried out a number of exercises to help prepare the authority for the Olympics beginning in July 2012. The Corporate Procurement Strategy was approved by Cabinet in November 2009.
- 5.7 Overall, the review found that the Council has all of the principal elements of an effective 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. Matters arising from the review have been included within the AGS where appropriate and a summary of key sources of assurance are attached at Appendix 2.

## 7. Annual Governance Statement

7.1 The draft Annual Governance Statement is attached at Appendix 3.

7.2 The issues raised in 2010/11 are set out in the table below with an update showing their status.

Issues in 2010/11 statement	Status
<p>To model an efficiency programme to take account of the reduction in revenue funding for the Council over the next three financial years.</p>	<p>The authority put together a balanced budget to March 2015, and this was approved by Full Council in February 2012. For the period April 2011 to March 2015, savings proposals of £84.6M have now been approved.</p> <p>The Council's governance arrangements are in place to monitor savings delivery, which continue to be overseen by the Directorate and Corporate Management teams, and monitored by the Benefits Realisation Team.</p> <p>However, there remains a very real risk around the need for additional savings in future, given that many of the national economic targets are worse than the government's 2010 Spending Review projections / targets. In addition, major changes to the benefits system as part of the Welfare Reform Act could increase the demand for Council services whilst the recent announcement that government departments are to create a 5% contingency provision could further increase the likelihood of additional local authority funding reductions.</p>
<p>Improve information governance across the authority, including paper based records.</p>	<p>The authority has taken active steps to maintain the integrity of its electronic data and with the introduction of VDI (Virtual Desktop Infrastructure) where the data is held centrally managed.</p> <p>Action has also been taken with regard to the paper based records, culminating in a report</p>

Issues in 2010/11 statement	Status
	agreed by the Corporate Management Team in December 2011, setting out the Council's records management policy and revised information security policy.
Directorate operational guidance on contract management; retention and filing of contract documentation and unauthorised extension of contracts.	<p>Considerable efforts have been made in recent months to ensure that, for all significant contracts, the arrangements for the management of contracts are strengthened. The team is also reviewing its current procedures to make the process more robust.</p> <p>The next steps involve instilling good practice in the management of smaller contacts.</p>
Maintain an ongoing drive to deliver decent homes standard.	<p>The first year of the decent homes programme has been successfully delivered, exceeding the target number of homes made decent. Procurement for subsequent years remains on track. Circa 60% of the year 2 decent homes programme has already been procured and for the remainder of 40%, work on the contractor selection phase has now begun.</p>
The delivery of sufficient affordable housing over the next year, particularly within the context of central government's welfare reform agenda.	<p>The programme for new affordable homes continues to show at least 1,000 p.a. as an average figure over the 3 years 2010-2013. Units produced in 2013-14 are likely to depend on the new HCA grant programme and now that funding contracts are signed, work is under way to ensure that partner Registered Providers (RP) get schemes on site to enable supply levels to be maintained. A number of partner RPs are working up details of substantial local regeneration schemes e.g. Brownfield and Aberfeldy Estates and the Blackwall Reach area. Work has been done to establish the impact of the new affordable rent product with regard to average local income levels and future welfare reforms. The council continues to examine each new scheme delivering affordable housing to try to ensure a range of rent levels are provided to meet the full range of housing needs in the borough.</p>
Arrangements for Safeguarding Children / Child Protection (implementation of	<p>Professor Munro's final report, together with the government's response was published in 2011. The Council has already begun to introduce service improvements prior to the publication of</p>

Issues in 2010/11 statement	Status
actions arising from the Munro Report)	the report and has reviewed progress (through CMT and partner agencies). Many of those improvements in social work practice, training and process are medium to long term projects; other developments such as responding to the revised Working Together are dependent upon the progress within central government (the revised draft Working Together was published on 12 <sup>th</sup> June 2012). Progress with the implementation is therefore in keeping with government expectations.
Pupil Place Planning - expanding school provision to meet rising demand for places.	<p>The actions already taken includes identification of short term primary places needs (2012/13 School Year) and development of technical feasibility of temporary school expansion; continuation of implementation of medium term expansion plans to 2014/15 school year and the strengthening of pupil projections by engaging the Greater London Authority for the projection modelling to ensure local authority planning is based on robust data.</p> <p>The next steps are to work with the Development and Renewal directorate to develop a school estate strategy; the presentation of the school estate strategy to Cabinet; and utilising and determining viability of Council assets and making strategic provision of additional primary places to 2020 school year.</p>

- 7.3 The penultimate section of the 2010/11 statement sets out the key governance and control issues that have been identified by the process set out above. These are as follows, in no particular order.
- 7.4 The review of the effectiveness of the governance arrangements in 2011/12 has not identified any immediate governance issues.

## 8. Comments of the Chief Financial Officer

- 8.1 These are contained within the body of this report.

## **9. Concurrent Report of the Assistant Chief Executive (Legal Services)**

- 9.1. The council is required by regulation 4 of the Accounts and Audit Regulations 2011 to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of the council's functions and which includes arrangements for the management of risk.
- 9.2. The council is further required to conduct a review of the effectiveness of its system of internal control at least once a year. The review findings must be considered by the council's audit committee and following the review the committee must approve an annual governance statement prepared in accordance with the proper practices in relation to internal control. The audit committee is designated as the appropriate body for this purpose by paragraph 3.3.11 of the council's constitution. The subject report is intended to discharge the council's obligations.
- 9.3. In relation to what constitutes "proper practices" it is appropriate for the council to have regard to the relevant CIPFA code of practice.
- 9.4. In approving the annual governance statement, the council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. The committee may take the view that a sound system of internal control will support delivery of the council's various programmes and objectives that are targeted at these matters.

## **10. One Tower Hamlets**

- 10.1 The maintenance of an effective system of internal control assists the Council to discharge its functions in accordance with its Community Plan objectives, including the cross-cutting theme of One Tower Hamlets.

## **11. Risk Management Implications**

- 11.1 The review of the Council's governance arrangements has highlighted strategic risks that the authority is actively managing. The risk management framework is in place to ensure all strategic risks are reviewed monthly by the Corporate Management Team.

**12. Sustainable Action for a Greener Environment (SAGE)**

12.1 There are no specific SAGE implications.

---

**Local Government Act, 1972 SECTION 100D (AS AMENDED)**  
**List of "Background Papers" used in the preparation of this report**

Brief description of "background papers"	Contact :
<i>None</i>	<i>N/a</i>

## Assurance Control Checklist (summary)

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



<b>Step 3:</b>		
Risk Management is embedded	Committee reports include risk management assessment	Yes
	Risk is considered in business planning process	Yes
	Corporate risk management board	Yes
	Risk owners identified in registers	Yes
	Evidence of review of risk registers	Yes
	Risks considered in partnership working	Yes
<b>Objective 3 Identify key controls to manage principal risks</b>		
<b>Step 1:</b>		
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	Yes
	Contract Standing Orders	Yes
	Whistleblowing policy	Yes
	Counter fraud & corruption policy	Yes
	Codes of conduct, eg Members, Member : Officer etc	Yes
	Register of interest	Yes
	Scheme of delegation approved	Yes
	Corporate procurement policy	Yes
	Corporate recruitment and disciplinary codes	Yes
	Business continuity plans	Yes
	Corporate / departmental risk registers	Yes
	Independent assessment, by Internal & External Audit	Yes
	Audit Commission reliance on Internal Audit work	Yes
	Corporate health & Safety Policy	Yes
	Corporate complaints procedures	Yes

## Summary of reports received in or pertaining to 2011/12

Reports	Reporting period	Report date
Annual Audit plan – Audit Commission	2010/11 accounts	March 2012
Opinion on Financial Statements	2010/11	September 2012
Final Accounts Memorandum	2010/11	December 2012
Grant Claim Report	2010/11	March 2012
Annual Governance Report	2010/11	September 2011
Other		
Annual Children's Services Assessment	2011/12	November 2011
Early Years Provision – Childminder reports.	2011/12	July & November 2011 March 2012
Adoption Service	2011/12	February 2011
Annual Children's Services Assessment	2011/12	November 2011
Care Quality Commission – Assessment of Performance Report (Adult Social Services Assessment)	2010/11	December 2010

**Annual Governance Statement 2011/12**

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

**1. Scope of Responsibility**

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

Tower Hamlets' has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk) or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of the Annual Governance Statement. The Council's Standards Committee received an update in July 2011 of the Council's current local governance arrangements and the report recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements. A further review is underway.

**2. The Purpose of the Governance Framework**

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

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only 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 achievement of Tower Hamlets' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage any such risks efficiently, effectively and economically.

Tower Hamlets' governance framework exists through its systems, processes, culture and values. These are regularly reviewed. The governance framework has been in place throughout the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance. Following abolition of the Standards Board for England, local arrangements have been put in place including a code of conduct for elected members with a report being presented to the Full Council on 16 May 2012. The new regime will operate from 1 July 2012.

### 3. The Governance Framework

The key elements of the systems and processes that comprise the Authority's governance arrangements are described below.

#### 3.1 Vision and Priorities

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

The Council (and Tower Hamlets Partnership) has refreshed the borough's Community Plan through to 2020. This has four new Community Plan themes to make Tower Hamlets:

- **A Great Place to Live** - Tower Hamlets will be a place where people live in quality affordable housing, located in clean and safe neighbourhoods served by well connected and easy to access services and community facilities;
- **A Prosperous Community** - Tower Hamlets will be a place where everyone, regardless of their background and circumstances, has the aspiration and opportunity to achieve their full potential;
- **A Safe and Cohesive Community** - Tower Hamlets will be a safer place where people feel safe, get on better together and difference is not seen as a threat but a core strength of the borough; and
- **A Healthy and Supportive Community** - Tower Hamlets will be a place where people are supported to live healthier, more independent lives and the risk of harm and neglect to vulnerable children and adults is reduced.

Running through this vision is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2011/12, 18 priorities were identified, (<http://moderngov.towerhamlets.gov.uk/mgConvert2PDF.aspx?ID=21287>). Within these broad themes, there are five strong priorities for the Council in the next 2-3 years which the Mayor has made the centre-piece of his aspirations for the borough – these are:

- Increasing the availability of affordable family sized housing and reducing overcrowding;
- Improving attainment at age 16 and above and increasing activities out of school for young people;
- Further reducing crime and anti-social behaviour;
- Tackling worklessness; and
- Further improving cleanliness and the public realm.

Underpinning the Community Plan Themes and corporate priorities are the core values, which all officers are expected to adhere to, to build a more effective organisation. The Council's values are:

- Achieving results
- Engaging with others
- Valuing diversity
- Learning effectively

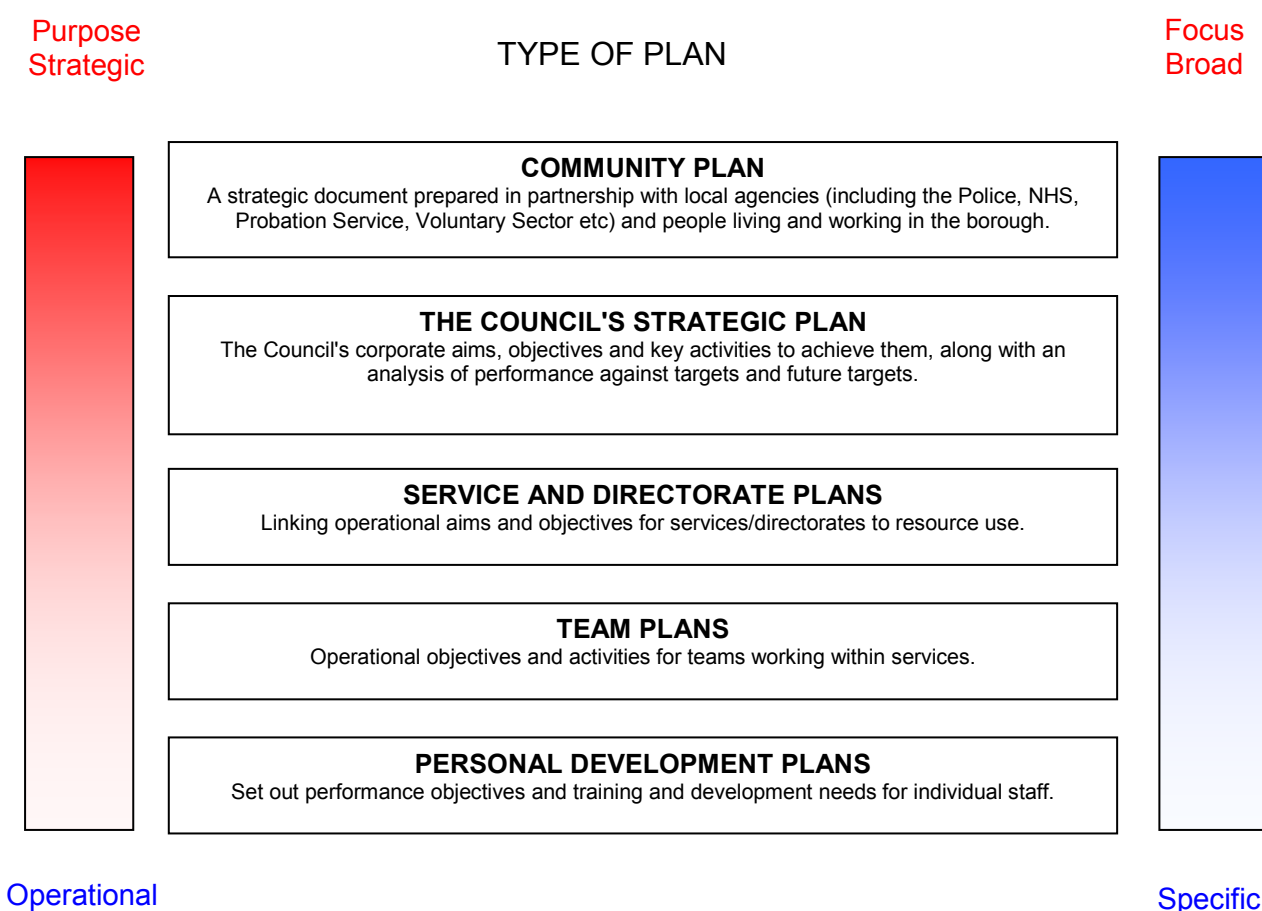
Over the last year, there has been significant consultation with local people to refresh the Community Plan through Local Strategic Partnership (LSP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people. An analysis of key messages from consultation across the Partnership in the last four years was also undertaken. The vision, themes and priorities of the Community Plan were discussed through the Tower Hamlets Partnership structures which comprise the Partnership Board and Executive, the Community Plan Delivery Groups (CPDGs), the issue-based groups and localised governance structures.

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

**3.2 Corporate and Service Plans**

The overall planning framework is illustrated in the following diagram. As the diagram below shows, the Council aligns its Strategic Plan with the Community Plan’s and is structured around the themes, priorities and objectives of the Community Plan.

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



The Council’s vision, priorities and objectives are used to structure all directorate service plans and Personal Development Plans (PDRs). This ensures that there is a “golden thread” that runs from the Community Plan to each individual employees’ work. This helps ensure that the vision, priorities and objectives are communicated to all levels of the organisation. Further communication takes place through the Council’s staff newsletter “Tower Hamlets Now”.

### **3.3 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 plans; and that progress against plans and targets is monitored and evaluated at all levels.

The Council's Corporate Management Team (CMT), comprising the Corporate Directors for each service (including the Council's Section 151 officer and the Monitoring Officer), is responsible for the overall management of the Council. The CMT also has responsibility for reviewing and challenging the Council's performance and delivery of the strategic plan.

### **3.4 Council Constitution**

The Council has an agreed Constitution that details how the Council operates and sets out:

- the rules and procedures to be followed by the Council and committees when conducting their business;
- the decision making powers of the Executive and of Committees;
- the financial and contract regulations;
- the scheme of delegation to chief officers;
- codes of conduct for councillors and employees; and
- members' interests and allowances.

Under the Council's constitution, the Executive is the elected Mayor, who has substantial powers over the running of local services. In taking decisions the Mayor is supported by the Cabinet, Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as the budget approval and the setting of Council Tax. A scheme of delegation is in place to enable officers to manage their services operationally.

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.

During the year the Constitution was refreshed by the Constitutional Working Party to ensure that it kept abreast of changes within the Council. From November 2011, the Council has delegated to the General Committee responsibility for future changes to the Constitution before ratification at the Full Council. The Council approves and keeps under regular review all of the strategic policies which it reserves for its own consideration, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the medium term financial plan including the capital programme and annual revenue budget;
- the housing strategy; and
- the local development framework.

### **3.5 Codes of Conduct**

The Council has a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are required to generally decline gifts and hospitality to ensure they are not inappropriately influenced. These codes and processes are made available to staff as part of their induction; they are also on the intranet and training is available to ensure every member of staff understands their responsibilities.

Councillors are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Councillors must also declare any gifts and hospitality with the records made public on the Council's website.

### **3.6 Rules, Regulations, Policies, and Procedures**

The Council's rules and procedure is part of four of the Council's Constitution. 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 are 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 Financial Procedures, 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.

### **3.7 Overview and Scrutiny**

During 2011/12 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

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

### **3.8 Audit Committee**

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

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority groups in proportion to their representation on the Council. The Audit Committee's remit is to review the Council's systems of internal control and its risk management and governance arrangements, as outlined in the CIPFA Code of Practice for Audit Committees. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's Annual Financial Report, including the annual statement of accounts, and to consider reports from the Audit Commission. The Audit Committee met four times during the financial year 2011/12.

### **3.9 Internal Audit**

Internal audit is an independent appraisal function that acts as a control that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In carrying out this function Internal Audit contributes to the discharge of the Corporate Director, Resources' Section 151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2011/12, the overall the control environment is adjudged to be satisfactory.

### **3.10 External Audit**

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

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

The auditors have, in their annual audit letter and their assessment, commented upon the Council's accounts, corporate governance and performance management arrangements.

### **3.11 Whistle Blowing Policy and the Complaints Procedure**

The Council has a recognised complaints process which is administered by the Complaints and Information team. The complaints process comprises of a number of stages to enable the public to escalate their complaints if they are not satisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and the Standards Committee.

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

The Council also has a whistle blowing policy which is actively promoted with the number of whistle blows received during the year reported to the Corporate Management Team and the Audit Committee. The effectiveness of this policy and the type of issues raised are reviewed and monitored by the Audit Committee on an annual basis.

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, lead by the Audit Commission, designed to detect fraud perpetrated on public bodies. The Corporate Anti-Fraud team has actively engaged with the Audit Commission to test and improve the output from the NFI exercise.

### **3.12 Risk Management**

The Authority has a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The principles of risk management are embedded in the Council's decision making processes. The Strategy recognises that when making decisions the Council may not always adopt the least risky option, particularly where the potential benefits to the community warrant the acceptance of a higher level of risk. All committee reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved and both financial and legal comments.

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



### **3.13 Financial Management**

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources (the Council's S151 officer). 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 will be detected.

Internal financial control is based on a well established framework of financial regulations and financial 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 a management responsibility. The control arrangements in 2011/12 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a medium-term financial plan incorporating an analysis of the financial risks facing the Council over the next three years and an assessment of the adequacy of General Fund and HRA reserves;
- regular reporting of actual expenditure and income against budgets and spending forecasts and service performance against targets;
- an annual Treasury Management and Investment Strategy including a prudential borrowing framework and associated indicators; and
- standing meetings of finance managers from across the Council (Finance Strategy Group and the Financial Reporting Technical Excellence Group) .

Since the publication of the CIPFA statement on the role of the Financial Officer in Local Government (2010), a self assessment of the Council has shown the authority conforms to the good practice identified within the code. A more recent publication concerning the role of the Head of Audit will be similarly assessed and will be submitted to the Audit Committee in due course.

### **3.14 The Efficient and Effective Use of Resources**

Value for money and continuous service improvement are secured through a range of processes, including the application of best value principles and the carrying out of efficiency reviews. During 2011/12, the Council continued work on its efficiency programme and has made plans to manage with significantly reduced financial resource in the future. As part of its service and financial planning process, the Council set efficiency targets and brought performance data into the consideration of resource allocation. The Audit Commission's most recent assessment for value continues to be positive in the way the Council seeks to deliver value for money.

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 together with associated Equality Impact Assessments.

### **3.15 Learning and Organisational Development**

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

Councillors have a member support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. The Audit Committee, Standards Committee and Pensions Committee have training as part of their agendas and it is intended that in future they will agree specific training

plans for themselves annually. For some aspects of Council work Members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

### **3.16 Communication and Engagement**

The Council publishes numerous documents on its website as well as providing a weekly paper, East End Life to keep residents up-to-date, in an informal and accessible way, on the work of the council.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council on the perception of the services it provides and the experience of services users. Further, the authority uses its citizen engagement portal to engage with a wide range of stakeholders. The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

On a more local basis the Council has a number of community forums which are used to engage with the community. Young people make up a greater proportion of the Tower Hamlets population compared to the rest of London, and the Council has thus sought to engage with them by enabling them to vote for a young Mayor of the Council. The young Mayor has a clear manifesto and is working to make a difference to young people's lives within the borough.

### **3.17 Partnerships**

The most significant partnership for the Council is the Tower Hamlets Partnership. In February 2012, the partnership structure was refreshed. In the new structure, the Partnership Executive and Board has been rationalised but still with responsibility for developing the overall strategy and for ensuring plans are delivered. The Community Plan Delivery Groups have been updated but with continued focus on the five key themes in the community plan including the statutory boards. The previously established eight local area partnerships whose role was to allow residents to influence their locality have been changed with the creation of Mayoral Assemblies. The Mayor's Assemblies are a new element of the structure and provide a mechanism for residents to engage with the Mayor, the Cabinet and cross agency public service providers at a local level.

The Council also has partnership arrangements with the local primary care trusts and the partnership has led on a number of public health programmes in recent months. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

The Council has an established Arms Length Management Organisation, Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage its housing stock. Tower Hamlets Homes has a formal governance structure and manages its internal affairs and delegated budgets through the Company's Board. Performance is monitored through a regular review process with senior council officers and elected Members. The company operates its own risk management strategy and is subject to internal and external inspections and audit in compliance with the Companies Acts.

## **4. 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 involved the evaluation of the key sources of assurance:

- The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- The annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate.
- The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- The Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control.
- Monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- The provisional outturn on the 2011/12 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Monthly monitoring of strategic risks of the Council by the CMT and the Mayor's Advisory Board.

### **Significant Governance Issues**

The review of the effectiveness of the governance arrangements in 2011/12 has not identified any immediate governance issues.

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective. We propose over the coming year to take steps to further enhance our governance arrangements.

.....  
Chief Executive  
Date:

.....  
Mayor  
Date:

# Agenda Item 8.3

COMMITTEE	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
<b>Audit Committee</b>	<b>26<sup>th</sup> June 2012</b>	<b>Unrestricted</b>		<b>8.3</b>
<i>REPORT OF:</i> <b>Chris Naylor – Corporate Director of Resources</b>		<i>TITLE:</i> <b>Annual Financial Report 2011-12</b>		
<i>ORIGINATING OFFICER(S):</i> <b>Peter Hayday – Interim Head of Corporate Finance, Risk and Accountability</b>		<i>Ward(s) affected:</i> N/A		

## 1. **SUMMARY**

- 1.1 This report presents the Annual Financial Report for 2011-12 which comprises an Explanatory Foreword by the Corporate Director, Resources and the draft Statement of Accounts which is subject to audit. The full Annual Financial Report will also contain the Annual Governance Statement which is the subject of a separate report on this Committee's agenda. The draft is both for information and comment prior to the commencement of the external audit proper by the Audit Commission (some preliminary work has already been undertaken).
- 1.2 Some minor changes may become necessary as a result of the audit process but these are not expected to have any material impact on the Council's overall financial position. The audit is planned to be concluded in early September and the results reported to the Committee on 25<sup>th</sup> September.

## 2. **RECOMMENDATIONS**

Audit Committee is recommended to:-

- 2.1 Note the Annual Financial Report for the financial year ending 31<sup>st</sup> March 2012 comprising the Explanatory Foreword and the draft Statement of Accounts which is subject to audit.

## 3. **BACKGROUND**

- 3.1 The Annual Financial Report 2011-12 comprises three elements:
  - An Explanatory Foreword
  - The Statement of Accounts
  - The Annual Governance Statement

The draft Statement of Accounts is attached as Appendix 1 and is subject to audit. The Annual Governance Statement is the subject of a separate report (agenda item 6.2).

- 3.2 The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit (England) Regulations 2011. The accounts must be prepared and certified by 30<sup>th</sup> June by the Corporate Director, Resources (the 'responsible financial officer') that it presents a true and fair view of the financial position of the Council. By no later than 30<sup>th</sup> September the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published. Although the Audit Committee is not actually required to consider the accounts prior to audit, good practice recognises the value in giving Members early notification of the financial outcome of the previous financial year.
- 3.3 For 2011-12 the audit will be carried out by the Audit Commission. The main audit is due to commence on 1<sup>st</sup> July, 2012 although some interim work has already been conducted. The audited accounts, together with the audit opinion and report, will then be submitted to the Audit Committee on 25<sup>th</sup> September for consideration and formal approval.
- 3.4 Under legislation, if there are any material amendments arising as a result of the audit, these will be reported to the September Audit Committee. 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. If necessary, this report will be made to the Audit Committee at the end of September.

#### **4. STATEMENT OF ACCOUNTS 2011-12**

- 4.1 The draft Statement of Accounts is attached to the report as Appendix 1. The contents of the accounts are largely determined by statutory requirements and mandatory professional standards as set out within the "Code of Practice on Local Authority Accounting" and "Standard of Professional Practice on Financial Reporting" published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The CIPFA Code of Practice is based on International Financial Reporting Standards (IFRSs). A summarised version of the accounts will also be published once the audit has been completed and the accounts have been formally approved.
- 4.2 Note that the title of the document tabled has been changed to Annual Financial Report rather than the Statement of Accounts. Though the contents of the document are unchanged from last year, the change in title is to acknowledge that the Auditor's opinion will just apply to the Statement of Accounts section of the document. Though the Auditor's will consider the Explanatory Foreword and Annual Governance Statement as part of auditing the Accounts for consistency, strictly speaking these are outside the scope of the opinion.
- 4.3 The purpose of the Statement of Accounts is to provide clear information about the authority's finances and should answer such questions as :
- What did the authority's services cost in the year?
  - Where did the money come from?
  - What were the authority's assets and liabilities at the year end

The Statement of Accounts reflects a common pattern of presentation to facilitate comparison with the accounts of other organisations. The accounts also form the basis of the Medium Term Financial Planning process.

- 4.4 The Council's 2011/12 outturn report, detailing net expenditure against individual service budgets, was reported to the 20<sup>th</sup> June Cabinet meeting and the 19<sup>th</sup> June Overview and Scrutiny Committee.
- 4.5 Set out below are the main elements of the Statement of Accounts with a brief explanation of the information contained in each element.

<p>Comprehensive Income and Expenditure Account</p>	<p>This summarises the revenue activities of the Council during 2011/12 and shows the day-to-day costs of services provided by the Council together with charges made to the revenue accounts in respect of the use of assets, costs of borrowing and income from investments. This includes the activities of the General Fund and the Housing Revenue Account.</p> <p>It should be noted that the analysis of service income and expenditure is one used by all local authorities for comparison purposes and differs from the Council's own budget and service organisational structure.</p> <p>The draft accounts show a gross spend in 2011/12 of £1.23 billion with a net surplus of £221 million. This surplus includes a number of accounting entries which do not form part of the Council's actual General Fund and HRA balances. These accounting entries such as depreciation and pension fund adjustments are then 'reversed out' in the Movement in Reserves Statement.</p>
<p>Movement in Reserves Statement</p>	<p>The Movement in Reserves Statement combines the Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses. The statement analyses the movements in reserves as they appear on the balance sheet.</p> <p>The adjusted increase in the General Fund Balance was £3.554m leaving a balance as at 31<sup>st</sup> March 2012 of £26.9 million</p>

	<p>Earmarked Reserves are those that have been set aside to cover a particular risk, or are ring fenced for particular purposes. These total £137.7 million including school balances of £25.8 million, the HRA reserve and £6.3 million of un-spent grants balances carried forward. The accounts assume certain transfers to Earmarked reserves requested by Directorates which have yet to be formally approved, and are reported in full to the June Cabinet. In the event that Cabinet does not agree to these transfers, the accounts will be adjusted as part of the audit process subject to the auditor's agreement.</p>
Balance Sheet	<p>The Balance Sheet shows the assets and liabilities of the Council as at 31<sup>st</sup> March 2012. The value of the assets of the Council must equal the value of liabilities plus reserves.</p> <p>Assets include property, plant and equipment, cash and investments and any debts owing to the Council.</p> <p>Property, plant and equipment has remained relatively unchanged at £1.9 billion in value.</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 £1.4 billion, which was a slight increase from 31<sup>st</sup> March 2011 when the figure was £1.3 billion. The main reason for the increase is due to the CLG debt repayment of £236 million less the increase in the pension fund liability of £113 million.</p>
Housing Revenue Account	<p>The Housing Revenue Account is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock of some 12,500 dwellings.</p> <p>The HRA balance as at 31<sup>st</sup> March 2012 is £13.6 million including an ear-marked</p>



	<p>future housing supply reserve of £1 million. The increase was due to higher income from commercial rents and larger fee income from the capital programme. The required bad debt provision was lower than originally anticipated.</p>
Group Accounts	<p>The Group Accounts show the financial position of the Council's 'Group'- comprising the Council itself plus its share of any controlled Companies. The Council incorporates Tower Hamlets Homes (THH) within its Group Accounts. THH is 100% owned by the Council and does all of its business with the Council.</p>
Collection Fund	<p>The Collection Fund is a separate account detailing Council Tax collections (including those collected on behalf of itself, the Greater London Authority) and National Non-Domestic Rates (NNDR) which is collected on behalf of 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. The statement includes the effect of supplementary business rates raised on organisations with a rateable value in excess of £50,000. The supplementary business rates is payable to the GLA to fund the Crossrail project.</p> <p>Any surplus or deficit on the Fund is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund. The Fund showed a deficit of just over £4.2 million for 2011/12 including the budgeted allocation of a previous year surplus of £3.4 million. The overall surplus on the Fund carried forward is £33,000.</p>
Cash Flow Statement	<p>The Cash Flow Statement details the overall cash movements (inflows and outflows) over the year.</p>
Pension Fund Accounts	<p>The Pension Fund accounts are separate from the rest of the Council's accounts and show the income (pension contributions and investment returns) and expenditure (pension payments) for the year together with the assets and</p>

	<p>liabilities of the Pension Fund as at 31<sup>st</sup> March 2012.</p> <p>The Fund is audited at the same time as the Council's main accounts but are subject to a separate audit opinion. The market value of the assets of the fund at the end of the year was £827 million (an increase of 1.8% from the £812 million March 2011 valuation). This increase largely reflects investment income received on pension assets over the last year.</p> <p>The results of the triennial revaluation completed during 2010/11 estimated a funding deficit of £305million and a funding level of 71%.</p> <p>The Pensions Fund accounts will be considered by the September Pensions Committee.</p>
--	---

- 4.6 Members are now invited to note the Annual Financial Statement and the Statement of Accounts in particular and to contact Financial Services if there are any queries that arise after the Committee Meeting. 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 Committee.

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

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

## **6. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 6.1 The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit (England) Regulations 2011. The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account. The statement must include notes: demonstrating that Dedicated Schools Grant has been deployed in accordance with regulations; of the number of employees in each £5000 salary bracket starting at £50,000, not including senior employees; and of the remuneration and the Council's contribution to pension for each senior employee.
- 6.2 The Accounts and Audit (England) Regulations 2011 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 30

June each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The audit committee must approve the statement of accounts by 30 September each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 30 September along with any certificate, opinion or report issued or given by the Auditor under section 9 of the Audit Commission Act 1998.

- 6.3 As indicated in section 3 of the report, it is consistent with good practice for the committee to see the statement of accounts at an early stage, given that it will be asked to approve the accounts upon completion of the audit.

## **7. ONE TOWER HAMLETS CONSIDERATIONS**

- 7.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.

- 7.2 The statements are published on the Council's website both in draft and in audited form. Interested parties have the right to inspect the accounts during the audit and local electors have the right to submit questions to the auditor. Details of these rights are published in local newspapers at appropriate stages.

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

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

## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 There are no specific risk management implications.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 There are no crime and disorder reduction implications.

## **11. EFFICIENCY STATEMENT**

- 11.1 There are no specific efficiency implications although the Audit Commission will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter.

## **12. APPENDICES**

Appendix 1 – Explanatory Foreword and draft Statement of Accounts for the year ended 31<sup>st</sup> March 2012 (subject to 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 Papers	Kevin Miles, Ext. 6791
Capital Working Papers	Alison Gebbett, Ext. 3360
HRA Closure of Accounts Working Papers	Paul Leeson, Ext. 4995



This page is intentionally left blank

# LONDON BOROUGH OF TOWER HAMLETS

## ANNUAL FINANCIAL REPORT 2011-12

# ANNUAL FINANCIAL REPORT 2011-12

## CONTENTS

	Page
<b>Explanatory Foreword</b>	
Foreword by the Corporate Director of Resources	1
Review of the Year	3
<b>The Statement of Accounts</b>	
The Accounting Statements	6
Movement in Reserves Statement	7
Comprehensive Income and Expenditure Account	8
Balance Sheet	9
Cash Flow Statement	10
Notes to the Core Financial Statements	11
Statement of Accounting Policies	11
Housing Revenue Account	68
Statement of Movement on the Housing Revenue Account Balance	69
Notes to the Housing Revenue Account	70
Collection Fund	74
Group Accounts	77
Pension Fund Accounts	84
Auditor's Report (to be provided)	
Statement of Responsibilities	97
Glossary and Abbreviations	98
<b>Annual Governance Statement</b> (separate agenda item 6.2)	105



## **EXPLANATORY FOREWORD**

### **Overview by the Corporate Director of Resources**

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2011/12, which reports our financial results for the year.

The accounts have been compiled in accordance with International Financial Reporting Standards, the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, and the Best Value Code of Practice. These constitute "proper accounting practice" with which councils must comply by statute. The Council also produce a summary of the accounts, which is less detailed than the full statement. This has been produced following consultation with stakeholders and is available from the Council's website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk)

The general economic climate in the UK, on-going reductions in main stream government grant funding and a continuing upward trend in the demand for key front line services in adult social care, children's services and housing have collectively created a challenging financial environment for the Council. Indeed, the resultant pressures on the Council's budget from inflation, demographic growth and the impact of new legislation, required it to achieve budget savings for the year of £30million; a reduction of some 10% compared to 2010/11.

However, through strong financial management the revenue budget for the year was under spent by £0.6 million (0.2%) and the level of general reserves increased by £3.6 million to £25.8 million (in line with the Medium Term Financial Plan). The Council's Value for Money assessment continues to be positive, so the overall financial position remains sound.

This solid financial base has helped to underpin the delivery of the Council's key policy objectives and specifically the Mayor's priorities, namely: improving the condition of social housing; increasing the supply of affordable social housing (particularly family sized housing); maintaining the provision of services for young people; delivering programmes of skills development, employment and enterprise activity; maintaining support to vulnerable adults; minimising the impact on resident household budgets and; protecting investment in activity that promotes community safety.

Key achievements in 2011/12 include:

- Delivering more than 2,000 affordable homes
- Improving street and environment cleanliness, including a reduction in litter, detritus, graffiti and fly-posting
- Reducing the number of young people not in education, employment or training
- Raising educational attainment – Tower Hamlets now performs better than the national average at GCSE level
- Supporting independent living – including increasing the number of social care users receiving self-directed support

Many of the key policy objectives have been delivered in conjunction with the Council's main strategic partners; Police, NHS Tower Hamlets, Jobcentre Plus and Tower Hamlets Council for Voluntary Services. This joined up approach to the provision of services for our residents is fundamental to improving the outcomes for service users and is overseen by the Local Strategic Partnership Executive, chaired by the Mayor.

The Council has continued to invest in its infrastructure with over £160 million spent on its capital programme. The main areas of investment were in housing and schools, with £28 million of improvement works through the housing programme and £84 million through the Building Schools for the future programme. However, other major projects included Victoria Park and the High Street 2012 scheme.

Looking forward the Council will continue to face significant financial challenges. The 2012-2015 Medium Term Financial Plan agreed by Full Council in February 2012 includes a £60 million savings programme, and whilst this forms the basis of a balanced budget over the next three years, there remain a number of major financial risks. Chief among these are the potential impact of government welfare reform and changes to the way in which local authority services are funded. Whilst the strength of the Council's balance sheet will enable it to effectively manage those risks in the short term, over the longer term they may require a further, more fundamental review of the way in which local services are delivered.

## **Introduction to the Statement of Accounts**

This is the second year in which the Council's Statement of Accounts has been prepared on an International Financial Reporting (IFRS) basis. The main change in disclosures within the Accounts relate to the reporting of 'heritage' assets. These are assets which have historical or artistic qualities that are held and maintained principally for their contribution to knowledge and culture. The overall value of the Council's heritage assets has been estimated at £5 million and is shown separately on the balance sheet with an accompanying note.

The Council's expenditure and income are defined either as revenue or capital. Revenue is spending on, or income from, the day to day running of services whilst capital expenditure (and its financing) relates to investment in items (assets) that provide a benefit for more than one year; this mainly includes land, buildings, vehicles and equipment.

The Council's net revenue budget requirement is funded by government Formula Grant and Council Tax. This revenue budget is referred to as General Fund income and expenditure and covers all of the Council's main services except the management and maintenance of its social housing stock; this is accounted for separately through the Housing Revenue Account and is primarily funded by rent and service charge income.

The Comprehensive Income and Expenditure Account, Balance Sheet and cash Flow Statement set out on pages 8 to 10 of the Accounts are a consolidation of both the General Fund and the Housing Revenue Account. They also include the two other main accounts; the Collection Fund (detailed on pages 74 to 76) and the surplus or deficit on the Pension Fund Account (detailed on pages 84 to 96). The Collection Fund accounts for Council Tax collected on behalf of both the Council and the Greater London Authority (GLA) as well as Business Rates (also known as National Non-Domestic Rates or NNDR). The Council collects NNDR on behalf of the government, which also determines the level of rate for all businesses.

Tower Hamlet Homes (THH), the Council's Arms Length Management Organisation (or ALMO) run Council housing in the Borough. Although THH operate as a separate organisation with their own independent auditors, their annual accounts are consolidated with those of the Council in the Group Accounts which are set out on pages 77 to 83.

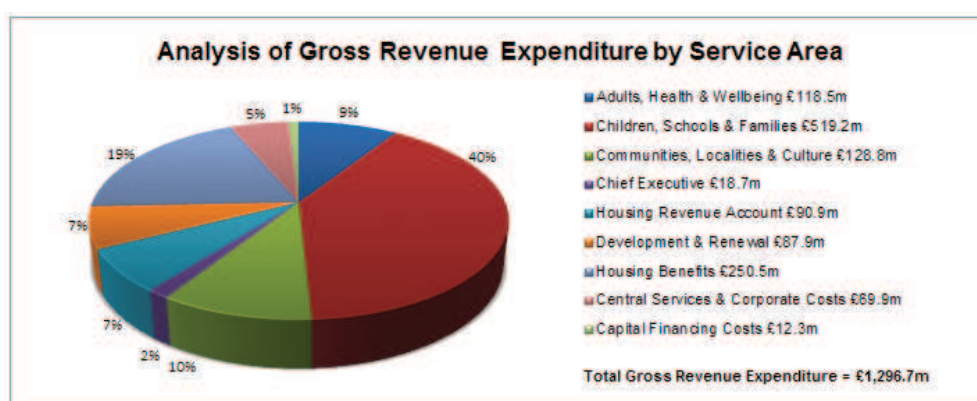
## Review of the Year

### Revenue Income and Expenditure

To provide a comparable analysis of income and expenditure across all local authorities there is a standard service analysis. However, it is worth pointing out that the Council budget is structured in line with its service directorates; this sometimes makes it difficult to compare the analysis in the Statement of Accounts with say, the budget analysis in Council Tax Leaflet.

Overall, against the net General Fund budget of £311 million there was an under spend of £0.6 million (0.2%) after the planned transfer of £3 million to General Fund Reserves. The HRA account showed an additional surplus of some £1.8 million against budget which has been transferred to the HRA reserves.

The Council's gross expenditure on services, excluding accounting adjustments, was £1.3 billion (£1.35 billion in 2010/11). An analysis by directorate is shown in the following diagram.

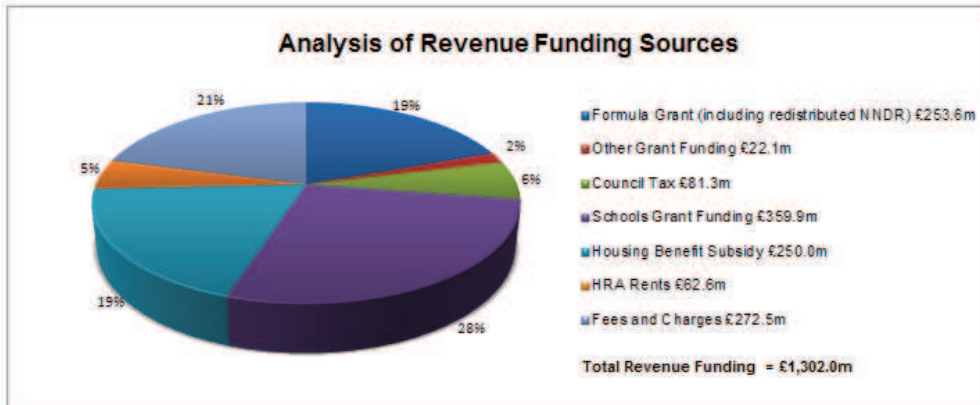


The reduction in government grant funding for the year required the Council to realise savings of some £30 million in its service budgets compared with 2010/11.

## Revenue Funding

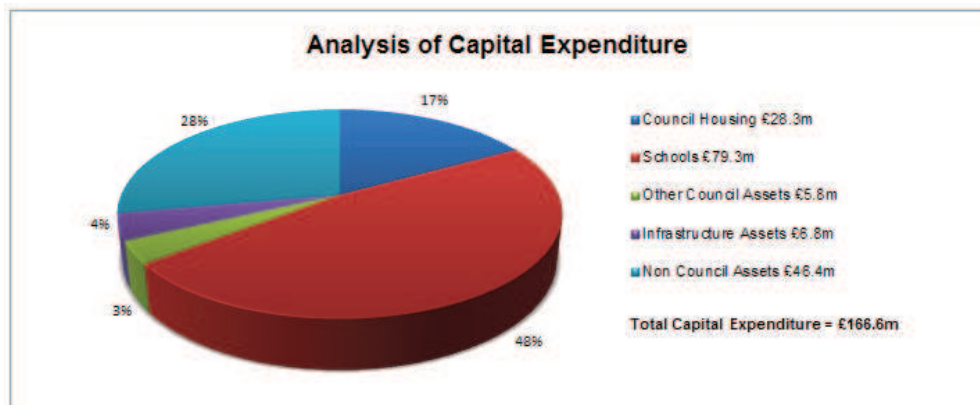
Government grants and subsidies continue to be the main sources of revenue funding (£0.89 billion). In its 2010 Spending Review the government not only reduced the overall level of grant funding to local authorities but also rationalised the way in which that funding is provided; this involved 'rolling-up' a large number of grants for specific services into either the main Formula Grant or a smaller number of Core Grants. The new Core Grants can be used to fund Council services in general rather than being tied to a specific service: this has provided a greater level of financial flexibility.

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



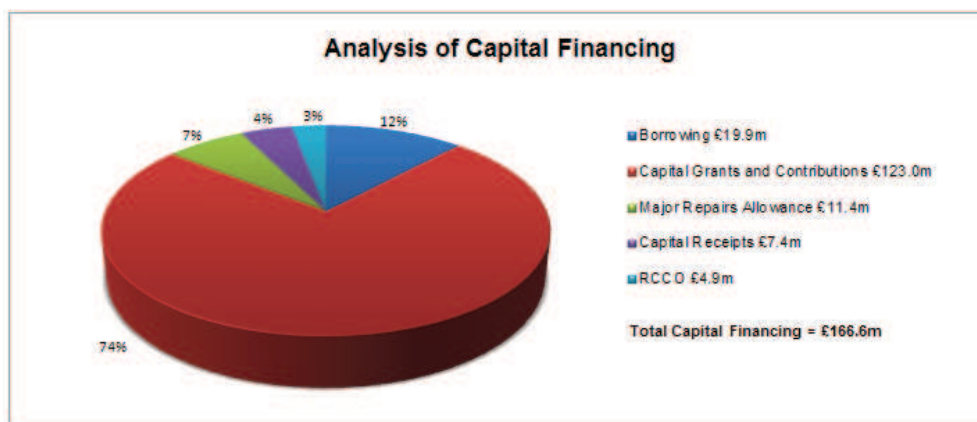
## Capital Investment

The Council has continued to make considerable capital investment in its capital assets. The following table sets out the broad categories of investment during the year with the main areas of spending being on schools (primarily through the Building Schools for the Future Programme) and housing where the Council spent £28.3 million through its Housing Capital Programme.



Investment shown as being in 'non-Council assets' includes £26 million of expenditure on schools and children centres not owned by the Council (e.g. faith schools).

The table below shows the sources of funding for the capital programme. In the main this was from capital grants and contributions although there was £19.9 million of additional borrowing.



At the year end the Council had outstanding borrowings of £93 million. This is a reduction of £268 million compared to the 31<sup>st</sup> March 2011. This reduction reflects the repayment of £236 million of Public Works Loan Board debt by the government at year-end. This debt related to the Council's housing stock and was part of the move to putting the Housing Revenue Account on a 'self-financing' footing from April 2012 onwards.

## Pensions

The Council offers retirement pensions to its staff under a statutory scheme and also makes contributions on their behalf. Although the pension benefits are not payable until employees retire, the Council has a commitment to make the payments and must account for them in the year in which the future entitlements are earned. This commitment is compared with the pension fund assets (investments) and the net amount is included in the accounts as the Council's pension net surplus or liability.

At the end of 2011/12 there was a net liability of £422.5 million (£308.7 million 2010/11). Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet the deficit will be addressed by increased contributions to the scheme in future years. These increased contributions have been reflected in the Council's Medium Term Financial Plan.

The increase in the net liability over the year is mainly a factor of the reduction in the actuarial forecast for the long term return on pension fund investments together with the market value of the investments at the year-end, which were adversely affected by the general uncertainty in the world's financial markets.

### FURTHER INFORMATION

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



## THE ACCOUNTING STATEMENTS

These comprise:

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

### The **Core Financial Statements**:

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

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

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

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

### **Notes to the Core Financial Statements**

Changes in the accounting treatment under IFRS are explained within the Statements.

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

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

The **Group Accounts** which combine the financial activities and position of the Council and its subsidiary Arms Length Management Organisation (ALMO), Tower Hamlets Homes, into amalgamated Core Financial Statements

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

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

## MOVEMENT IN RESERVES STATEMENT

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

	NOTES	USABLE RESERVES							UNUSABLE RESERVES							TOTAL AUTHORITY RESERVES	
		GENERAL FUND BALANCE	earmarked GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	DEFERRED CAPITAL RECEIPTS	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	REVALUATION RESERVE	CAPITAL ADJUSTMENT ACCOUNT	PENSIONS RESERVE	COLLECTION FUND ADJUSTMENT ACCOUNT	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT	ACCUMULATED ABSENCES ACCOUNT		TOTAL UNUSABLE RESERVES
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance as at 31 March 2010</b>		27,133	104,054	12,978	1,074	16,310	298	16,499	<b>178,346</b>	514,696	1,105,581	(689,923)	3,902	764	(4,210)	<b>930,810</b>	<b>1,109,156</b>
<b>Movement in reserves during 2010/11</b>																	
Surplus or (Deficit) on the Provision of Services		163,715		(291,458)					(127,743)							0	(127,743)
Other comprehensive expenditure and income									0	31,762		259,963				291,725	291,725
<b>Total Comprehensive Expenditure and Income</b>		<b>163,715</b>	<b>0</b>	<b>(291,458)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(127,743)</b>	<b>31,762</b>	<b>0</b>	<b>259,963</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>291,725</b>	<b>163,982</b>
Adjustments between accounting basis and funding basis under regulations	6	(162,168)	0	291,266	5,272	8,115	(57)	3,251	<b>145,679</b>	(12,936)	(253,174)	121,270	(748)	121	(210)	<b>(145,677)</b>	2
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>1,547</b>	<b>0</b>	<b>(192)</b>	<b>5,272</b>	<b>8,115</b>	<b>(57)</b>	<b>3,251</b>	<b>17,936</b>	<b>18,826</b>	<b>(253,174)</b>	<b>381,233</b>	<b>(748)</b>	<b>121</b>	<b>(210)</b>	<b>146,048</b>	<b>163,984</b>
Transfers to or from earmarked reserves	Z	(1,042)	1,042						0							0	0
Transfers to or from school reserves		(4,258)	4,258														
<b>Increase or (Decrease) in 2010/11</b>		<b>(3,753)</b>	<b>5,300</b>	<b>(192)</b>	<b>5,272</b>	<b>8,115</b>	<b>(57)</b>	<b>3,251</b>	<b>17,936</b>	<b>18,826</b>	<b>(253,174)</b>	<b>381,233</b>	<b>(748)</b>	<b>121</b>	<b>(210)</b>	<b>146,048</b>	<b>163,984</b>
<b>Balance as at 31 March 2011 carried forward</b>		<b>23,380</b>	<b>109,354</b>	<b>12,786</b>	<b>6,346</b>	<b>24,425</b>	<b>241</b>	<b>19,750</b>	<b>196,282</b>	<b>533,522</b>	<b>852,407</b>	<b>(308,690)</b>	<b>3,154</b>	<b>885</b>	<b>(4,420)</b>	<b>1,076,858</b>	<b>1,273,140</b>
<b>Movement in reserves during 2011/12</b>																	
Surplus or (Deficit) on the Provision of Services		(34,864)		256,111					221,247							0	221,247
Other comprehensive expenditure and income									0	13,701		(116,236)				(102,533)	(102,533)
<b>Total Comprehensive Expenditure and Income</b>		<b>(34,864)</b>	<b>0</b>	<b>256,111</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>221,247</b>	<b>13,701</b>	<b>0</b>	<b>(116,236)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(102,533)</b>	<b>118,714</b>
Adjustments between accounting basis and funding basis under regulations	6	52,225	0	(254,319)	1,639	3,183	(85)	30,406	<b>(166,951)</b>	(49,489)	216,053	2,380	(3,130)	74	1,065	<b>166,953</b>	0
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>17,361</b>	<b>0</b>	<b>1,792</b>	<b>1,639</b>	<b>3,183</b>	<b>(85)</b>	<b>30,406</b>	<b>54,296</b>	<b>(35,788)</b>	<b>216,053</b>	<b>(113,856)</b>	<b>(3,130)</b>	<b>74</b>	<b>1,065</b>	<b>64,420</b>	<b>118,714</b>
Transfers to or from earmarked reserves	Z	(11,394)	11,394						0							0	0
Transfers to or from school reserves		(2,413)	2,413														
<b>Increase or (Decrease) in Year</b>		<b>3,554</b>	<b>13,807</b>	<b>1,792</b>	<b>1,639</b>	<b>3,183</b>	<b>(85)</b>	<b>30,406</b>	<b>54,296</b>	<b>(35,788)</b>	<b>216,053</b>	<b>(113,856)</b>	<b>(3,130)</b>	<b>74</b>	<b>1,065</b>	<b>64,420</b>	<b>118,714</b>
<b>Balance as at 31 March 2012</b>		<b>26,934</b>	<b>123,161</b>	<b>14,578</b>	<b>7,985</b>	<b>27,608</b>	<b>156</b>	<b>50,156</b>	<b>250,578</b>	<b>497,734</b>	<b>1,068,460</b>	<b>(422,546)</b>	<b>24</b>	<b>959</b>	<b>(3,355)</b>	<b>1,141,276</b>	<b>1,391,854</b>

## COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

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

Gross Expenditure	2010/11		Note	2011/12		Net Expenditure
	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	
£'000	£'000	£'000		£'000	£'000	£'000
<b>Continuing Operations</b>						
27,813	6,375	21,438	Cultural and Related Services	29,790	6,859	22,931
49,313	36,879	12,434	Central Services	47,938	38,760	9,178
522,938	420,975	101,963	Children's and Education Services	529,192	437,468	91,724
56,891	14,417	42,474	Environment and Regulatory Services	41,568	9,471	32,097
30,220	19,449	10,771	Highways and Transport Services	31,709	20,704	11,005
375,395	89,701	285,694	Local Authority Housing (Housing Revenue Account) <sup>1</sup>	66,921	90,718	(23,797)
296,010	272,252	23,758	Other Housing Services	305,846	285,696	20,150
29,226	10,371	18,855	Planning Services	30,045	19,648	10,397
121,561	26,329	95,232	Adult Social Care	116,743	29,626	87,117
13,754	1,118	12,636	Corporate and Democratic Core	14,981	2,897	12,084
7,393	134,032	(126,639)	Non-distributed Costs <sup>3</sup>	14,954	343	14,611
<b>1,530,514</b>	<b>1,031,898</b>	<b>498,616</b>	<b>NET COST OF SERVICES</b>	<b>1,229,687</b>	<b>942,190</b>	<b>287,497</b>
		18,202	Other Operating Expenditure			130,450
		46,623	Financing and Investment Income and Expenditure <sup>2</sup>			107,916
		(435,698)	Taxation and Non-Specific Grant Income <sup>2</sup>			(747,110)
		<b>127,743</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>(221,247)</b>
<b>Other Comprehensive Income and Expenditure</b>						
		(31,761)	Surplus on revaluation of non-current assets			(13,701)
		(259,963)	Actuarial (gains) or losses on pension assets and liabilities			116,236
		<b>(291,724)</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>102,535</b>
<b>(163,981) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>						<b>(118,712)</b>

1. Includes a revaluation loss on Housing stock of £283 million in 2010/11. See Note 5 for further details.

2. Includes effect of CLG debt repayment in March 2012. See Note 5 for further details.

3. Includes 2010/11 £134million gain to the Pension scheme following a change in future pension inflation rates. See Note 5 for further details.



## BALANCE SHEET

This statement shows the Council's balances and reserves, its long term indebtedness and the non-current assets and net current assets employed in its operations as at 31st March 2012.

1 April 2010 £'000	31 March 2011 £'000		Notes	31 March 2012 £'000
<b>Long-term Assets</b>				
2,109,420	1,896,553	Property, plant and equipment	<a href="#">12</a>	1,850,505
0	0	Investment properties	<a href="#">13</a>	0
4,799	4,799	Heritage Assets	<a href="#">43</a>	4,799
0	0	Intangible Assets	<a href="#">14</a>	0
0	0	Assets held for sale	<a href="#">20</a>	0
0	0	Long-term investments	<a href="#">15</a>	0
1,067	1,008	Long Term Debtors	<a href="#">13</a>	768
<b>2,115,286</b>	<b>1,902,360</b>	<b>Total Long-term assets</b>		<b>1,856,072</b>
<b>Current Assets</b>				
40,818	100,929	Short-term investments	<a href="#">15</a>	131,603
0	0	Assets held for sale	<a href="#">21</a>	945
531	821	Inventories	<a href="#">16</a>	517
88,620	90,431	Short-term debtors	<a href="#">19</a>	74,557
81,700	136,563	Cash and cash equivalents	<a href="#">20</a>	126,283
<b>211,669</b>	<b>328,744</b>	<b>Total Current Assets</b>		<b>333,905</b>
<b>Current liabilities</b>				
15,324	35,485	Short-term borrowing	<a href="#">15</a>	66,766
96,519	130,688	Short-term creditors	<a href="#">22</a>	146,245
1,003	855	Provisions	<a href="#">23</a>	1,594
4,207	4,418	Provisions for accumulated absences	<a href="#">23</a>	3,355
<b>117,053</b>	<b>171,446</b>	<b>Total Current liabilities</b>		<b>217,960</b>
<b>Long Term Liabilities</b>				
10,213	12,014	Long-term creditors		13,088
302,475	325,533	Provisions	<a href="#">23</a>	25,979
689,924	308,691	Long-term borrowing	<a href="#">15</a>	422,546
50,030	90,474	Liability related to defined benefit pension schemes		72,255
38,287	41,090	Capital grants receipts in advance	<a href="#">37</a>	40,299
9,817	8,717	Deferred liabilities	<a href="#">40</a>	5,996
9,817	8,717	Deferred Income - Receipt in Advance		5,996
<b>1,100,746</b>	<b>786,519</b>	<b>Total Long-Term Liabilities</b>		<b>580,163</b>
<b>1,109,156</b>	<b>1,273,139</b>	<b>NET ASSETS</b>		<b>1,391,854</b>
<b>Reserves</b>				
<b>Usable Reserves</b>				
27,134	23,380	General Fund		26,934
12,978	12,786	Housing Revenue Account		14,578
84,942	85,984	Earmarked reserves	<a href="#">8</a>	97,378
19,111	23,370	Schools reserves	<a href="#">8</a>	25,783
16,309	24,424	Capital receipts reserve		27,608
298	241	Deferred capital receipts		156
16,500	19,751	Capital grants unapplied		50,156
1,074	6,346	Major repairs reserve		7,985
<b>178,346</b>	<b>196,282</b>	<b>Total Usable Reserves</b>		<b>250,578</b>
<b>Unusable Reserves</b>				
514,696	533,521	Revaluation Reserve	<a href="#">25</a>	497,734
1,105,580	852,406	Capital Adjustment Account		1,068,460
3,902	3,154	Collection Fund Adjustment Account		24
764	885	Financial Instruments Adjustment Account		959
(689,924)	(308,691)	Pensions reserve		(422,546)
(4,208)	(4,418)	Accumulated Absences Account		(3,355)
<b>930,810</b>	<b>1,076,857</b>	<b>Total Unusable Reserves</b>		<b>1,141,276</b>
<b>1,109,156</b>	<b>1,273,139</b>	<b>TOTAL RESERVES</b>		<b>1,391,854</b>

## CASH FLOW STATEMENT

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

2010/11 £'000		Notes	2011/12 £'000
(127,743)	Net surplus or (deficit) on the provision of services		221,256
272,277	Adjustments to net surplus or deficit on the provision of services for non cash movements	<a href="#">26A</a>	206,293
(119,569)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<a href="#">26A</a>	(163,976)
<b>24,965</b>	<b>Net cash flows from Operating Activities</b>	<a href="#">26A</a>	<b>263,573</b>
(13,002)	Investing Activities	<a href="#">26C</a>	(5,287)
42,900	Financing Activities	<a href="#">26D</a>	(268,566)
<b>54,863</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>(10,280)</b>
81,700	Cash and cash equivalents at the beginning of the reporting period		136,563
<b>136,563</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<a href="#">10</a>	<b>126,283</b>

## NOTE 1. STATEMENT OF ACCOUNTING POLICIES

### 1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31<sup>st</sup> March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the *Best Value Accounting Code of Practice 2011/12*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council including the group accounts for the year ending 31<sup>st</sup> March 2012 and to ensure it is compliant with relevant statutory accounting requirements issued by the International Accounting Standards Board (IASB). Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the:

- Materiality concept means that information is included where the information is of such significance as to justify its inclusion.
- Accruals concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received.
- Going concern concept assumes that the Council will continue in operational existence for the foreseeable future
- Primacy of Legislation - local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

### 2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority. This includes the accounting of fees, charges and rents due from customers; these are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.
- The Council operates a de minimus of £5,000 below which items of income and expenditure are not normally accrued for.

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

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice. Cash equivalents are investments that mature no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

### **4. Exceptional Items**

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

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

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

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

### **Changes in Accounting Policy:**

**Heritage Assets** - For 2011/12, the adoption of FRS 30 *Heritage Assets* in the Code is a change of accounting policy. This requires the publication of a Balance Sheet as at the beginning of the earliest comparative period (i.e. a third Balance Sheet) in the 2011/12 financial statements where the restatement for the measurement of heritage assets is material. In addition, the disclosures required by section 4.10.4 of the Code shall be provided for the comparative year in the 2011/12 financial statements.

**Other changes** – other changes adopted in the 2011/12 Code did not require additional disclosure for the 2010/11 or 2011/12 financial statements.

The impact to accounting policies of future changes to legislation or accounting standards has to be disclosed, these are disclosed below.

#### **5a. The following Accounting Standards have been issued but have not been adopted**

Changes to IFRS7 - Financial Instrument disclosures that require information of the transfer of financial assets within the financial statements will be included within the 2012/13 financial statements where appropriate and material.

#### **6. Charges to Revenue for Long-term Assets**

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

- Depreciation attributable to the assets used by the relevant service
- Re valuation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible long-term assets attributable to the service

The Council is not required to raise Council Tax to fund depreciation, revaluation, 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 an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **7. Employee Benefits**

### **a. Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. If material, an accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **b. Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy and a reliable estimate can be made of the cost.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### **c. Post-Employment Benefits**

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

- The Local Government Pension Scheme, administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

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

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's



contributions payable to Teachers' Pensions in the year. The DfE set the teacher's pension contribution rate.

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

The Local Government scheme is a defined benefits scheme.

The Council's wholly owned subsidiary, Tower Hamlets Homes Limited (THH), is a Local Government Pension Scheme Employer in accordance with the Local Government Pension Scheme (Amendment) Regulations 2002. The Council has indemnified THH in respect of all liabilities that have arisen or may arise from its pension obligations.

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

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years) as at 31<sup>st</sup> March 2012.

Assets attributable to the Council are included in the Balance Sheet at their fair value. Quoted or unitised securities are valued at current bid price; unquoted securities on the basis of professional estimate; and property at market value.

The change in the net pension liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost – the increase in liabilities arising from current year decisions the effect of which relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- 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 Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- 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, credited or debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve.
- contributions paid to the pension funds – cash paid as employer's contributions to the pension funds.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the

amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension funds and any amounts payable to the funds but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees as calculated under IAS19.

### **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.

## **8. Events after the Balance Sheet date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- a. those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such material events
- b. those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect, or a statement that an estimate cannot be reliably made.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue (these will be added as matters arise).

## **9. Financial Instruments**

### **a. Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where



repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the

Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

## **b. Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

## **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited / debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **10. Foreign Currency Translation**

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

## **11. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (revenue grants) or Capital Grants Receipts in Advance account (capital grants). When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Unapplied revenue grants without repayment conditions are shown as earmarked reserves.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where a repayment of grants or contributions becomes repayable where the grant or contribution has previously been recognised in the Comprehensive Income and Expenditure Statement the repayment is recognised as an expense in the Comprehensive Income and Expenditure Statement.

Government grants and contributions may be received subject to a condition that it is returned to the transferor if a specified future event does or does not occur. A return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Comprehensive Income and Expenditure Statement.

## **12. Heritage assets**

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change in accounting policy in relation to the treatment of heritage assets held by the Council, which has been adopted by the Council for the financial statements.

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £4.8 million at 31 March 2012. This valuation is based on valuations for art and museum collections where the asset has a material value. The authority holds information on the value of an item of material value within the art collection (one painting), two public statues and civic regalia (value held for insurance purposes).

Where the Council has information on the cost or value of a heritage asset the Council includes that value in its 2011/12 balance sheet. Where this information is not available and

the historical cost information cannot be obtained the asset is excluded from the balance sheet.

Operational heritage assets (i.e. those that in addition to being held for their heritage characteristics are also used for other activities or provide other services) are accounted for as operational assets and valued in the same way as other assets of that type.

Heritage assets (other than operational heritage assets) shall normally be included in the balance sheet at their current value where material. The Council has a materiality threshold of £50,000 for considering heritage assets for valuation. Where it is not practical to obtain a valuation at a reasonable cost heritage assets are valued at cost where known. Most heritage assets owned by the council have an historical interest to the Borough, but would not have material market value. Due to the nature of these assets, it is unlikely the Council will look to sell these assets.

Valuations are made by any method that is appropriate, including reference to sale proceeds of similar items by same artist to demonstrate values are clearly under materiality values. There is no requirement for valuations to be carried out or certified by external valuers nor is there any prescribed minimum period between valuations. The Council has four heritage assets that have material values, these values are reviewed periodically, however the real value would only be established upon sale as valuations on assets of this nature are subjective.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a material heritage asset or doubts arise to its authenticity the value of the asset would be reviewed.

### **13. Intangible Long Term Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Annual software licence fees are charged to capital and amortised in that year

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising

on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **14. Interests in Companies and Other Entities**

The Council has a material interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council and which requires group accounts to be prepared. The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. In the Council's own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

#### **15. Inventories and Long Term Contracts**

Inventories (stocks) are included in the Balance Sheet at the lower of cost and net realisable value. Where material, the council would select a valuation process appropriate for the asset.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

#### **16. Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

#### **17. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

#### **The Authority as a Lessee**

The Council has reviewed in detail its leases and has determined that, except for PFI agreements, there are a small number of finance leases with immaterial asset values, so the agreement costs are charged to revenue. For finance leases (including the PFI assets), the accounting policy is as follows;

**a. 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, plant or equipment (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible property, plant or equipment asset – the liability is written down as the rent becomes payable), and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

**b. Operating Leases**

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

**The Authority as a Lessor**

The council has some operating leases as a lessor; the accounting policy is as follows:

**Operating Leases**

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

**18. 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 Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.

- Non Distributed Costs – costs not attributable to services such as depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## **19. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The de minimis level above which expenditure on tangible property, plant and equipment assets is classified as capital is £50,000 except where the expenditure is financed by grants or contributions; or where lesser amounts on the same asset accumulate above that level.

### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost.
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).



Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value – this is commonly used as a basis for valuing vehicles, plant and equipment.

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

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

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

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

### **Impairment**

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

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

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

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

### **Depreciation**

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

Depreciation is calculated on the following bases:

- **dwelling**s - equivalent to the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation
- **other buildings** – straight-line allocation over the useful life of the property as estimated by the valuer
- **vehicles, plant, furniture and equipment** – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. For equipment, over five years

- **infrastructure** – straight-line allocation over 40 years

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

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately if they have a materially different remaining life from the underlying asset.

Any assets with a value below £0.5 million are not considered material for containing separate components. Separate components will be considered in an asset with a value greater than £0.5 million if the component has a value of greater than 25% of the asset and the remaining life of the asset is materially different from the underlying asset.

### **Disposals and Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to long-term assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of long-term assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.



## 20. Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment long-term assets needed to provide services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The Council is party to two PFI contracts in respect of schools which terminate in 2027 and 2029.

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

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

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

**MRP policy for PFI schemes** - a minimum revenue provision is charged based on a share of the charge paid within the contract - this represents repayment of the contract liability for the long-term assets within the contract.

There is also a contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. The assets of the CHP scheme are included on the council's balance sheet with a deferred income balance (from 2010/11), both of which are written down over the term of the contract.

## 21. Provisions, Contingent Liabilities and Contingent Assets

### a. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, if the Council were to be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate at the balance sheet

date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service account.

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

#### **b. Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in note 45 to the accounts.

#### **c. Contingent Assets**

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **22. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement of Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the relevant service revenue account in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for long-term assets, financial instruments, retirement and employment benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

### **23. Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of long-term assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the

Movement of Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

#### **24. VAT**

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

#### **25. Collection Fund**

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). This account receives income on behalf of the Council and its other preceptor, the Greater London Authority (GLA).

Council Tax income for the year is the Council's accrued income for the year and not the amount required to be transferred from the Collection Fund under regulation. The difference between the amount included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included within the Movement of Reserves Statement.

The cash collected by the Council from Council Tax debtors belongs proportionately to the billing authority and the preceptor. This results in a debtor / creditor position between the Council and preceptor for the difference between the cash collected from Council Tax debtors and the precept paid over during the year. The Balance Sheet includes the Council's share of Council Tax arrears and impairment for bad debts, Council Tax over payments and prepayments and the debtor/ creditor from the preceptor.

The Council's share of net cash collected from Council Tax debtors in the year is included within the Cash Flow Statement. The difference between the major preceptors' share of net cash collected and amounts paid to the precepting authorities is included in the net cash-flows for financing activities.

The amount included in the Council's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of a cost of collection allowance) that has not yet been paid to the Government or has been overpaid to the Government on the Balance Sheet date.

#### **26. Carbon Reduction Commitment Scheme**

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

## **NOTE 2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in note 1, the Authority has had to make certain judgments about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The Council is accounted for on a going concern basis this is supported by the Council's medium term financial plan which shows a balanced budget over the next three years as well as an appropriate level of reserves having regard to the financial risks facing the Council in terms of future levels of government funding and increasing service demand.
- Assets have been valued at an appropriate level - property is regularly reviewed to identify possible impairment and there is a rolling five-year valuation programme.
- All assets are reflected in the Council's balance sheet – the Council maintains a comprehensive asset register and contracts have been reviewed to identify potential embedded service concessions or embedded leases.
- The Pension Fund deficit can be managed within the constraints of the medium term financial plan - the Council's pension fund investment strategy and funding level is closely monitored in conjunction with the Fund's Advisors and Actuary and appropriate provision is included in the accounts to ensure that pension liabilities can be met over the longer term.
- The level of creditors shown in the accounts properly reflects the level of such liabilities - the Council has an effective purchase ledger system and associated internal control procedures to ensure that all creditors are recognised in the accounts with an appropriate value based on the expected value of goods ordered and received in the old financial year but not paid.

### 3 RESTATED ACCOUNTING STATEMENTS

#### HERITAGE ASSETS

FRS30 requires that heritage assets are shown on the Council's balance sheet where material. The 1st April 2010 and 31st March 2011 balance sheets have been restated to include these asset values. Refer to note 43 for more information.

#### Opening 1 April 2010 Balance Sheet

	1 Apr 2010 Balance Sheet £'000	Adjustments Made £'000	Restated 1 Apr 2010 Statements £'000
<b>Non-Current Assets</b>			
Heritage Assets	0	4,799	4,799
<b>Non-Usable Reserves</b>			
Revaluation Reserve	(509,897)	(4,799)	(514,696)

#### 31st March 2011 Balance Sheet

	2010/11 Statements £'000	Adjustments Made £'000	Restated 2010/11 Statements £'000
<b>Non-Current Assets</b>			
Heritage Assets	0	4,799	4,799
<b>Non-Usable Reserves</b>			
Revaluation Reserve	(528,722)	(4,799)	(533,521)

## Restated Comprehensive Income & Expenditure Account

The Comprehensive Income and Expenditure Account has been restated to show the cost of exit packages against the relevant service line rather than against Non Distributed Costs and Cultural, Environmental, Regulatory and Planning Services have been divided into three separate headings to comply with the latest CIPFA Service Expenditure Analysis. The restatements are as follows:

2010/11 Comprehensive Income and Expenditure Statement				
Continuing Operations				
Cost of Services (Net):				
	2010/11 Statements	Exit Packages	Reallocated Cultural, Environmental, Regulatory & Planning Services	Restated 2010/11 Statements
	£'000	£'000	£'000	£'000
<b>Cultural, Environmental, Regulatory and Planning Services</b>				
Gross expenditure	117,491	0	(117,491)	0
Gross income	(31,365)	0	31,365	0
Net expenditure	86,126	0	(86,126)	0
<b>Children's and Education Services</b>				
Gross expenditure	514,007	2,350	6,581	522,938
Gross income	(418,789)	0	(2,186)	(420,975)
Net expenditure	95,218	2,350	4,395	101,963
<b>Central Service</b>				
Gross expenditure	48,533	640	140	49,313
Gross income	(38,027)	0	1,148	(36,879)
Net expenditure	10,506	640	1,288	12,434
<b>Culture and Related Services</b>				
Gross expenditure	0	858	26,955	27,813
Gross income	0	0	(6,375)	(6,375)
Net expenditure	0	858	20,580	21,438
<b>Environmental and Regulatory Services</b>				
Gross expenditure	0	777	56,114	56,891
Gross income	0	0	(14,417)	(14,417)
Net expenditure	0	777	41,697	42,474
<b>Highways and Transport Services</b>				
Gross expenditure	29,927	293	0	30,220
Gross income	(19,449)	0	0	(19,449)
Net expenditure	10,478	293	0	10,771
<b>Local Area Housing (Housing Revenue Account)</b>				
Gross expenditure	375,395	0	0	375,395
Gross income	(89,701)	0	0	(89,701)
Net expenditure	285,694	0	0	285,694
<b>Other Housing Services</b>				
Gross expenditure	295,572	438	0	296,010
Gross income	(272,252)	0	0	(272,252)
Net expenditure	23,320	438	0	23,758
<b>Planning Services</b>				
Gross expenditure	0	689	28,537	29,226
Gross income	0	0	(10,371)	(10,371)
Net expenditure	0	689	18,166	18,855
<b>Adult Social Care</b>				
Gross expenditure	121,500	897	(836)	121,561
Gross income	(27,165)	0	836	(26,329)
Net expenditure	94,335	897	0	95,232
<b>Corporate and Democratic Core</b>				
Gross expenditure	12,281	1,473	0	13,754
Gross income	(1,118)	0	0	(1,118)
Net expenditure	11,163	1,473	0	12,636
<b>Non Distributed Costs</b>				
Gross expenditure	15,808	(8,415)	0	7,393
Gross income	(134,032)	0	0	(134,032)
Net expenditure	(118,224)	(8,415)	0	(126,639)
<b>Net Cost of Services Sub-Total (unchanged)</b>				
Gross expenditure	1,530,514	0	0	1,530,514
Gross income	(1,031,898)	0	0	(1,031,898)
Net expenditure	498,616	0	0	498,616

## 4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31st March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**Property, Plant and Equipment** - Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £1 million for every year that useful lives had to be reduced.

**Heritage Assets** - In valuing material heritage assets, valuations have been obtained from independent valuers. Where a value has been given between a certain band, then the mid-point valuation is used. However, because of their unique nature the value of heritage assets is difficult to predict. There is a risk that the value of heritage assets is incorrectly stated, but this would only become apparent if the asset is sold. As most heritage items have been given a nil value as the assets have values significantly below the materiality threshold, any risk is that assets' value is understated. Also, as the assets are a record of the Borough's heritage, it is unlikely that they will be sold.

**Debtors** - The Council has a balance of £46m sundry debtors at 31st March 2012. A bad debt provision equating to 25% exists. If collection levels were to deteriorate, then an increase of the provision by 10% would equate to £1.1m.

**Creditors** - creditors are raised based on the value of goods received in the old financial year where payment has not been made to the supplier. The value of year-end creditor is based on the expected value of the order to be paid, however there is the possibility that the final amount payable might vary. At 31st March 2012, the value of these creditors was £5.2 million.

**Pensions Liability** - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund investments. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.

The assumptions interact in complex ways. During 2011/12, the Authority's actuaries advised that the net pensions liability had increased by £114 million, partly as a result of investment returns and bond yields being lower than expected.

## 5 Material Items of Income and Expense

Due to a change in valuation guidance, £283m of revaluation loss was charged to the Comprehensive Income and Expenditure Account in 2010/11. However this was not a real charge to the General Fund in accordance with statute and as such is reversed out the Capital Adjustment Account. Further details are in Note 3 to the Housing Revenue Account.

Projected pension liabilities reduced in 2010/11 following the Government announcement that the Consumer Price Index rather than the Retail Price Index will be used as the basis for future increases to public sector pensions in payment and deferment. The 2010/11 gain to the pension scheme was estimated at £134 million and shown within Non Distributed Costs within the Comprehensive Income & Expenditure Account for 2010/11. More details are in note 41 to the Accounts.

**Communities & Local Government (CLG) Debt Repayment** - In March 2012, the CLG repaid a total of £236.2 million of PWLB loans used to finance housing as part of a nationwide debt re-allocation programme under the new HRA Self-Financing arrangements which come into effect from 1st April 2012. The debt repayment included the notional payment of a £76.3 million debt premium from early repayment.

## 6 Events After the Balance Sheet Date

No post balance sheet events have been identified that would require the accounts to be restated.

**7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

2011/12	USABLE RESERVES								UNUSABLE RESERVES	
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	DEFERRED CAPITAL RECEIPTS	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments involving the Capital Adjustment Account</b>										
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>										
Charges for depreciation and impairment of non current assets	26,995	0	1,758	13,021	0	0	0	41,774	(41,774)	0
Revaluation losses on PPE (charged to SDPS)	4,300	0	(7,782)	0	0	0	0	(3,482)	3,482	0
Movements on the market value of investment assets	0	0	0	0	0	0	0	0	0	0
Amortisation of intangible assets	1,270	0	0	0	0	0	0	1,270	(1,270)	0
Capital grants and contributions applied	(101,402)	0	(1,827)	0	0	0	(19,756)	(122,985)	122,985	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	43,017	0	3,353	0	0	0	0	46,370	(46,370)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	135,729	0	3,542	0	0	0	0	139,271	(139,271)	0
Capital receipts from Secretary of State used to repay debt in accordance with the HRA Settlement Determination	0	0	(236,199)	0	0	0	0	(236,199)	236,199	0
<u>Inclusion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</u>										
Statutory provision for the financing of capital investment	(8,877)	0	0	0	0	0	0	(8,877)	8,877	0
Capital expenditure charged against the General Fund and HRA balances	(2,638)	0	(2,224)	0	0	0	0	(4,862)	4,862	0
<b>Adjustments involving the Capital Receipts Reserve</b>										
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(895)	0	(5,487)	0	6,382	0	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(7,462)	0	0	(7,462)	7,462	0
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	6	0	(15)	0	9	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	24	0	0	0	(24)	0	0	0	0	0
Unattached capital receipts	(16)	0	(4,177)	0	4,193	0	0	0	0	0
Deferred Capital Receipts	0	0	0	0	85	(85)	0	0	0	0
<b>Adjustment involving the Major Repairs Reserve</b>										
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(11,382)	0	0	0	(11,382)	11,382	0
<b>Adjustments involving the Financial Instruments Adjustment Account</b>										
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	101	0	(175)	0	0	0	0	(74)	74	0
<b>Adjustment involving the Pensions Reserve</b>										
Reversal of items relating to retirement benefits debited or credited to the CIES	31,546	0	713	0	0	0	0	32,259	(32,259)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(32,129)	0	(2,510)	0	0	0	0	(34,639)	34,639	0
<b>Adjustments involving the Collection Fund Adjustment Account</b>										
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	3,130	0	0	0	0	0	0	3,130	(3,130)	0
<b>Adjustments involving the Unequal Pay Back Pay Adjustment Account</b>										
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0	0
<u>Other adjustments include</u>										
<b>Adjustments involving the Capital Grants Unapplied Account</b>										
Capital grants and contributions unapplied credited to CIES when receivable	(46,873)	0	(3,289)	0	0	0	50,162	0	0	0
<b>Adjustment between the Capital Adjustment Account and the Revaluation Reserve</b>										
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0	0
<b>Transfers from General Fund (as directed by Secretary of State)</b>										
0	0	0	0	0	0	0	0	0	0	0
<b>Adjustments involving the Accumulated Absences Account</b>										
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,063)	0	0	0	0	0	0	(1,063)	1,063	0
<b>Total Adjustments</b>	<b>52,225</b>	<b>0</b>	<b>(254,319)</b>	<b>1,639</b>	<b>3,183</b>	<b>(85)</b>	<b>30,406</b>	<b>(166,951)</b>	<b>166,951</b>	<b>0</b>



**ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

2010/11	USABLE RESERVES							UNUSABLE RESERVES		
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	DEFERRED CAPITAL RECEIPTS	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments involving the Capital Adjustment Account</b>										
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>										
Charges for depreciation and impairment of non current assets	23,829	0	1,477	12,913	0	0	0	38,219	(38,219)	0
Revaluation losses on PPE (charged to SDPS)	1,210	0	293,654	0	0	0	0	294,864	(294,863)	1
Movements on the market value of investment assets	0	0	0	0	0	0	0	0	0	0
Amortisation of intangible assets	836	0	0	0	0	0	0	836	(836)	0
Capital grants and contributions applied	(74,541)	0	(5,989)	0	0	0	(21,918)	(102,448)	102,448	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	24,646	0	7,676	0	0	0	0	32,322	(32,322)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	12,053	0	18,257	0	0	0	0	30,310	(30,311)	(1)
<u>Inclusion of items not debited or credited to the Comprehensive</u>										
Statutory provision for the financing of capital investment	(7,373)	0	0	0	0	0	0	(7,373)	7,373	0
Capital expenditure charged against the General Fund and HRA balances	(6,851)	0	(335)	0	0	0	0	(7,186)	7,186	0
<b>Adjustments involving the Capital Receipts Reserve</b>										
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(3,343)	0	(10,140)	0	13,483	0	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(5,792)	0	0	(5,792)	5,792	0
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	11	0	92	0	(103)	0	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	0	0	0	0	0	0	0	0	0	0
Unattached capital receipts	(214)	0	(236)	0	450	0	0	0	0	0
Deferred Capital Receipts	0	0	(19)	0	76	(57)	0	0	0	0
<b>Adjustment involving the Major Repairs Reserve</b>										
Reversal of Major Repairs Allowance credited to the HRA	0	0	0	0	0	0	0	0	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(7,641)	0	0	0	(7,641)	7,641	0
<b>Adjustments involving the Financial Instruments Adjustment</b>										
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	101	0	(222)	0	0	0	0	(121)	121	0
<b>Adjustment involving the Pensions Reserve</b>										
Reversal of items relating to retirement benefits debited or credited to the CIES	(78,795)	0	(6,416)	0	0	0	0	(85,211)	85,211	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(34,021)	0	(2,038)	0	0	0	0	(36,059)	36,059	0
<b>Adjustments involving the Collection Fund Adjustment Account</b>										
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	748	0	0	0	0	0	0	748	(748)	0
<b>Adjustments involving the Unequal Pay Back Pay Adjustment</b>										
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0	0
<u>Other adjustments include</u>										
<b>Adjustments involving the Capital Grants Unapplied Account</b>										
Capital grants and contributions unapplied credited to CIES	(20,269)	0	(4,900)	0	0	0	25,169	0	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	0	0	0	0	0
<b>Adjustment between the Capital Adjustment Account and the</b>										
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	1	1
<b>Transfers from General Fund (as directed by Secretary of</b>	(406)	0	406	0	0	0	0	0	0	0
<b>Adjustments involving the Accumulated Absences Account</b>										
an accruals basis is different from remuneration chargeable in	211	0	0	0	0	0	0	211	(211)	0
<b>Total Adjustments</b>	<b>(162,168)</b>	<b>0</b>	<b>291,267</b>	<b>5,272</b>	<b>8,114</b>	<b>(57)</b>	<b>3,251</b>	<b>145,679</b>	<b>(145,678)</b>	<b>1</b>

## 8 TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2011/12

	BALANCE AT 1 APRIL 2010	TRANSFERS OUT 2010/11	TRANSFE-RS IN 2010/11	BALANCE AT 31 MARCH 2011	TRANSFERS OUT 2011/12	TRANSFERS IN 2011/12	BALANCE AT 31 MARCH
<b>GENERAL FUND</b>							
General Fund Reserve	27,134	(3,754)	0	23,380	0	3,554	26,934
<b>EARMARKED RESERVES</b>							
<b>Corporate</b>							
1 Improvement & Efficiency	11,296	(5,444)	1,181	7,033	(2,233)	6,142	10,942
2 Severance	4,000	0	0	4,000	0	0	4,000
3 Finance Systems	2,724	0	0	2,724	0	0	2,724
4 ICT Refresh	1,417	(62)	0	1,355	0	0	1,355
5 Olympics	1,493	(700)	1,644	2,437	(558)	0	1,879
6 Education Grant Reduction	0	0	4,000	4,000	0	0	4,000
7 Employment and other Corporate Initiatives	3,594	(1,401)	1,563	3,756	(1,295)	3,775	6,236
8 Other	6,050	(3,739)	1,110	3,421	(1,480)	0	1,941
<b>Service Specific</b>							
9 Homelessness	2,451	(220)	284	2,515	(390)	799	2,924
10 Parking Control	1,828	0	610	2,438	0	158	2,596
11 PFI (Building School for Future)	0	0	1,345	1,345	(1,345)	0	0
12 Development & Renewal Other	1,127	(382)	367	1,112	(173)	1,865	2,804
13 Communities, Localities & Culture	540	(227)	139	452	0	215	667
14 Children, Schools & Families	4,115	(3,393)	233	955	(840)	388	503
15 Adults, Health & Wellbeing	4,396	(2,968)	165	1,593	(114)	4,055	5,534
16 Chief Executives & Resources	193	(193)	0	0	0	102	102
<b>Revenue Reserves - Other</b>							
17 Insurance	24,734	(1,964)	2,050	24,820	(733)	0	24,087
18 Schools Balances	19,111	0	4,259	23,370	(4,756)	7,169	25,783
19 CSF - Early Intervention	1,633	0	3,632	5,265	(1,204)	123	4,184
20 Housing Revenue Account (HRA)	12,978	(192)	0	12,786	0	792	13,578
21 Housing Revenue Account - Future Housing Supply	0	0	0	0	0	1,000	1,000
<b>Capital Reserves</b>							
22 Capital Programme (General Fund)	13,353	(1,290)	4,700	16,763	(151)	4,288	20,900
<b>Earmarked Reserve Total</b>	<b>117,033</b>	<b>(22,175)</b>	<b>27,282</b>	<b>122,140</b>	<b>(15,272)</b>	<b>30,871</b>	<b>137,739</b>
<b>Total Usable Reserve Total</b>	<b>144,167</b>	<b>(25,929)</b>	<b>27,282</b>	<b>145,520</b>	<b>(15,272)</b>	<b>34,425</b>	<b>164,673</b>

### Corporate Reserves

- 1 Reserve created to support the delivery of the Council's savings programme.
- 2 Reserve for potential severance / redundancy payments.
- 3 & 4 Reserve to support the planned investment in a new finance system.
- 5 Reserve created from grant income to support initiatives related to the Olympics programme.
- 6 Reserve to mitigate the impact of reductions to education improvement grant funding.
- 7 Reserve for employment, business support and corporate initiatives.
- 8 Other reserves for community based initiatives.

### Service Specific Reserves

- 9 A reserve to mitigate the impact of the increased cost of dealing with homelessness.
- 10 Reserve to finance highways and transport related improvements.
- 11 Reserve to fund the Building Schools for the Future (BSF) programme.
- 12-16 Reserves held for service specific initiatives.

### Revenue Reserves - Other

- 17 The Council is self insured for most liability and property risks below £1 million. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision.
- 18 Reserves held by schools under the scheme of delegation.
- 19 Reserve created from grant for early intervention schemes.
- 20 The reserve balance on the ring-fenced Housing Revenue Account to be used for the provision of social housing in the Borough.
- 21 An ear-marked HRA reserve to fund future housing projects.

### Capital Reserves

- 22 Reserves to support the financing of the capital programme.

## 9 Other Operating Expenditure

2010/11 £'000	Note	2011/12 £'000
<b>Levies</b>		
257	- Lee Valley Regional Park Authority	263
168	- Environment Agency	175
1,297	- London Pensions Fund Authority	1,300
<b>1,722</b>	<b>Total Levies</b>	<b>1,738</b>
0	Payments to Housing Capital Receipts Pool	24
16,930	Net (gain)/loss on disposal of non-current assets	132,881
(450)	Unattached capital receipts	(4,193)
<b>18,202</b>	<b>Total</b>	<b>130,450</b>

## 10 Financing and Investment Income and Expenditure

2010/11 £'000		2011/12 £'000
28,505	Interest payable and similar charges	26,649
0	HRA Settlement Determination (premia)	76,280
19,913	Pensions interest cost and expected return on pensions assets	8,004
(1,697)	Interest receivable and similar income	(2,838)
(98)	Surplus or deficit of trading operations	(179)
<b>46,623</b>	<b>Total</b>	<b>107,916</b>

## 11 Taxation and Non Specific Grant Income

2010/11 £'000		2011/12 £'000
(77,417)	Council Tax income	(78,161)
(202,761)	Non domestic rates	(175,443)
(71,496)	Non-ringfenced Government grants	(64,780)
(84,024)	Capital grants and contributions	(116,247)
0	HRA Settlement Determination (including premia)	(312,479)
<b>(435,698)</b>	<b>Total</b>	<b>(747,110)</b>

## 12 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2011/12	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRA-STRUCTURE ASSETS	COMMUNITY ASSETS	SURPLUS ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>									
At 1 April 2011	789,321	1,182,639	20,917	126,064	49,602	11,664	616	<b>2,180,823</b>	295,002
Additions	28,262	81,186	1,395	6,825	520	0	769	<b>118,957</b>	19,785
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(12,913)	9,679	0	0	0	(140)	0	<b>(3,374)</b>	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	8,316	(4,834)	0	0	0	0	0	<b>3,482</b>	0
Derecognition - Disposals	(568)	(141,327)	(32)	0	0	(1,570)	0	<b>(143,497)</b>	0
Derecognition - Other	0	(6,510)	0	(281)	0	0	0	<b>(6,791)</b>	0
Assets Reclassified (to)/from Held for Sale	0	0	0	0	0	(945)	0	<b>(945)</b>	0
Other Reclassification of Assets	0	(1,430)	0	0	0	1,430	0	<b>0</b>	0
<b>At 31 March 2012</b>	<b>812,418</b>	<b>1,119,403</b>	<b>22,280</b>	<b>132,608</b>	<b>50,122</b>	<b>10,439</b>	<b>1,385</b>	<b>2,148,655</b>	<b>314,787</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2011	151,412	90,733	12,692	28,978	0	455	0	<b>284,270</b>	18,595
Depreciation charge	13,021	23,406	2,175	3,188	0	183	0	<b>41,973</b>	6,014
Depreciation written out to the Revaluation Reserve	(12,913)	(4,097)	0	0	0	(65)	0	<b>(17,075)</b>	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	<b>0</b>	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	<b>0</b>	0
Derecognition - Disposals	0	(10,402)	(26)	0	0	(138)	0	<b>(10,566)</b>	0
Derecognition - Other	0	(397)	0	(55)	0	0	0	<b>(452)</b>	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	<b>0</b>	0
Other Reclassification of Assets	0	(111)	0	0	0	111	0	<b>0</b>	0
<b>At 31 March 2012</b>	<b>151,520</b>	<b>99,132</b>	<b>14,841</b>	<b>32,111</b>	<b>0</b>	<b>546</b>	<b>0</b>	<b>298,150</b>	<b>24,609</b>
<b>Net Book Value</b>									
<b>At 31 March 2012</b>	<b>660,898</b>	<b>1,020,271</b>	<b>7,439</b>	<b>100,497</b>	<b>50,122</b>	<b>9,893</b>	<b>1,385</b>	<b>1,850,505</b>	290,178
<b>At 31 March 2011</b>	<b>637,939</b>	<b>1,091,363</b>	<b>8,225</b>	<b>97,086</b>	<b>49,602</b>	<b>11,722</b>	<b>616</b>	<b>1,896,553</b>	276,407

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPARATIVE MOVEMENTS IN 2010/11	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRASTRUCTURE ASSETS	COMMUNITY ASSETS	SURPLUS ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Cost or Valuation</b>										
At 1 April 2010	1,071,840	1,112,540	14,147	117,188	48,410	4,270	0	<b>2,368,395</b>	282,267	
Additions	29,714	72,277	2,506	8,876	1,612	0	616	<b>115,601</b>	7,822	
Donations	0	0	0	0	0	0	0	<b>0</b>	0	
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(12,586)	29,897	0	0	0	500	0	<b>17,811</b>	(64)	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(283,172)	(11,690)	0	0	0	0	0	<b>(294,862)</b>	0	
Derecognition - Disposals	(16,805)	(2,745)	0	0	0	(2,356)	0	<b>(21,906)</b>	0	
Derecognition - Other <sup>3</sup>	0	(8,639)	(134)	0	(420)	0	0	<b>(9,193)</b>	0	
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	<b>0</b>	0	
Other reclassification of assets	330	(9,580)	0	0	0	9,250	0	<b>0</b>	0	
Other Movements in Cost or Valuation <sup>1</sup>	0	579	4,398	0	0	0	0	<b>4,977</b>	4,977	
<b>At 31 March 2011</b>	<b>789,321</b>	<b>1,182,639</b>	<b>20,917</b>	<b>126,064</b>	<b>49,602</b>	<b>11,664</b>	<b>616</b>	<b>2,180,823</b>	<b>295,002</b>	
<b>Accumulated Depreciation and Impairment</b>										
At 1 April 2010	151,056	72,210	9,691	26,018	0	0	0	<b>258,975</b>	11,346	
Depreciation charge	12,913	20,743	1,717	2,960	0	83	0	<b>38,416</b>	5,847	
Depreciation written out to the Revaluation Reserve	(12,587)	(1,364)	0	0	0	0	0	<b>(13,951)</b>	(214)	
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	<b>0</b>	0	
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	<b>0</b>	0	
Derecognition - Disposals	0	(198)	0	0	0	(141)	0	<b>(339)</b>	0	
Derecognition - Other <sup>3</sup>	0	(329)	(118)	0	0	0	0	<b>(447)</b>	0	
Other movements in Depreciation and Impairment <sup>1</sup>	0	214	1,402	0	0	0	0	<b>1,616</b>	1,616	
<b>At 31 March 2011</b>	<b>151,382</b>	<b>91,276</b>	<b>12,692</b>	<b>28,978</b>	<b>0</b>	<b>(58)</b>	<b>0</b>	<b>284,270</b>	<b>18,595</b>	
<b>Net Book Value</b>										
<b>At 31st March 2011</b>	<b>637,939</b>	<b>1,091,363</b>	<b>8,225</b>	<b>97,086</b>	<b>49,602</b>	<b>11,722</b>	<b>616</b>	<b>1,896,553</b>	276,407	
<b>At 1st April 2010</b>	<b>920,784</b>	<b>1,040,330</b>	<b>4,456</b>	<b>91,170</b>	<b>48,410</b>	<b>4,270</b>	<b>0</b>	<b>2,109,420</b>	270,921	

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

### Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – Major Repairs Allowance used as proxy for depreciation
- Other Land and Buildings – As advised by qualified valuer
- Vehicles, Plant & Equipment - 5 years on a straight line basis
- Infrastructure assets - 40 years

### Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £45.892 million at 31st March 2012 (£16.988 million at 31st March 2011).

	Committed sum £m	Costs to 31/3/2012 £m	2012/13 onwards £m	Contract End Date
Culloden School Expansion	5.296	3.094	2.202	31/10/2012
Victoria Park Landscaping	7.081	5.738	1.343	31/12/2012
Ocean Estate Refurbishment	41.845	14.833	27.012	31/03/2014
Building Schools for the Future ICT	23.466	7.904	15.562	31/01/2015
<b>TOTAL</b>	<b>77.688</b>	<b>31.569</b>	<b>46.119</b>	

### Effects of Changes in Estimates

#### Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are as at 1st April in the year of valuation. An summary of total valuation per asset category is shown below.

In 2011/12, the housing stock was valued by Hilbery Chaplin Chartered Surveyors and the other assets were valued by Drivers Jonas Deloitte. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2010'.

ANALYSIS OF ROLLING REVALUATION PROGRAMME	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	-	-	7,439	100,497	50,122	-	1,385	159,443
Valued at fair value in:	-	-	-	-	-	-	-	-
2011/12	660,898	53,053	-	-	-	-	-	713,951
2010/11	-	48,868	-	-	-	912	-	49,780
2009/10	-	97,120	-	-	-	1,102	-	98,222
2008/09	-	820,811	-	-	-	7,879	-	828,690
2007/08	-	419	-	-	-	-	-	419
<b>Value at 31 March 2012</b>	<b>660,898</b>	<b>1,020,271</b>	<b>7,439</b>	<b>100,497</b>	<b>50,122</b>	<b>9,893</b>	<b>1,385</b>	<b>1,850,505</b>

## 13 LONG TERM DEBTORS

	1st April 2010	Advances	Income and Adjustments	Balance at 31st March 2011	Advances	Income and Adjustments	Balance at 31st March 2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Mortgages on Right to Buy properties	331	0	(79)	252	0	(71)	181
Sundry Loans	736	187	(167)	756	101	(270)	587
	<b>1,067</b>	<b>187</b>	<b>(246)</b>	<b>1,008</b>	<b>101</b>	<b>(341)</b>	<b>768</b>

## 14 INTANGIBLE ASSETS

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licenses, not internally generated software.

These are computer software licences which are treated as non-financial, non-current 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 life of the licences, which is currently one year.

	Balance at 1/4/2011 £'000	Expenditure 2011/12 £'000	Revenue Charge 2011/12 £'000	Balance at 31/3/2012 £'000
<b>Software licences</b>	0	1,270	(1,270)	0

## 15 FINANCIAL INSTRUMENT NOTES

Local authorities are required to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy / LASAAC Joint Committee. This requires the disclosure of financial instruments at amortised cost and fair value.

### Amortised Cost

These accounting standards have meant that most financial instruments (whether borrowing or investment) have to be valued on an amortised cost basis using the effective interest rate (EIR) method.

### Fair Value

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

### Compliance

The Council has:

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

### Types of Financial Instruments

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

Financial Instrument Categories	Long-Term		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2011	2012	2011	2012	2011	2012
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>						
Borrowings at amortised cost	325,533	25,979	34,803	65,975	360,336	91,954
Deferred Liabilities (PFI)	41,090	40,299	682	791	41,772	41,090
Creditors - Financial Liabilities carried at contract amount	0	0	68,271	70,148	68,271	70,148
<b>Total Liabilities</b>	<b>366,623</b>	<b>66,278</b>	<b>103,756</b>	<b>136,914</b>	<b>470,379</b>	<b>203,192</b>
<b>Financial Assets</b>						
Loans and receivables	0	0	100,929	131,603	100,929	131,603
Debtors - financial assets carried at contract amounts	0	0	18,142	11,264	18,142	11,264
Cash held at bank and cash equivalents	0	0	136,563	126,283	136,563	126,283
<b>Total Financial Assets</b>	<b>0</b>	<b>0</b>	<b>255,634</b>	<b>269,150</b>	<b>255,634</b>	<b>269,150</b>

### NOTES

1. Market loans (LOBOs) of £77.5 million have been included in long term borrowing but £64.5 million of these have a call date in the next 12 months.
2. Cash equivalents includes £78.270 million of short-term deposits with banks and building societies excluded from loans and receivables (£103.123 million at 31st March 2011).
3. The above long term figures are based on paragraph B9, Module F of the 2011/12 code of practice guidance notes which states an instrument will be held for its full term unless the authority has a specified intention to repay/call in early or reliable experience of similar instruments being derecognised before the full term.
4. The Authority had £236.2 million (plus premium charges of £76.3 million) of PWLB loans paid off by the Government as part of the process of switching HRA financing from a Subsidy based system to Self Financing. This explains the significant reduction in the Authority's debt portfolio.

## FINANCIAL INSTRUMENTS (continued)

### Gains and Losses on Financial Instruments

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

	2010/11		2011/12	
	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables
	£'000	£'000	£'000	£'000
Interest expense	28,505	0	26,649	0
Interest income	0	1,697	0	2,838
<b>TOTAL INTEREST AND INVESTMENT INCOME</b>	<b>28,505</b>	<b>1,697</b>	<b>26,649</b>	<b>2,838</b>

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost is disclosed below:

#### Methods and Assumptions in valuation technique

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

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation since any motivation other than securing a fair price should be ignored. The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31st March, using bid prices where applicable.

The calculations are made with the following assumptions:

- The PWLB liabilities have been calculated by reference to the "Premature Redemption" set of rates in force on the 31st March 2012.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- Fair values for all instruments in the portfolio have been calculated, but only those which are materially different from the carrying value are disclosed.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are as follows:

Fair Value of Liabilities Carried at Amortised Cost	31 March 2011	31 March 2011	31 March 2012	31 March 2012
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Public Works Loans Board	278,358	341,419	14,129	17,166
Lender's option, borrower's option loans	77,614	84,153	77,825	77,895
Short term	4,364	4,364	0	0
Deferred liabilities - Private Finance Initiatives	41,771	41,771	41,090	41,090
Creditors - Financial Liabilities carried at contract amount	68,271	68,271	70,148	70,148
<b>Financial Liabilities</b>	<b>470,378</b>	<b>539,978</b>	<b>203,192</b>	<b>206,299</b>

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

Fair Value of Assets Carried at Amortised Cost	31 March 2011	31 March 2011	31 March 2012	31 March 2012
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Fixed term deposits with banks and building societies	100,577	100,682	131,473	132,296
Equity Shares (not quoted in an active market)	352	352	130	130
Debtors - financial assets carried at contract amounts	18,142	18,142	11,264	11,264
Cash held at Bank	33,440	33,440	48,013	48,013
Cash equivalents (deposits with banks and other financial institutions)	103,123	103,134	78,270	78,270
<b>Financial Assets</b>	<b>255,634</b>	<b>255,750</b>	<b>269,150</b>	<b>269,973</b>

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date.

Cash equivalents are highly liquid deposits that are convertible to cash at short-notice.



## 15 FINANCIAL INSTRUMENTS (continued)

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

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. Risk management is carried out by a central treasury team under policies approved by the Council in the annual treasury management strategy report. The Council has fully adopted and implemented CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk. The treasury management team have also fully implemented the Government's national investment guidance.

#### 1. Credit Risk

Credit risk is the possibility that other parties may not pay amounts due to the Council. This risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. The Council invests primarily on the basis of prudence and then the level of returns. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution or those underwritten by the Government. The Council has a policy of limiting deposits with institutions to a maximum of £10 million - £45 million.

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

	Amounts at 31 March 2011 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2011 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	116,547	0%	0%	0%
Money Market Funds	20,027	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	40,358	0%	0%	0%
3 - 6 months	35,117	0%	0%	0%
6 - 12 months	10,040	0%	0%	0%
Over 12 months	15,403	0%	0%	0%
<b>TOTAL</b>	<b>237,492</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

	Amounts at 31 March 2012 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2012 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	70,613	0%	0%	0%
Money Market Funds	55,670	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	10,006	0%	0%	0%
3 - 6 months	15,064	0%	0%	0%
6 - 12 months	60,790	0%	0%	0%
Over 12 months	45,743	0%	0%	0%
<b>TOTAL</b>	<b>257,886</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

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

The Council does not generally allow credit for customers, such that £2.379 million of the £45.951 million balance (2010/11 - £1.82 million of the £61.018 million) is past its due date for payment, but not impaired. The past due amount can be analysed by age as follows:

## 15 FINANCIAL INSTRUMENTS (continued)

### Nature and extent of risks arising from Financial Instruments (Continued)

Credit Risk	31 March	31 March
	2011	2012
	£'000	£'000
Three to six months	942	713
Six months to one year	355	545
More than one year	523	1,121

TOTAL	1,820	2,379
-------	-------	-------

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

### 2. Liquidity Risk

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

Loans outstanding	31 March	31 March
	2011	2012
	£'000	£'000
Public Works Loans Board	278,358	14,129
Market debt	77,614	77,825
Temporary Borrowing	4,364	0
PFI	41,771	41,090
<b>TOTAL</b>	<b>402,107</b>	<b>133,044</b>
Less than 1 year	35,370	66,766
Between 1 and 2 years	76,871	4,846
Between 2 and 5 years	60,789	26,340
Between 5 and 10 years	114,229	28,680
More than 10 years	114,848	6,412
<b>TOTAL</b>	<b>402,107</b>	<b>133,044</b>

In the more than 10 years category, there are £77.5 million of Lender's Option, Borrower's Option (LOBO) market loans which have call dates in the next 12 months (£64.5 million), with the remaining £13 million having the first call date within 24 months. The Council uses money market funds to provide liquidity.

### 3. Market Risk

#### Interest rate risk

The Council is exposed to interest rate risk in two different ways - the uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

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

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

The Council has a number of strategies for managing interest rate risk. The policy is to keep variable rate borrowings to a minimum. The Council does not currently have any variable rate loans, although £77.5 million of market loans LOBOs have call dates that fall within financial years 2012/13 and 2014/15. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

## 15 FINANCIAL INSTRUMENTS (continued)

### Nature and extent of risks arising from Financial Instruments (Continued)

The treasury management strategy assesses interest rate exposure - this feeds into the setting of the annual budget.

According to this assessment, at 31st March 2012, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2010/11 £'000	2011/12 £'000
Increase in interest payable on variable rate borrowings	617	955
Increase in interest receivable on variable rate investments	(1,018)	(697)
<b>Impact on Income and Expenditure Account</b>	<b>(401)</b>	<b>258</b>

Fair Value Movements	2010/11 £'000	2011/12 £'000
Decrease in fair value of fixed rate investments	682	1,700
Decrease in fair value of fixed rate borrowing liabilities	42,757	136
<b>Impact on Income and Expenditure Account</b>	<b>43,439</b>	<b>1,836</b>

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

### Equity Shares (not quoted on an active market)

	2010/11 £'000	2011/12 £'000
London Mutual Insurance Limited	346	123
The Tower Hamlets Local Education Partnership	7	7
<b>Total</b>	<b>353</b>	<b>130</b>

## 16 INVENTORIES

	Consumable Stores		Client Services Work in Progress		Total	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
<b>Balance outstanding at start of year</b>	13	17	518	804	531	821
Purchases	19	24	286	1,503	305	1,527
Recognised as an expense in the year	(15)	(22)	0	(1,809)	(15)	(1,831)
<b>Balance outstanding at year-end</b>	<b>17</b>	<b>19</b>	<b>804</b>	<b>498</b>	<b>821</b>	<b>517</b>

Note: consumable stores consists of pre-paid postage rechargeable to services.

## 17 CONSTRUCTION CONTRACTS

The Authority does not have any construction contracts (work in progress) where the construction work is undertaken for the Authority's customers.

## 18 IMPAIRMENT LOSSES

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in note 12 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances. An impairment review was carried out by qualified valuers at 31st March 2012 and concluded that there was no significant impairment to report.

## 19 DEBTORS

	31 March 2011 £'000	31 March 2012 £'000
Central government bodies	24,439	23,614
Other local authorities	307	307
Other entities and individuals	61,018	45,956
Payments in advance	4,667	4,681
<b>Total</b>	<b>90,431</b>	<b>74,557</b>

## 20 CASH AND CASH EQUIVALENTS

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

	31 March 2011 £'000	31 March 2012 £'000
Cash held by the Authority	33,440	48,013
Short-term deposits with banks and building societies	103,123	78,270
<b>Total Cash and Cash Equivalents</b>	<b>136,563</b>	<b>126,283</b>

## 21 ASSETS HELD FOR SALE

As at the 31st March 2012, the Council has one property which is classified as an Asset Held for Sale.

	Current		Non Current	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
<b>Value at start of year</b>	0	0	0	0
Assets newly classified as held for sale:				
Property, Plant and	0	945	0	0
	0	945	0	0

## 22 CREDITORS

	31 March 2011 £'000	31 March 2012 £'000
Central government bodies	43,911	49,134
Other entities and individuals	59,511	77,814
Accruals	18,336	8,833
Receipts in advance	8,930	10,464
<b>Total</b>	<b>130,688</b>	<b>146,245</b>

## 23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 1 April 2010 £'000	Amounts used in 2010/11 £'000	Contributions in 2010/11 £'000	Balance at 31 March 2011 £'000	Amounts used in 2011/12 £'000	Contributions in 2011/12 £'000	Balance at 31 March 2012 £'000
(a) Single Status	291	0	0	291	(117)	0	174
(b) Liability to DEFRA for BMW landfill usage	651	(638)	0	13	(13)	0	0
(c) Adoption Fees	61	(16)	0	45	(45)	0	0
(d) Redundancy provisions	0	0	506	506	(362)	0	144
(e) Employee benefits provision	4,207	(4,207)	4,418	4,418	(4,418)	3,355	3,355
(f) Carbon Reduction provision	0	0	0	0	0	315	315
(g) Youth and community contracts	0	0	0	0	0	102	102
(h) Inquest provision	0	0	0	0	0	859	859
<b>TOTAL</b>	<b>5,210</b>	<b>(4,861)</b>	<b>4,924</b>	<b>5,273</b>	<b>(4,955)</b>	<b>4,631</b>	<b>4,949</b>

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

LONG-TERM PROVISIONS	Balance at 1 April 2010 £'000	Amounts used in 2010/11 £'000	Contributions in 2010/11 £'000	Balance at 31 March 2011 £'000	Amounts used in 2011/12 £'000	Contributions in 2011/12 £'000	Balance at 31 March 2012 £'000
(h) Inquest provision	0	0	0	0	0	241	241
(i) Primary Care Trust nursing charges	88	(88)	0	0	0	0	0
(j) Metropolitan Police	176	(176)	0	0	0	0	0
(k) Employment Tribunal	150	(150)	0	0	0	0	0
(l) Insurance Fund	6,498	0	1,964	8,462	0	3,422	11,884
(m) Repayment of deposits	518	(137)	0	381	(212)	0	169
(n) Repayment of European funding	394	0	0	394	0	0	394
(o) Pension liability - part time staff	400	0	0	400	0	0	400
(p) Barkantine PFI	1,989	0	388	2,377	(2,377)	0	0
<b>TOTAL</b>	<b>10,213</b>	<b>(551)</b>	<b>2,352</b>	<b>12,014</b>	<b>(2,589)</b>	<b>3,663</b>	<b>13,088</b>

**18,037**

- (a) For additional costs resulting from the single status agreement which changed employees' conditions of service.
- (b) The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of Biodegradable Municipal Waste (BMW). The Landfill Allowance Trading Scheme allocates tradable landfill allowances to each WDA up to a defined upper limit.
- (c) Provision for the final payment to other authorities should particular children placed with potential adopters resident in other boroughs ultimately be legally adopted - this provision was applied in 2011/12.
- (d) Provision for redundancy settlements agreed for 2011/12.
- (e) Provision required under IFRS that represents the value of staff leave rolled over to the following financial year. This provision does not reduce the Council's usable reserves.
- (f) Provision created to cover the council's liability towards the Government's carbon reduction energy efficiency scheme as at 31st March.
- (g) Provision for youth and community contracts bonus payments to be settled.
- (h) Provision for inquest contribution.
- (i) A provision applied to pay nursing cost invoices to THPCT in 2010/11.
- (j) Provision applied to repay Home Office grant during 2010/11.
- (k) To provide for payment following an unfair dismissal by the Council. The provision was applied during 2010/11.
- Originally a provision for the disputed payment for a former borough resident's nursing care. It was determined that the Council is not responsible for the assessed contribution, therefore the provision is no longer required.
- (l) To cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property. Amounts are transferred to the provision from the insurance reserve on an annual basis if a reliable estimate can be made of the likely settlement amount. The nature of insurance claims means it is not possible to accurately forecast when settlement of claims will take place. The Council is active in risk management, identifying areas of particular risk and taking management steps with a view to reducing possible future claims and losses. There are no material risks which are not covered by either direct insurance or self insurance via the provision. The nature of insurance claims means it is not possible to accurately forecast when settlement of claims will take place.
- (m) The provision is used to hold deposits received from contractors with approval for erecting temporary structures. On completion of the work, the deposits will be refunded to the contractors, less deductions for any liabilities incurred. The refund of deposits will depend on the successful completion of contracts.
- (n) There are a number of European funded schemes where there is a probability that grant will need to be repaid. The potential for repayment will expire in 2017, ten years after the grant has been received.
- (o) To reflect the potential liability for 40 ex-employees, based on the additional pension contribution costs that the Council would have incurred if these staff had been allowed to join the pension fund. The risk and timing of any settlement would depend on claims being raised.
- (p) Following discussions with the CLG, a provision for the potential repayment of PFI credits is no longer required.

## 24 USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and note 7.

## 25 UNUSABLE RESERVES

31 March 2011 £'000		31 March 2012 £'000
533,521	Revaluation Reserve	497,734
852,406	Capital Adjustment Account	1,068,460
885	Financial Instruments Adjustment Account	959
(308,691)	Pensions Reserve	(422,546)
3,154	Collection Fund Adjustment Account	24
(4,418)	Accumulating Compensated Absences Adjustment Account	(3,355)
<b>1,076,857</b>	<b>Total Unusable Reserves</b>	<b>1,141,276</b>

### Revaluation Reserve

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

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

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

2010/11 £'000		2011/12 £'000
514,696	<b>Balance at 1 April</b>	533,521
32,762	Upward revaluation of assets	15,728
	Downward revaluation of assets and impairment losses not charged to the	
(1,001)	Surplus/Deficit on the Provision of Services	(2,027)
	Surplus or deficit on revaluation of non-current assets not posted to the	
31,761	Surplus or Deficit on the Provision of Services	13,701
(8,856)	Difference between fair value depreciation and historical cost depreciation	(9,099)
(4,080)	Accumulated gains on assets sold or scrapped	(40,390)
(12,936)	Amount written off to the Capital Adjustment Account	(49,489)
<b>533,521</b>	<b>Balance at 31 March</b>	<b>497,733</b>

## 25 UNUSABLE RESERVES

### Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2010/11 £'000		2011/12 £'000
<b>1,105,580</b>	<b>Balance at 1 April</b>	<b>852,406</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(38,219)	Charges for depreciation and impairment of non current assets	(41,774)
(294,863)	Revaluation losses (and reversals) on Property, Plant and Equipment	3,482
(836)	Amortisation of intangible assets	(1,270)
(32,322)	Revenue expenditure funded from capital under statute	(46,370)
(30,311)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(139,271)
(396,551)		(225,202)
12,937	Adjusting amounts written out of the Revaluation Reserve	49,489
(383,614)	Net written out amount of the cost of non current assets consumed in the year	(175,713)
	Capital financing applied in the year:	
5,792	Use of the Capital Receipts Reserve to finance new capital expenditure	7,462
7,641	Use of the Major Repairs Reserve to finance new capital expenditure	11,382
102,448	Application of grants to capital financing from the Capital Grants Unapplied Account	122,985
7,373	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	8,877
7,186	Capital expenditure charged against the General Fund and HRA balances	4,862
130,440		155,567
0	Capital receipts from Secretary of State used to repay debt in accordance with the HRA Settlement Determination	236,199
<b>852,406</b>	<b>Balance at 31 March</b>	<b>1,068,459</b>

## 25 UNUSABLE RESERVES (continued)

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2012 will be charged to the General Fund over the next 13 years.

2010/11 £'000		2011/12 £'000
764	<b>Balance at 1 April</b>	885
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	74
<b>885</b>	<b>Balance at 31 March</b>	<b>959</b>

### Pensions Reserve

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

2010/11 £'000		2011/12 £'000
(689,923)	<b>Balance at 1 April</b>	(308,690)
259,963	Actuarial gains or losses on pensions assets and liabilities	(116,236)
85,211	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(32,259)
36,059	Employer's pensions contributions and direct payments to pensioners payable in the year	34,639
<b>(308,690)</b>	<b>Balance at 31 March</b>	<b>(422,546)</b>



## 25 UNUSABLE RESERVES

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2010/11 £'000		2011/12 £'000
3,902	<b>Balance at 1 April</b>	3,154
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated	
(748)	for the year in accordance with statutory requirements	(3,130)
<b>3,154</b>	<b>Balance at 31 March</b>	<b>24</b>

### Accumulating Compensated Absences Adjustment Account

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

2010/11 £'000		2011/12 £'000
(4,207)	<b>Balance at 1 April</b>	(4,418)
4,207	Settlement or cancellation of accrual made at the end of the preceding year	4,418
(4,418)	Amounts accrued at the end of the current year	(3,355)
	Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory	
(211)	requirements	1,063
<b>(4,418)</b>	<b>Balance at 31 March</b>	<b>(3,355)</b>

## 26a NOTE A TO THE CASH FLOW STATEMENT

2010/11 £'000		2011/12 £'000
(127,743)	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>221,256</b>
	<b><u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u></b>	
38,022	Depreciation	41,577
293,779	Impairment and downward valuations	(3,481)
836	Amortisation	1,270
120	Adjustments for effective interest rates	0
241	Increase/Decrease in Interest Creditors	(1,895)
29,932	Increase/Decrease in Creditors	12,540
(111)	Increase/Decrease in Interest and Dividend Debtors	(907)
(1,157)	Increase/Decrease in Debtors	19,150
(290)	Increase/Decrease in Inventories	304
(121,270)	Pension Liability	(2,380)
1,653	Contributions to/(from) Provisions	1,906
211	Provision for Equal Pay	(1,062)
30,311	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	139,271
<b>272,277</b>		<b>206,293</b>
	<b><u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u></b>	
(105,700)	Capital Grants credited to surplus or deficit on the provision of services	(153,391)
0	Proceeds from the sale of short and long term investments	0
0	Premiums or Discounts on the repayment of financial liabilities	0
(13,869)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(10,585)
<b>(119,569)</b>		<b>(163,976)</b>
<b>24,965</b>	<b>Net cash flows from operating activities</b>	<b>263,573</b>

## 26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2010/11 £'000		2011/12 £'000
1,586	Interest received	1,931
(28,144)	Interest paid	24,754
0	Dividends received	0
<b>(26,558)</b>		<b>26,685</b>

## 27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2010/11 £'000		2011/12 £'000
(110,899)	Purchase of property, plant and equipment, investment property and intangible assets	(119,534)
(60,111)	Purchase of short-term and long-term investments	(30,674)
(188)	Other payments for investing activities	(118)
13,457	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,561
0	Proceeds from short-term and long-term investments	0
144,739	Other receipts from investing activities	139,478
<b>(13,002)</b>	<b>Net cash flows from investing activities</b>	<b>(5,287)</b>

## 28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2010/11 £'000		2011/12 £'000
51,000	Cash receipts of short- and long-term borrowing	0
282	Billing Authorities - Council Tax and NNDR adjustments	497
0	Other receipts from financing activities	0
(369)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(682)
(8,013)	Repayments of short- and long-term borrowing	(268,381)
<b>42,900</b>	<b>Net cash flows from financing activities</b>	<b>(268,566)</b>

## 29 TRADING OPERATIONS

The following services are reported as trading activities in 2011/12:

	2010/11			2011/12			
	Expenditure	Income	Surplus/ (Deficit)	Expenditure	Income	Surplus/ (Deficit)	Balance 31/03/2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Street Trading	2,250	2,356	106	2,183	2,352	169	(67)
<b>TOTAL TRADING ACCOUNTS</b>	<b>2,250</b>	<b>2,356</b>	<b>106</b>	<b>2,183</b>	<b>2,352</b>	<b>169</b>	<b>(67)</b>

## 30 AGENCY SERVICES

The Council has an agency agreement with the Thames Water Authority whereby the Council is responsible for collecting unmetered water charges from council tenants. For this service the council receives a commission based on the total TWA bill chargeable for the year. In 2011/12 this commission amounted to £726,792 (£686,261 in 2010/11).

## 31 POOLED BUDGETS

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

- (a) Integrated Community Equipment Service (ICES)
- (b) Services for Adults with Learning Difficulties (LDSA)
- (c) Occupational Therapy Service (OTS)
- (d) Integrated Services for Disabled Children in the Children's Trust Pathfinder (DCTP) - up to 2010/11.

The purpose of these arrangements is to work collaboratively with health providers in the Borough, to deliver efficient, joined up health and social care services to residents.

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 Adult Social Care gross expenditure figure disclosed in the Comprehensive Income and Expenditure Account.

2011/12	ICES £'000	LDSA £'000	OTS £'000
<b>Income</b>			
The Council	929	1,221	1,805
Barts and the London Trust health services	697	1,704	1,805
	1,626	2,925	3,610
<b>Expenditure</b>	1,794	2,985	3,460
<b>Surplus/(Deficit) for the year</b>	<b>(168)</b>	<b>(60)</b>	<b>150</b>

2010/11	ICES £'000	LDSA £'000	OTS £'000	DCTP* £'000
<b>Income</b>				
The Council	1,162	1,221	1,806	5,024
Barts and the London Trust health services	16	0	0	0
Tower Hamlets Primary Care Trust	702	1,704	1,805	0
	1,880	2,925	3,611	5,024
<b>Expenditure</b>	1,880	2,913	3,338	5,024
<b>Surplus/Deficit for the year</b>	<b>0</b>	<b>12</b>	<b>273</b>	<b>0</b>

\* The DCTP agreement for 2010/11 was not formally agreed with the PCT. The Council's contribution to this activity is shown above. There was no agreement in place for 2011/12.

## 32 MEMBERS' ALLOWANCES

The Authority paid the following amounts to members of the council during the year.

	2010/11 £'000	2011/12 £'000
Allowances	889	938
<b>Total</b>	<b>889</b>	<b>938</b>

### 33 OFFICERS' REMUNERATION

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

2010/11	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr K A Collins - Chief Executive	186,336	192	0	29,055	0	215,583
<b>Corporate Directors</b>						
Children, Schools and Families	124,912	0	0	19,250	0	144,162
Communities, Localities and Culture	141,487	0	0	21,869	0	163,356
Resources	139,766	0	0	21,597	0	161,363
Adults Health and Wellbeing	124,913	208	0	19,250	0	144,371
Development and Renewal	135,758	0	0	20,964	0	156,722
Assistant Chief Executive (Legal)	123,937	0	0	19,096	0	143,033
	<b>977,109</b>	<b>400</b>	<b>0</b>	<b>151,081</b>	<b>0</b>	<b>1,128,590</b>

2011/12	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr K A Collins - Chief Executive*	121,536	0	0	17,687	0	139,223
Mr A Dalvi - Chief Executive (Interim)	90,033	0	0	13,982	0	104,015
<b>Total Chief Executive</b>	<b>211,569</b>	<b>0</b>	<b>0</b>	<b>31,669</b>	<b>0</b>	<b>243,238</b>
<b>Corporate Directors</b>						
Children, Schools and Families	130,261	0	0	20,095		150,356
Communities, Localities and Culture+	140,182	0	0	22,659	6,166	169,007
Resources	141,003	0	0	21,792	0	162,795
Adults Health and Wellbeing**	126,335	0	0	10,017	0	136,352
Development and Renewal	128,978	0	0	19,886	0	148,864
Assistant Chief Executive (Legal)	126,129	0	0	19,135	0	145,264
	<b>1,004,457</b>	<b>0</b>	<b>0</b>	<b>145,253</b>	<b>6,166</b>	<b>1,155,876</b>

\* Postholder left 31st October 2011.

\*\* Postholder left 2nd October 2011. Interim postholder appointed (cost in 2011/12 of £61,380)

+ Postholder receives additional payment of £6,166 as Interim Assistant Chief Executive

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration band (£)	2010/11					2011/12				
	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff
50,000 - 54,999	226	(2)	85	(29)	311	211	(4)	84	(9)	295
55,000 - 59,999	124	0	81	(16)	205	112	(2)	80	(9)	192
60,000 - 64,999	58	(1)	52	(19)	110	43	0	40	(10)	83
65,000 - 69,999	44	(1)	51	(26)	95	34	0	21	(4)	55
70,000 - 74,999	23	(1)	38	(17)	61	32	0	27	(7)	59
75,000 - 79,999	16	(3)	24	(20)	40	12	0	7	(3)	19
80,000 - 84,999	8	0	17	(10)	25	8	0	8	(4)	16
85,000 - 89,999	11	(1)	13	(6)	24	6	0	12	(5)	18
90,000 - 94,999	3	(1)	14	(7)	17	7	(2)	9	(3)	16
95,000 - 99,999	2	(2)	7	(4)	9	0	0	2	(1)	2
100,000 - 104,999	6	(4)	10	(6)	16	1	0	3	0	4
105,000 - 109,999	2	(1)	2	(2)	4	3	0	1	(1)	4
110,000 - 114,999	2	0	4	(3)	6	1	0	2	0	3
115,000 - 119,999	4	(1)	1	(1)	5	1	0	0	0	1
120,000 - 124,999	2	0	2	(1)	4	0	0	0	0	0
125,000 - 129,999	0	0	2	(2)	2	3	0	0	0	3
130,000 - 134,999	1	0	0	0	1	0	0	1	(1)	1
135,000 - 139,999	0	0	1	(1)	1	0	0	0	0	0
140,000 - 144,999	0	0	1	(1)	1	1	0	0	0	1
145,000 - 149,999	0	0	0	0	0	0	0	0	0	0
150,000 - 154,999	0	0	0	0	0	0	0	0	0	0
155,000 - 159,999	0	0	1	(1)	1	0	0	0	0	0
160,000 - 164,999	0	0	0	0	0	0	0	0	0	0
165,000 - 169,999	0	0	0	0	0	0	0	0	0	0
170,000 - 174,999	0	0	0	0	0	0	0	0	0	0
175,000 - 179,999	0	0	0	0	0	0	0	0	0	0
180,000 - 184,999	0	0	1	(1)	1	0	0	1	(1)	1
185,000 - 189,999	0	0	0	0	0	0	0	0	0	0
190,000 - 194,999	0	0	0	0	0	0	0	0	0	0
195,000 - 199,999	0	0	0	0	0	0	0	0	0	0
200,000 - 204,999	0	0	0	0	0	0	0	0	0	0
205,000 - 209,999	0	0	0	0	0	0	0	0	0	0
	<b>532</b>	<b>(18)</b>	<b>407</b>	<b>(173)</b>	<b>939</b>	<b>475</b>	<b>(8)</b>	<b>298</b>	<b>(58)</b>	<b>773</b>

## Exit Packages

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£000)	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
0 - 20,000		36	109	117	109	153	1,069	938
20,001 - 40,000		7	85	37	85	44	2,565	1258
40,001 - 60,000		1	80	20	80	21	3,974	1009
60,001 - 80,000		1	14	14	14	15	918	1030
80,001 - 100,000		0	9	5	9	5	829	460
100,001 - 150,000		1	9	4	9	5	1,045	764
<b>Total</b>	<b>0</b>	<b>46</b>	<b>306</b>	<b>197</b>	<b>306</b>	<b>243</b>	<b>10,400</b>	<b>5,457</b>

## 34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired)

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

	2010/11 £'000	2011/12 £'000
<b>Expenditure</b>		
Property, Plant and Equipment	115,418	118,957
Intangible Assets	836	1,270
Revenue Expenditure Funded from Capital Under Statute	32,322	46,370
<b>TOTAL</b>	<b>148,576</b>	<b>166,596</b>
<b>Sources of Finance</b>		
Borrowing	25,692	19,906
Capital Receipts and Contributions	108,241	130,447
Major Repairs Reserve	7,641	11,382
Direct Revenue Funding	7,002	4,862
<b>TOTAL</b>	<b>148,576</b>	<b>166,596</b>

	2010/11 £'000	2011/12 £'000
<b>Opening Capital Financing Requirement</b>	<b>437,730</b>	<b>456,421</b>
<b>Capital investment</b>		
Property, Plant and Equipment	115,418	118,957
Intangible Assets	836	1,270
Revenue Expenditure Funded from Capital under Statute	32,322	46,370
<b>Sources of finance</b>		
Capital receipts and contributions	(108,239)	(130,447)
Major repairs reserve	(7,641)	(11,382)
Sums set aside from revenue:		
• Direct revenue contributions	(7,002)	(4,862)
• Minimum Revenue Provision <sup>1</sup>	(7,003)	(8,392)
HRA Settlement Determination	0	(236,199)
<b>Closing Capital Financing Requirement</b>	<b>456,421</b>	<b>231,735</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (supported by government financial assistance)	17,001	11,513
Increase in underlying need to borrow (unsupported by government financial assistance)	1,690	0
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>18,691</b>	<b>11,513</b>

<sup>1</sup> Capital Financing Requirement excludes PFI schemes

## 35 EXTERNAL AUDIT COSTS

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

	2010/11 £'000	2011/12 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year (includes pension audit fee of £32k)	480	494
Fees payable to appointed external auditor in respect of statutory inspections	0	0
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	113	96
Fees payable in respect of other services provided by external auditors during the year	0	17
<b>Total</b>	<b>593</b>	<b>607</b>

The fees for other services related to the National Fraud Initiative and other fraud prevention advisory services.

## 36 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families - the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately. In addition schools receive Post 16 funding from the Young People's Learning Agency (YPLA) and Pupil Premium income.

Details of the deployment of DSG receivable for 2010/11 are as follows:

Notes	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A Final DSG for 2010/11	17,190	229,067	246,257
B Brought forward from 2009/10	4,885	0	4,885
C Carry forward to 2010/11 agreed in advance	0	0	0
<b>D Agreed budgeted distribution in 2010/11</b>	<b>22,075</b>	<b>229,067</b>	<b>251,142</b>
E Actual central expenditure	(20,967)	0	(20,967)
F Actual ISB deployed to schools	0	(229,067)	(229,067)
G Local authority contribution for 2010/11	0	0	0
<b>H Carry forward to 2010/11</b>	<b>1,108</b>	<b>0</b>	<b>1,108</b>

- A DSG figure as issued by the Department for Children Schools and Families (DCSF) on 25 June 2010.
- B Figure brought forward from 2008/09 as agreed with the Department.  
Any amount which the authority decided after consultation with the schools forum to carry forward to 2011/12 rather than distribute in 2010/11.
- C distribute in 2010/11.
- D Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.
- E Actual amount of central expenditure items in 2010/11.
- F Amount of ISB actually distributed to schools.
- G Any contribution from the local authority in 2009/10 which substituted for DSG in funding the Schools Budget.
- H Carry forward to 2010/11.

Details of the deployment of DSG receivable for 2011/12 are as follows:

Notes	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A Initial DSG for 2011/12	27,013	268,140	295,153
B Brought forward from 2010/11	1,108	0	1,108
C Carry forward to 2012/13 agreed in advance	0	0	0
<b>D Agreed initial budgeted distribution in 2011/12</b>	<b>28,121</b>	<b>268,140</b>	<b>296,261</b>
E In-year adjustments	(2,372)	2,372	0
<b>F Final budget distribution for 2011/12</b>	<b>25,749</b>	<b>270,512</b>	<b>296,261</b>
G Actual central expenditure	(19,834)	0	(19,834)
F Actual ISB deployed to schools	0	(270,512)	(270,512)
I Council contribution for 2011/12	0	0	0
<b>J Carry forward to 2012/13</b>	<b>5,915</b>	<b>0</b>	<b>5,915</b>

- A DSG figure as issued by DCSF in June 2011 plus exceptional circumstances grant notified in January 2011.
- B Figure brought forward from 2010/11.
- C The amount which the Council decided after consultation with the schools forum to carry forward to 2012/13 rather than distribute in 2011/12.
- D Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
- E Changes to initial distribution in 2011/12.
- F Final distribution of DSG 2011/12.
- G Actual amount of central expenditure items in 2011/12.
- H Amount of ISB distributed to schools.
- I Contribution from the Council in 2011/12 which substituted for DSG in funding the Schools Budget.
- J Difference between budgeted distributions and actuals plus carry forward agreed in advance.

## 37 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

	2010/11 £'000	2011/12 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Non-Ringfenced Government Grants</b>		
Revenue Support Grant	(29,443)	(54,230)
Area Based Grant	(42,053)	0
Council Tax Freeze Grant	0	(1,968)
Local Service Support Grant	0	(4,295)
New Homes Bonus	0	(4,287)
<b>Total Non-Ringfenced Government Grants</b>	<b>(71,496)</b>	<b>(64,780)</b>
<b>Capital Grants and Contributions</b>		
Non-conditional grants:		
Schools-funded Capital Programme	(4,898)	(4,089)
Transport for London Funding	(4,654)	(3,713)
Contributions from schools towards BSF	(2,948)	(9,135)
Public Realm Improvements	(2,179)	(108)
Major Works Contributions (cash received)	(1,750)	(3,191)
Capital Maintenance Grant	0	(4,108)
Basic Needs/New Pupil Places	0	(13,847)
Social Housing Energy Efficiency Grant	(1,690)	0
Modernisation Grant	(1,577)	0
Regional Housing Pot	(1,063)	(801)
Other Non-Conditional Grants Received	(1,268)	(8,816)
Conditional grants:		
Building Schools for the Future	(45,913)	(56,420)
New Deal For Communities	(4,957)	0
Primary Capital Programme	(3,392)	(1,663)
Surestart Grant	(1,846)	(139)
Building Britain's Future Grant	0	(1,378)
Other Conditional Grants Applied	(2,943)	(1,618)
Developers' Contributions	(2,946)	(7,221)
<b>Total Capital Grants and Contributions</b>	<b>(84,024)</b>	<b>(116,247)</b>
<b>Credited to Services</b>		
Capital Grants funding REFCUS	(19,231)	(31,651)
Developers' Contributions (capital) funding REFCUS	(2,064)	(5,493)
Developers' Contributions (revenue)	(2,086)	(1,825)
Standards Fund	(3,632)	(2,332)
Other Revenue Grants	(1,725)	(55,347)
<b>Total Credited to Services</b>	<b>(28,738)</b>	<b>(96,648)</b>
<b>Total Grant Income in Comprehensive Income &amp; Expenditure Account</b>	<b>(184,258)</b>	<b>(277,675)</b>

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

	31 March 2011 £'000	31 March 2012 £'000
<b>Capital Grants Receipts in Advance</b>		
Developers' Contributions	31,396	33,680
Building Schools for the Future	27,387	20,074
Major Works Invoices	9,349	9,313
National Affordable Housing Programme	7,900	7,998
Housing Targeted Funding	6,554	0
Primary Capital Programme	3,028	0
High Street 2012	1,596	0
Other capital grants and contributions	3,264	1,190
<b>Total</b>	<b>90,474</b>	<b>72,255</b>

## 38 RELATED PARTIES

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

### Central Government

Central government has effective control over the general operations of the Authority– it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 44 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2011 are within the creditors note.

## 40 RELATED PARTIES

### Partnerships

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

### Pension Fund

The Council oversees the administration of the pension fund. The Pension Fund can borrow from the Council. The Pension Fund accounts are presented on later pages to this Statement.

### Membership of and relationship with other organisations

Where a Member has involvement with an external organisation, the Council discloses details of the relationship. In addition, if the Council makes material payments to the organisation, then details of amounts over £10,000 are disclosed.

Organisations	Councillor	Relationship With Organisation	Payments by the Council over £10k 2010/11 £'000	Payments by the Council over £10k 2011/12 £'000	Amounts due to Organisations at 31st March 2012 £'000
Al Majidiah Trust	Sirajul Islam	Pays Org a fee towards sons Arabic Education		14	
Al-Isharah At Rich Mix	Rachael Mary Alice Saunders	Council Rep			
Alzheimers Society	Emma Jones	Employee		109	47
Bangladesh Youth Movement	Aminur Khan	Employee	67	42	
Berner Estate Tenants Assoc	Shahed Ali	Members because being Residents			
Bethnal Green Technology College	K Ahmed	School Governor	15		
Bishop Challoner Catholic Collegiate School	Abdul Asad	Member	46	78	
Boundary Community School	Mohammed Mukit	E/C Member	49	21	
Bromley By Bow Centre	Rachael Mary Alice Saunders	Council Rep	1,005	456	31
	Helal Uddin	Employee			
Central Foundation Girls School	Khales U Ahmed	Governor	24	11	
Chisenhale Gallery	J J Peck	Independent Board Member	31		
Citizens Advice Bureau London Region	Carlo Gibbs	Board member in a private capacity	288		
	Amy Whitelock	Trustee			
Collective of Bangladeshi School Governors	M Mukit	Executive Committee Member	27		
	S Islam	Member			
Collingwood Tenants And Residents Assoc	Rachael Mary Alice Saunders	Husband - Chris Weavers, is a Member of both			
Cultural Industries Development Agency	D Jones	Council Representative	30		
East End Citizens Advice Bureau	Carlo Gibbs	Board member in a private capacity		247	
	Amy Whitelock	Trustee			
East End Homes	Helal Uddin	Board Member	763	925	20
	Motin Uz-Zaman	Board Member			
East London Nhs Foundation Trust	Carlo Gibbs	Member in a private capacity			
Financial Ombudsman Service	T J Archer	Employee	80		
Greater London Authority	Zara E Davis	Previously an Employee of this Org until Nov 2011			
Greater London Enterprise Board	C Gibbs	Council Representative	17		
Greenwich & Docklands Festivals	Joshua Joseph Peck	Council Rep		30	
Half Moon Young Peoples Theatre	Rachael Mary Alice Saunders	Board Member		48	
Ian Mikardo High School	Rachael Mary Alice Saunders	Husband - Chris Weavers, is the Head General		65	
Isle of Dogs Community Foundation	D J Edgar	Council Representative	826		
	T J Archer	Trustee			
Jagonari Women's Educational Resource Centra	A M O Ahmed	Wife is a employee of the Organisation	566		
Jaganari	Lesley Pavitt	Council Rep		47	
Kingsley Hall Community Centre	Rania Khan	Trustee			
Kingston University	Stephanie Eaton	Employee	10		
Kobi Nazrul Centre	Z Rahman	Board Member - Voluntary	15		
London Councils	Abdal Ullah	N/A	1,601	1,665	55
Mind In Tower Hamlets	Amy Whitelock	Employee	960	850	
Moat Homes Ltd	Carli Harper-Penman	Director of Communications and Public Affairs			
Newark Youth London	Oliur Rahman	Patron	32	12	
Ocean Regeneration Trust	Rofique Uddin Ahmed	Cabinet Member		100	
Oxford House In Bethnal Green	Sirajul Islam	Board Member		33	
Poplar Harca	Khales U Ahmed	Board Member	2,264	1,884	86
	Helal Uddin	Employer has a Working Relationship with this Organisation			
	Kosru Uddin	Services Board			
Princes Trust	A T Jackson	Council Representative	55		
Rich Mix Cultural Foundation	Rachael Mary Alice Saunders	Council Rep	45		
Smithy Street Primary School	Aminur Khan	Governor and the Wife is also a Governor			
Solander Gardens Community & Education	Harun Miah	Secretary			
Spitalfields Housing Association Ltd	Mohammed Mukit	Board Member			
Sports Network Council	M Mukit	Executive Committee Member	23		
T H Primary Care Trust	D Jones	Was appointed as a non executive member by NHS Appoir	1,479		
The London Thames Gateway	Kosru Uddin	Council Rep		62	
The Moat School	Carli Harper-Penman	Director of Communications and Public Affairs		32	
Time for Children	G Thienel	Employee	79		
Tower Hamlets College	Kabir Ahmed	N/A		1,053	
Tower Hamlets Community Housing	Helal Uddin Abbas	Council Rep	243		27
	Kabir Ahmed	N/A			
	Carlo Gibbs	Council Rep			
	Sirajul Islam	Council Rep			
	Carlo Gibbs	Council Rep		52	
Tower Hamlets Community Transport Ltd	Abdul Asad	Council Rep		56	
Tower Hamlets Council Of Mosques	Abdal Ullah	Executive Committee Member	109	63	
Tower Hamlets Homes	Kabir Ahmed	Council Rep & Chair			
Tower Hamlets Law Centre	L Rahman (Mayor)	Member	247		



## 39 LEASES

### Authority as Lessee

#### Finance Leases

As a Lessee the Council has no material finance lease to report.

Future payments on account of these leases were reported within the operating lease information.

#### Operating Leases

Council leased in few properties, vehicles and equipment.

The future minimum lease payments due under these leases in future years are:

#### Leased In Assets

	Land & Buildings Restated 31 March 2011 £'000	Vehicles Plant & Equipment 31 March 2011 £'000	Land & Buildings 31 March 2012 £'000	Vehicles Plant & Equipment 31 March 2012 £'000
<b>Adults Health and Wellbeing</b>				
Not later than one year	148	0	164	0
Later than one year and not later than five years	590	0	654	0
Later than five years	2,239	0	2,319	0
<b>Children Schools and Families</b>				
Not later than one year	257	470	223	740
Later than one year and not later than five years	778	470	643	592
Later than five years	982	0	682	0
<b>Communities Localities and Culture</b>				
Not later than one year	0	346	0	611
Later than one year and not later than five years	0	789	0	1,941
Later than five years	0	105	0	1,300
<b>Development and Renewal</b>				
Not later than one year	6,036	178	6,384	177
Later than one year and not later than five years	22,071	0	10,984	0
Later than five years	8,782	0	1,592	0
<b>Total</b>				
<b>Not later than one year</b>	<b>6,441</b>	<b>994</b>	<b>6,771</b>	<b>1,528</b>
<b>Later than one year and not later than five years</b>	<b>23,439</b>	<b>1,259</b>	<b>12,281</b>	<b>2,533</b>
<b>Later than five years</b>	<b>12,003</b>	<b>105</b>	<b>4,593</b>	<b>1,300</b>
	<b>41,883</b>	<b>2,358</b>	<b>23,645</b>	<b>5,361</b>

## 39 LEASES (continued)

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

	Land & Buildings 31 March 2011 £'000	Vehicles Plant & Equipment 31 March 2011 £'000	Land & Buildings 31 March 2012 £'000	Vehicles Plant & Equipment 31 March 2012 £'000
<b>Adults Social Care</b>				
Minimum Lease Payments	148	0	164	0
<b>Highways &amp; Transport</b>				
Minimum Lease Payments	0	628	0	755
<b>Children's and Education Services</b>				
Minimum Lease Payments	312	677	223	903
<b>Development and Renewal</b>				
Minimum Lease Payments	6,120	442	6,384	1,642
<b>Total</b>				
<b>Minimum Lease Payments</b>	<b>6,580</b>	<b>1,747</b>	<b>6,771</b>	<b>3,300</b>

### Authority as Lessor

#### Finance Leases

As a Lessor the Council has no material finance lease to report .

#### Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- for economic development purposes to provide suitable affordable accommodation for local businesses

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

	31 March 2011 £'000	31 March 2012 £'000
Not later than one year	(1,684)	(1,541)
Later than one year and not later than five years	(5,808)	(5,398)
Later than five years	(10,823)	(9,846)
	<b>(18,315)</b>	<b>(16,785)</b>

## 40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

The Council is party to two Private Finance Initiative (PFI) schemes in respect of the design, construction, maintenance and servicing of 28 schools - the Mulberry and Group Schools schemes - until the year 2029. Prior to 2010-11 the assets involved were treated as "off balance sheet" in accordance with International Financial Reporting Standards the assets are included on the Council's Balance Sheet, matched by a finance lease liability.

A third PFI contract was entered into in relation to the Barkantine Estate Combined Heat and Power scheme. There are no unitary payments made under this scheme as it is classed as a user pay arrangement. An asset was brought onto the balance sheet in 2010/11, matched by a deferred income balance.

Movement on PFI Assets	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Asset value at 31 March 2011</b>	46,778	226,320	3,308	276,406
Depreciation	(995)	(4,815)	(203)	(6,014)
Enhancements	0	0	0	0
Revaluations	1,462	18,323	0	19,785
<b>Asset value at 31 March 2012</b>	<b>47,245</b>	<b>239,828</b>	<b>3,105</b>	<b>290,178</b>

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2011</b>	7,269	31,340	3,163	41,772
Repayments	(146)	(338)	(198)	(682)
<b>Liabilities at 31 March 2012</b>	<b>7,123</b>	<b>31,002</b>	<b>2,965</b>	<b>41,090</b>
<b>Consisting of:</b>				
Long term liability	6,935	30,597	2,767	40,299
Short-term liability	188	405	198	791
<b>Liability value at 31 March 2012</b>	<b>7,123</b>	<b>31,002</b>	<b>2,965</b>	<b>41,090</b>

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	188	405	198	791
Within 2 - 5 years	1,008	2,196	791	3,995
Within 6 - 10 years	1,693	6,967	988	9,649
Within 11 - 15 years	2,812	18,815	988	22,616
Within 16 - 19 years	1,421	2,619	0	4,040
	<b>7,123</b>	<b>31,002</b>	<b>2,965</b>	<b>41,090</b>
<b>Interest</b>				
Within 1 year	799	4,878	0	5,677
Within 2 - 5 years	2,958	18,794	0	21,752
Within 6 - 10 years	2,947	20,664	0	23,611
Within 11 - 15 years	1,808	11,898	0	13,706
Within 16 - 19 years	243	412	0	655
	<b>8,755</b>	<b>56,646</b>	<b>0</b>	<b>65,401</b>
<b>Service Charges</b>				
Within 1 year	673	1,133	0	1,806
Within 2 - 5 years	2,694	14,318	0	17,012
Within 6 - 10 years	3,367	13,431	0	16,798
Within 11 - 15 years	3,367	13,701	0	17,068
Within 16 - 19 years	1,347	1,104	0	2,451
	<b>11,448</b>	<b>43,687</b>	<b>0</b>	<b>55,135</b>

## 41 PENSIONS SCHEMES - DEFINED BENEFIT

### Participation in pensions schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not be payable until employees retire, the Council has a commitment to make the payments which needs to be disclosed at the time the employees earn their future entitlement.

The Council participates in three pensions schemes:

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

The LGP schemes are funded defined benefit final salary schemes, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The TPS is an unfunded defined benefit final salary scheme meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet pensions payments as they eventually fall due. It does, however, use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities (LEAs) of which the Council is one. It is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees and it is therefore accounted for on the same basis as a defined contribution scheme. This means that contributions are included on the basis of the actual amount paid into the scheme.

### Transactions Relating to Retirement Benefits

The cost of LGPS retirement benefits is recognised in the Net Cost of Services when the benefits are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year. The real cost of retirement benefits is therefore reversed out in the Movement in Reserves Statement for the General Fund Balance. The following transactions have been made in the Comprehensive Income and Expenditure Account and Movement in Reserves Statement during the year:

	The Council		LPFA		Total	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Account</b>						
<b>Net Cost of Services</b>						
Current service costs	28,439	22,035	469	340	28,908	22,375
Past service costs* (net gain)	(130,009)	0	(4,579)	0	(134,588)	0
Impact of settlements and curtailments	556	1,880	0	0	556	1,880
<b>Net Operating Expenditure</b>						0
Interest cost	70,887	57,171	3,117	2,906	74,004	60,077
Expected return on assets in the scheme	(51,711)	(49,684)	(2,380)	(2,389)	(54,091)	(52,073)
<b>Net Charge to the Comprehensive Income and Expenditure Account</b>	<b>(81,838)</b>	<b>31,402</b>	<b>(3,373)</b>	<b>857</b>	<b>(85,211)</b>	<b>32,259</b>
<b>Movement in Reserves Statement -</b>						
<b>General Fund Balance</b>						
Reversal of net charges made for retirement benefits in accordance with IAS 19	81,838	(31,402)	3,373	(857)	85,211	(32,259)
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>	<b>35,119</b>	<b>33,729</b>	<b>940</b>	<b>910</b>	<b>36,059</b>	<b>34,639</b>

In 2011/12 the Council paid £14.527 million into the Teachers Pension Scheme, representing 14.1% of pensionable pay. The figures for 2010/11 were £14.754 million and 14.1% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of added years it has awarded. In 2011/12 this amounted to £0.115 million (£0.105 million in 2010/11).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Account, actuarial gains of £116,236 million (£259.963 million in 2010/11) were included in the Actuarial gains or losses on pension assets and liabilities within other comprehensive Income and expenditure on the face of the Comprehensive Income and Expenditure Account. The cumulative amount of actuarial losses recognised is £330,613 million.

\* The expected return on assets in the scheme includes a gain of £134.754 million relating to the change in Government pension increase policy from Retail Price Index to Consumer Price Index.

## 41 PENSION SCHEME (continued)

### Assets and Liabilities in Relation to Retirement Benefits

#### Reconciliation of present value of scheme liabilities (LGPS):

	The Council		LPFA		Total	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
1st April	(1,457,968)	(1,042,983)	(67,502)	(54,168)	(1,525,470)	(1,097,151)
In-year adjustment to exclude/(incorporate) THH deficit	69,476	(52,255)	0	0	69,476	(52,255)
Current service cost	(28,439)	(22,035)	(469)	(340)	(28,908)	(22,375)
Interest cost	(70,887)	(57,171)	(3,117)	(2,906)	(74,004)	(60,077)
Contributions	(8,825)	(8,094)	(115)	(102)	(8,940)	(8,196)
Actuarial gains / (losses)	288,717	(69,499)	9,227	(4,854)	297,944	(74,353)
Benefits paid	35,490	39,133	3,229	3,125	38,719	42,258
Past service costs	130,009	0	4,579	0	134,588	0
Losses on curtailments	(556)	(1,880)	0	0	(556)	(1,880)
<b>31st March</b>	<b>(1,042,983)</b>	<b>(1,214,784)</b>	<b>(54,168)</b>	<b>(59,245)</b>	<b>(1,097,151)</b>	<b>(1,274,029)</b>

#### Reconciliation of fair value of the scheme assets (LGPS):

	The Council		LPFA		Total	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
1st April	796,161	740,326	39,386	48,135	835,547	788,461
In-year adjustment to (exclude)/incorporate THH deficit	(50,245)	50,967	0	0	(50,245)	50,967
Expected rate of return	51,711	49,684	2,380	2,389	54,091	52,073
Actuarial (losses) / gains	(65,755)	(40,590)	8,543	(6)	(57,212)	(40,596)
Contributions						
Members	8,825	8,094	115	102	8,940	8,196
Employer	35,119	33,729	940	910	36,059	34,639
Benefits paid	(35,490)	(39,133)	(3,229)	(3,125)	(38,719)	(42,258)
<b>31st March</b>	<b>740,326</b>	<b>803,077</b>	<b>48,135</b>	<b>48,405</b>	<b>788,461</b>	<b>851,482</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

#### Scheme history

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Present value of liabilities:					
The Council	(837,851)	(815,900)	(1,457,968)	(1,042,983)	(1,214,784)
LPFA	(48,839)	(47,051)	(54,168)	(54,168)	(59,245)
Fair value of assets					
The Council	661,906	555,794	740,326	740,326	803,077
LPFA	41,758	36,592	56,884	56,884	48,405
Deficit in the scheme					
The Council	(175,945)	(175,945)	(260,106)	(302,657)	(411,707)
LPFA	(7,081)	(7,081)	(10,459)	2,716	(10,840)
<b>Total deficit in the schemes</b>	<b>(183,026)</b>	<b>(183,026)</b>	<b>(270,565)</b>	<b>(299,941)</b>	<b>(422,547)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total deficit in the schemes of £422.5 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.

The contributions expected to be made by the Council in the year to 31st March 2013 are £33.437 million to the Council's scheme and £1.524 million to the LPFA scheme (per actuary's reports).

## 41 PENSION SCHEME (continued)

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both (Hymans Robertson LLP provide LBTH - Barnett Waddingham provide LPFA report) schemes have been assessed by Hymans Robertson, an independent firm of actuaries, based on the following main assumptions.

	The Council		LPFA	
	2010/11	2011/12	2010/11	2011/12
Long-term expected rate of return on assets in the scheme:				
Equity investments	7.5%	6.2%	7.2%	6.3%
Target return portfolio			5.0%	4.5%
Property	5.5%	4.4%		
Bonds	4.9%	3.3%		
Cashflow matching			4.4%	3.3%
Cash	4.6%	3.5%	3.0%	3.0%
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	21.8 years	21.8 years	19.8 years	19.9 years
Women	23.9 years	23.9 years	23.1 years	23.2 years
Longevity at 65 for future pensioners:				
Men	23.3 years	23.3 years	21.9 years	22 years
Women	26.5 years	26.5 years	25.0 years	25.1 years
Rate of inflation	2.8%	2.5%	3.5%	3.3%
Rate of increase in salaries	5.1%	4.8%	4.5%	4.2%
Rate of increase in pensions	2.8%	2.5%	2.7%	2.5%
Rate for discounting scheme liabilities	5.5%	4.8%	5.5%	4.6%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%*		

\* Pre-April 2008 service - 75% for post-April 2008 service

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

The major categories of assets are as follows.

	The Council		LPFA	
	2010/11	2011/12	2010/11	2011/12
Equities	67%	62%	12%	13%
Bonds	18%	16%	0%	0%
Property	11%	11%	0%	0%
Cash	4%	11%	-1%	2%
Cashflow matching	0%	0%	35%	32%
Target return portfolio	0%	0%	54%	53%

### History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2011/12 can be analysed into the following categories: measured as a percentage of assets or liabilities at 31st March 2012:

	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
<b>The Council</b>					
Experience gains and (losses) on assets	-14.34	-30.12	19.57	-8.88	-5.40
Experience gains and (losses) on liabilities	-4.38	0.00	0.00	-16.98	5.98
<b>London Pensions Fund Authority</b>					
Experience gains and (losses) on assets	6.17	-15.90	6.79	17.75	-0.01
Experience gains and (losses) on liabilities	-4.24	0.27	-0.78	-1.58	8.19

## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

TO BE UPDATED

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made to directorates for the amortisation of deferred grants and impairment whilst they are charged to services in the Comprehensive Income and Expenditure Statement;
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;
- the gross expenditure and income associated with trading activities are reported for directorates whilst only the net position is included in the Comprehensive Income and Expenditure Statement

The income and expenditure of the Authority's directorates recorded in the report to Cabinet on 20th June 2012 is as follows:

DIRECTORATE I&E 2011/12	Adults Health and Wellbeing £'000	Chief Executive's £'000	Children, Schools and Families £'000	Communities, Localities and Culture £'000	Development and Renewal £'000	Resources £'000	Corp & Others £'000	Housing Revenue Account £'000	TOTAL £'000
Fees, charges and other service income									
Government grants									
<b>TOTAL INCOME</b>									
Employee expenses									
Other service expenses									
Support service recharges									
<b>TOTAL EXPENDITURE</b>									
<b>NET EXPENDITURE</b>	102,636	11,378	89,617	71,002	23,000	14,046	(1,273)	(793)	309,613

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure

£'000

**Net expenditure in the Directorate Analysis**

**Net expenditure of services and support services not included in the Analysis**

**Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis**

**Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement**

**COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT**

## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the deficit on the Provision of Services included in the Income and Expenditure Statement

SUBJECTIVE ANALYSIS 2011/12	Directorate analysis £'000	Services & support services not in analysis £'000	Amounts not reported to Management for Decision Making £'000	Amounts not included in I&E £'000	Cost of services £'000	Corporate amounts £'000	TOTAL £'000
Fees, charges and other service income							
Interest and investment income							
Unattached capital receipts							
Government grants and contributions - service specific							
Income from Council tax							
Government grants and contributions - non-service specific							
Distribution from non-domestic rates pool							
Capital Grants and Contributions							
<b>TOTAL INCOME</b>							
Employee expenses							
Other service expenses							
Support service recharges							
Depreciation, amortisation and impairment							
Interest payments							
Precepts and levies							
Payments to Housing Capital Receipts Pool							
Gain or Loss on Disposal of Fixed Assets							
Pensions interest costs and expected return on pensions assets							
(surplus)/Deficit on Trading Activities							
<b>TOTAL EXPENDITURE</b>							
<b>SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES</b>							



## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of

- no charges are made to directorates for the amortisation of deferred grants and impairment whilst they are charged to services in the
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of
- the gross expenditure and income associated with trading activities are reported for directorates whilst only the net position is included in the

The income and expenditure of the Authority's directorates recorded in the report to Cabinet on 6th July 2011 is as follows:

DIRECTORATE I&E 2010/11 COMPARATIVE FIGURES	Adults Health and Wellbeing £'000	Chief Executive's £'000	Children, Schools and Families £'000	Communities, Localities and Culture £'000	Development and Renewal £'000	Resources £'000	Corp & Others £'000	Housing Revenue Account £'000	TOTAL £'000
Fees, charges and other service income	(17,638)	(10,591)	(98,580)	(52,964)	(62,402)	(78,949)	136,468	(85,074)	<b>(269,730)</b>
Government grants	(2,154)	92	(350,941)	(6,037)	(2,241)	(267,797)	(2,517)	(14,535)	<b>(646,130)</b>
<b>TOTAL INCOME</b>	<b>(19,792)</b>	<b>(10,499)</b>	<b>(449,521)</b>	<b>(59,001)</b>	<b>(64,643)</b>	<b>(346,747)</b>	<b>133,951</b>	<b>(99,608)</b>	<b>(915,861)</b>
Employee expenses	30,814	10,794	343,811	39,491	25,406	34,145	21,795	1,954	<b>508,209</b>
Other service expenses	89,745	12,128	181,221	77,990	53,749	275,234	(141,524)	60,569	<b>609,113</b>
Support service recharges	4,258	5,708	24,860	20,402	5,262	53,366	(77)	38,420	<b>152,200</b>
<b>TOTAL EXPENDITURE</b>	<b>124,817</b>	<b>28,629</b>	<b>549,893</b>	<b>137,884</b>	<b>84,417</b>	<b>362,745</b>	<b>(119,805)</b>	<b>100,943</b>	<b>1,269,523</b>
<b>NET EXPENDITURE</b>	<b>105,025</b>	<b>18,130</b>	<b>100,372</b>	<b>78,883</b>	<b>19,774</b>	<b>15,999</b>	<b>14,145</b>	<b>1,334</b>	<b>353,662</b>

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	£'000
<b>Net expenditure in the Directorate Analysis</b>	353,662
<b>Net expenditure of services and support services not included in the Analysis</b>	293,123
<b>Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis</b>	(17,357)
<b>Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement</b>	3,255
<b>COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT</b>	<b>632,683</b>

## 42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the deficit on the Provision of Services included in the

SUBJECTIVE ANALYSIS 2010/11 COMPARATIVE FIGURES	Directorate analysis £'000	Services & support services not in analysis £'000	Amounts not reported to Management for Decision Making £'000	Amounts not included in I&E £'000	Cost of services £'000	Corporate amounts £'000	TOTAL £'000
Fees, charges and other service income	(269,730)	44,381	(157,901)	0	(383,250)		(383,250)
Interest and investment income	0				0	(1,697)	(1,697)
Unattached capital receipts					0	(450)	(450)
Government grants and contributions - service specific	(646,130)	(2,517)			(648,647)		(648,647)
Income from Council tax					0	(77,417)	(77,417)
Government grants and contributions - non-service specific					0	(71,496)	(71,496)
Distribution from non-domestic rates pool					0	(202,761)	(202,761)
Capital Grants and Contributions						(84,024)	(84,024)
<b>TOTAL INCOME</b>	<b>(915,861)</b>	<b>41,864</b>	<b>(157,901)</b>	<b>0</b>	<b>(1,031,898)</b>	<b>(437,845)</b>	<b>(1,469,743)</b>
Employee expenses	508,209	(4,482)	0	0	503,727	0	503,727
Other service expenses	609,113	32,322	6,512	3,255	651,202	0	651,202
Support service recharges	152,200	(71,480)	0	0	80,720	0	80,720
Depreciation, amortisation and impairment		294,864	0		294,864	0	294,864
Interest payments					0	28,505	28,505
Precepts and levies					0	1,722	1,722
Payments to Housing Capital Receipts Pool				0	0	0	0
Gain or Loss on Disposal of Fixed Assets					0	16,930	16,930
Pensions interest costs and expected return on pensions assets					0	19,913	19,913
(surplus)/Deficit on Trading Activities					0	(98)	(98)
<b>TOTAL EXPENDITURE</b>	<b>1,269,523</b>	<b>251,224</b>	<b>6,512</b>	<b>3,255</b>	<b>1,530,514</b>	<b>66,972</b>	<b>1,597,486</b>
<b>SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>353,662</b>	<b>293,088</b>	<b>(151,389)</b>	<b>3,255</b>	<b>498,616</b>	<b>(370,873)</b>	<b>127,743</b>

## 43 HERITAGE ASSETS

The Council holds a number of heritage assets. These include civic regalia, works of art across the borough and collections at Tower Hamlets Local History Library and Archive (Bancroft Library). These are held as part of increasing the knowledge and understanding of the area's

The Council has held these heritage assets for a number of years pre-dating 2010 and does not hold these assets for financial gain, so it is unlikely that they will be sold. These assets are held at an estimate of current value on the balance sheet, except for the local history collection which is not included on the balance sheet as valuations are not available due to the unique nature of the assets. The council has a materiality threshold of £50,000 per asset. There are only four heritage assets above this threshold - civic regalia, two sculptures and one painting. The

It is assumed that these material heritage assets have an indefinite lifespan, therefore depreciation is not charged on these assets. If evidence was received that required the value of the heritage assets to be impaired, this reduction would be charged to the revaluation reserve. The Council does not have any heritage assets buildings.

	Balance at 1/4/2010	2010/11 Acquisitions	2010/11 Disposals	Balance at 31/3/2010	2011/12 Acquisitions	2011/12 Disposal	Balance at 31/3/2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Value of Heritage Assets held by Council</b>							
(a) - Works of art	4,410	0	0	4,410	0	0	4,410
(b) - Civic Regalia	389	0	0	389	0	0	389
(c) - Local History Library and Archive Collections	0	0	0	0	0	0	0
<b>TOTAL HERITAGE ASSETS</b>	<b>4,799</b>	<b>0</b>	<b>0</b>	<b>4,799</b>	<b>0</b>	<b>0</b>	<b>4,799</b>

(a) The council holds a number of works of art. The council has three works of art with a material value - the council has recent valuations of these assets from art experts at auction houses.

There are 101 works of art across the borough, these are sculptures, statues, murals, memorials and other works. The majority of these reflect the history of the borough and are not deemed to be saleable assets. It was not cost effective to obtain formal valuations for these immaterial items, however public data is available of sale proceeds of similar works by the same artists - none of these values are considered material. The estimated value of these assets has not changed since 2010.

The council also has a collection of 75 other paintings which are held at the local history library. These paintings are of local scenes and past local dignitaries so intrinsic value is in local interest rather than realisable value.

(b) These comprise the Mayor's chain and other civic regalia. These have been recently valued by the auctioneers Bonhams.

(c) Tower Hamlets Local History Library & Archives holds an extensive and unique collection of books, pamphlets, maps, photographs, press cuttings and ephemera, deeds, archives, audio-visual material, oral histories and sound recordings, digital records, and a range of other sources, all of which reflect and provide evidence of the history of the borough.

It was not considered appropriate or practicable to place a value on these items due to their unique nature. It is highly unlikely that any of these assets would ever be sold as the council has a legal obligation to maintain its archives.

These collections are preserved and made publicly available at the library on Bancroft Road and increasingly through the web and a range of exhibitions and outreach projects. The library & archives continues to proactively collect resources which illustrate and provide evidence of the activities and experiences of residents, organisations and businesses active in the borough, including the local authority. A formal acquisitions policy is in preparation and will be published in 2012.

## 44 TRUST FUNDS

The Council acts as trustee for a number of Trust Funds, the principal ones being shown below. It should be noted that the Council's Balance

	Balance at 1/4/2010	2010/11 Expenditure	2010/11 Income	Balance at 31/3/2010	2011/12 Expenditure	2011/12 Income	Balance at 31/3/2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) Welfare Savings	748	335	378	791	409	527	909
(b) King Bequest Fund	14	14	0	0	0	0	0
(c) Social Services Trust Funds - sundry other	159	126	86	119	442	2,652	2,329
(d) Tower Hamlets Further Education Trust	697	98	15	614	104	104	614
(e) Globe Town Picture Fund	160	0	0	160	0	0	160
(f) Sundry Other	15	0	1	16	0	75	91
<b>TOTAL TRUST FUNDS</b>	<b>1,793</b>	<b>573</b>	<b>480</b>	<b>1,700</b>	<b>955</b>	<b>3,358</b>	<b>4,103</b>

(a) This Fund represents monies held by Social Services residential establishments on behalf of residents in their care. It is used to finance the purchase of goods and services on behalf 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 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

(d) This was established by the Council in conjunction with Canary Wharf Limited 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

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

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

## 45 CONTINGENT LIABILITIES

### Housing Transfers to Registered Social Landlords

Between March 1998 and March 2012 the Council transferred tenanted and leasehold properties to other landlords - 7,457 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to Eastend Homes; 2,079 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields Housing Association. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council. The amount of the potential liability cannot be determined with any certainty at present.

## 46 CONTINGENT ASSETS

The Council has no material contingent assets.

## HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	Note	2010/11 £'000	2011/12 £'000
<b>EXPENDITURE</b>			
Repairs and maintenance		21,488	19,306
Supervision and management		34,728	34,188
Rents, rates, taxes and other charges		2,535	2,840
Depreciation of non-current assets	6		
On dwellings		12,913	13,020
On other assets		1,477	1,758
Revaluation losses (and reversals)		293,654	(7,782)
Debt management costs		225	238
Movement in the allowance for bad debts		699	0
Rent rebates		0	0
Sums directed by the Secretary of State that are expenditure in accordance with the Co	12	7,676	3,353
<b>TOTAL EXPENDITURE</b>		375,395	66,921
<b>INCOME</b>			
Gross rental income			
Dwelling rents		55,850	59,357
Non dwelling rents		3,406	3,222
Charges for services and facilities		16,201	16,336
Contributions towards expenditure		115	115
HRA subsidy receivable	11	14,129	11,552
Movement in the allowance for bad debts		0	136
<b>TOTAL INCOME</b>		89,701	90,718
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		285,694	(23,797)
HRA services share of Corporate and Democratic Core		175	157
<b>NET COST OF HRA SERVICES</b>		285,869	(23,640)
<b>HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account</b>			
Gain or loss on sale of HRA non-current assets		8,209	(1,960)
Unattached capital receipts		(237)	(4,177)
Interest payable and similar charges		15,017	14,371
Interest and investment income		(96)	(103)
Pensions interest cost and expected return on pension assets	7	1,138	713
Past Service Costs	7	(7,555)	0
Capital grants and contributions receivable		(10,889)	(5,116)
PWLB Debt Redemption as per HRA Settlement Determination		0	(312,479)
Amortisation of premia and discounts due to HRA settlement	10	0	76,280
<b>DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES</b>		291,456	(256,111)

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

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

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

	Note	2010/11		2011/12	
		£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward			(12,978)		(12,788)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		291,456		(256,111)	
Net additional amount required by statute to be credited to the HRA balance for the year		(291,266)		254,321	
Decrease (Increase) in the HRA Balance			<b>190</b>		<b>(1,790)</b>
Transfers to or (from) reserves			0		1,000
<b>Balance on the Statutory HRA Carried Forward</b>			<b>(12,788)</b>		<b>(13,578)</b>

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

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

	2010/11		2011/12	
	£'000	£'000	£'000	£'000
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year</b>				
Revenue expenditure funded from capital under statute	(7,676)		(3,353)	
Capital grants and contributions	10,889		5,116	
PWLB Debt Redemption as per HRA Settlement Determination	0		312,479	
Amortisation of premia and discounts due to HRA settlement	0		(76,280)	
Gain or loss on sale of HRA non-current assets	(8,209)		1,960	
Unattached capital receipts	237		4,177	
Revaluation losses on non-current assets	(293,654)		7,782	
Transfer to / from the Major Repairs Reserve	(1,477)		(1,758)	
Difference between amounts charged to the Income & Expenditure Account for premiums and discounts and the charge for the year determined in accordance with statute	222		175	
Net charges made for retirement benefits in accordance with IAS19	8,454		1,797	
Transfers from General Fund (as directed by Secretary of State)	(406)	(291,620)	0	252,095
<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year</b>				
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	0		0	
Capital expenditure financed from revenue	335		2,224	
Other adjustments (transfer to capital receipts reserve)	19	354	2	2,226
<b>Net additional amount required by statute to be credited to the HRA Balance for the year</b>		<b>(291,266)</b>		<b>254,321</b>

## 2. HOUSING STOCK

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

	2011	2012
Low-rise flats (1-2 storeys)	264	265
Medium-rise flats (3-5 storeys)	7,355	7,351
High-rise flats (6 or more storeys)	4,102	4,110
Houses and bungalows	788	792
<b>TOTAL AT 31<sup>st</sup> MARCH</b>	<b>12,509</b>	<b>12,518</b>

## 3. NON-CURRENT ASSETS

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

	2010/11 £'000	2011/12 £'000
Dwellings	637,909	660,898
Other Land and Buildings	57,970	56,751
Surplus Assets Not Held for Sale	1,195	912
<b>TOTAL</b>	<b>697,074</b>	<b>718,561</b>

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	TOTAL £'000
Total value at 1 <sup>st</sup> April 2010	920,784	65,812	0	986,596
Additions, disposals, transfers and revaluations	(282,875)	(7,842)	1,195	(289,522)
Total value at 31 <sup>st</sup> March 2011	637,909	57,970	1,195	697,074
Additions, disposals, transfers and revaluations	22,989	(1,219)	(283)	21,487
<b>TOTAL VALUE AT 31<sup>st</sup> MARCH 2012</b>	<b>660,898</b>	<b>56,751</b>	<b>912</b>	<b>718,561</b>

The vacant possession value of dwellings within the Council's HRA was £2,587 million in 2011/12 (£2,488 million in 2010/11). The difference between the vacant possession value and the balance sheet value shows the economic cost to the Government of providing council housing at less than open market rents.

## 4. MAJOR REPAIRS RESERVE

	2010/11 £'000	2011/12 £'000
<b>Balance at 1<sup>st</sup> April</b>	1,074	6,346
Transfer from Capital Adjustment Account - depreciation	14,390	14,778
Transfer to HRA - depreciation on non-dwellings	(1,477)	(1,757)
Financing of capital expenditure	(7,641)	(11,382)
<b>Balance at 31<sup>st</sup> March</b>	<b>6,346</b>	<b>7,985</b>

## 5. CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

	2010/11			2011/12		
	Dwellings £'000	Other £'000	Total £'000	Dwellings £'000	Other £'000	Total £'000
<b>Expenditure</b>	29,551	7,676	<b>37,227</b>	28,262	3,353	<b>31,615</b>
<b>Sources of finance</b>						
Borrowing	8,718	7,676	<b>16,394</b>	12,500		<b>12,500</b>
Capital Receipts	2,609		<b>2,609</b>	1,986		<b>1,986</b>
Capital Grants and Contributions	10,248		<b>10,248</b>	2,965		<b>2,965</b>
Major Repairs Reserve	7,641		<b>7,641</b>	8,029	3,353	<b>11,382</b>
Direct Revenue Financing	335		<b>335</b>	2,782		<b>2,782</b>
<b>TOTAL CAPITAL FINANCING</b>	<b>29,551</b>	<b>7,676</b>	<b>37,227</b>	<b>28,262</b>	<b>3,353</b>	<b>31,615</b>

### (ii) Capital Receipts

Capital receipts (gross) in 2011/12 from the disposal of non-current assets within the HRA amounted to £5.487 million (£10.141 million in 2010/11) as follows:

	2010/11 £'000	2011/12 £'000
Dwellings	9,334	2,508
Other land and buildings	807	2,979
<b>TOTAL CAPITAL RECEIPTS</b>	<b>10,141</b>	<b>5,487</b>

## 6. DEPRECIATION

The total depreciation charge for the year was £14.778 million (£14.389 million in 2010/11), made up of £13.020 million (£12.913 million in 2010/11) in respect of council houses and £1.758 million (£1.477 million in 2010/11) in respect of other housing assets. In the case of council housing, assets have been depreciated by an amount equivalent to the Major Repairs Allowance, as this is the amount (based on a 30-year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an appropriate measure of depreciation. An analysis of the depreciation charges is set out below.

	2010/11 £'000	2011/12 £'000
Dwellings	12,913	13,020
Other Land and Buildings	1,477	1,758
Infrastructure and Community Assets	0	0
Surplus Assets Not Held for Sale	0	0
<b>TOTAL DEPRECIATION</b>	<b>14,390</b>	<b>14,778</b>



## 7. PENSION COSTS

These figures represent the cost of pensions attributable to the HRA. Further details of the treatment of pensions costs are shown in note 41 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note. The following transactions have been made in the account for the year.

Income and Expenditure Account	The Council		LPFA		Total	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
<b>Net Cost of Services</b>						
Current service costs	19	1	4	8	23	9
<b>Net Operating Expenditure</b>						
Interest cost	4,096	4,218	28	71	4,124	4,289
Settlements / Curtailments	0	139	0	0	0	139
Expected return on assets in the scheme	(2,988)	(3,665)	(22)	(59)	(3,010)	(3,724)
Past Service Costs	7,513	0	42	0	7,555	0
<b>Net Charge to the Income and Expenditure Account</b>	<b>8,640</b>	<b>693</b>	<b>52</b>	<b>20</b>	<b>8,692</b>	<b>713</b>
<b>Statement of Movement in the HRA Balance</b>						
Reversal of net charges made for retirement benefits in accordance with IAS19	(8,640)	(693)	(52)	(20)	(8,692)	(713)
<b>Employer's contribution to scheme</b>	<b>1,897</b>	<b>2,447</b>	<b>3</b>	<b>7</b>	<b>1,900</b>	<b>2,454</b>

## 8. RENT ARREARS

	2010/11 £'000	2011/12 £'000
Gross rent arrears at 31 <sup>st</sup> March	2,450	2,926
Arrears as % of rent receivable	4.0	4.9
Provision made for bad debts	1,361	2,114

## 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. Now sums were transferred during 2011/12. £0.4 million was transferred during 2010/11 relates to "Supporting People" services provided by the Council.

## 10. AMORTISED PREMIUMS AND DISCOUNTS

In March 2012, the CLG repaid a total of £236.2 million of PWLB loans used to finance housing as part of a nationwide debt re-allocation programme under the new HRA Self-Financing arrangements which come into effect from 1st April 2012. The debt repayment included the notional payment of a £76.3 million debt premium from early repayment.

## 11 HOUSING REVENUE ACCOUNT SUBSIDY ENTITLEMENT

	2010/11 £'000	2011/12 £'000
Management & Maintenance Allowances	36,151	35,828
Major Repairs Allowance	12,913	13,020
Charges for capital	21,655	20,493
Other Allowances	17	18
Guide Line Rent Income	(55,799)	(57,774)
Interest on Receipts	(23)	(14)
Prior Year Adjustment	(785)	(19)
<b>TOTAL HOUSING REVENUE ACCOUNT SUBSIDY</b>	<b>14,129</b>	<b>11,552</b>

## 12 ITEM 8 INTEREST ADJUSTMENT

Capital works on non-current assets within the authority's HRA are partly funded by borrowing. The total interest cost of borrowing is allocated between HRA and General Fund in accordance with the Item 8 Credit and Item 8 Debit (General) Determination for the year, as specified in Schedule 4 of the Local Government and Housing Act 1989. These are included within the interest figures shown on the HRA Income and Expenditure Account.

## COLLECTION FUND

	Note	2010/2011 £'000	2010/2011 £'000	2011/2012 £'000	2011/2012 £'000
<b>INCOME</b>					
Council Tax (net of benefits)	2	74,605		77,140	
Transfers from General Fund - Council Tax Benefits		<u>30,331</u>	104,936	<u>30,635</u>	107,775
Distribution of prior year deficit on Collection Fund			0		0
National Non-Domestic Rates	3		273,462		271,959
Reduction in provision for bad debts	5		0		0
<b>TOTAL INCOME</b>			<b><u>378,398</u></b>		<b><u>379,734</u></b>
<b>EXPENDITURE</b>					
Precepts and demands					
London Borough of Tower Hamlets		74,687		78,738	
Greater London Authority		<u>26,131</u>	100,818	<u>27,548</u>	106,286
Distribution of prior year surplus on Collection Fund			4,695		3,441
National Non-Domestic Rates					
Payment to National Pool		272,435		270,980	
Cost of collection allowance		<u>1,027</u>	273,462	<u>979</u>	271,959
Increase in provision for bad debts	6		433		2,268
<b>TOTAL EXPENDITURE</b>			<b><u>379,408</u></b>		<b><u>383,954</u></b>
<b>INCREASE/(DECREASE) IN FUND BALANCE</b>			<b>(1,010)</b>		<b>(4,220)</b>
<b>COLLECTION FUND BALANCE</b>					
Balance at the beginning of the year			5,263		4,253
(Deficit)/Surplus for the year			(1,010)		(4,220)
<b>BALANCE AT END OF YEAR</b>	<b>1</b>		<b>4,253</b>		<b>33</b>

# NOTES TO THE COLLECTION FUND

## 1. GENERAL

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

The surplus on the Fund (£32,371) is attributable to the Council (£23,980) and the Greater London Authority (£8,391). The latter amount is carried as a creditor in the Council's 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

Band	Market Value in April 1991	Fraction of Band D
A	Up to £40,000	6/9
B	Over £40,001 and up to £52,000	7/9
C	Over £52,001 and up to £68,000	8/9
D	Over £68,001 and up to £88,000	9/9
E	Over £88,001 and up to £120,000	11/9
F	Over £120,001 and up to £160,000	13/9
G	Over £160,001 and up to £320,000	15/9
H	Over £320,001	18/9

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.

When the 2011/12 Council Tax was set the position was as follows:

Band	2010/11 No. of Properties	2010/11 Council Tax Base	2011/12 No. of Properties	2011/12 Council Tax Base
A	1,650	740	1,803	750
B	25,300	15,956	25,054	15,937
C	33,800	25,386	34,478	26,410
D	19,800	16,235	21,319	18,210
E	15,400	15,252	15,692	16,269
F	7,600	8,636	7,406	9,104
G	3,200	4,087	3,143	4,240
H	425	659	462	748
<b>Total</b>	<b>107,175</b>	<b>86,951</b>	<b>109,357</b>	<b>91,668</b>

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

	2010/11		2011/12		Increase £	%
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000		
Tower Hamlets	885.52	74,687	885.52	78,738	0	0.00
Greater London Authority	309.82	26,131	309.82	27,548	0	0.00
<b>TOTAL</b>	<b>1,195.34</b>	<b>100,818</b>	<b>1,195.34</b>	<b>106,286</b>	<b>0</b>	<b>0.00</b>

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

Under the arrangements for National Non-Domestic Rates the Council collects business rates for its area which it pays to the Government. The Government then redistributes the total NNDR 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 2011/12 was 43.4p in the £ (41.4p in the £ in 2010/11). The total rateable value in the borough as at 31 March 2012 was £812.1 million (£817.1 million at 31 March 2011). A periodic revaluation of business properties took place in April 2010.

### **4. CROSSRAIL BUSINESS RATE SUPPLEMENT**

The Greater London Authority (GLA) introduced a business rate supplement (BRS) on 1 April 2010 to finance £4.1 billion of the costs of the £15.9 billion Crossrail project. Details on the progress of the project so far and the proposed policies for the BRS in the 2011/12 financial year are set out below.

The Crossrail BRS will be used to finance £3.5 billion worth of borrowing by the GLA and the repayment of this sum after the end of the Crossrail construction works. £800m of this was borrowed by the GLA in 2010/11 with a further £700m scheduled to be drawn down in 2011/12. A further £600 million will be applied to fund the Crossrail construction and financing costs. The GLA has already paid over £1 billion towards the project using revenues financed by the BRS. The GLA expects the Crossrail BRS will run for a period of between 24 and 31 years until its borrowing is repaid.

The Crossrail BRS multiplier for 2011/12 was 2p per pound of rateable value. Reliefs for the Crossrail BRS applied on the same basis and at the same percentage rate as for the National Non Domestic Rates (NNDR) bills although no transitional relief was provided for the BRS.

[www.london.gov.uk/crossrail-brs](http://www.london.gov.uk/crossrail-brs)

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

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

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

Contributions are made to or from the Collection Fund Income and Expenditure Account to a provision for bad debts. For 2011/12 the Council Tax bad debt provision was increased by £2.268 million (increased by £0.433 million in 2010/11) and £1.884 million of irrecoverable debts were written off (£1.081 million in 2010/11).

# GROUP ACCOUNTS

## 1 INTRODUCTION

Where a Council has a material interest in a separate entity, the entity's assets and liabilities may need to be incorporated within the council's group accounts as a subsidiary (controlling interest) or an associate (significant influence). As the Council controls Tower Hamlets Homes it is a subsidiary, therefore the subsidiary's assets and liabilities are incorporated within the council's group accounts.

The Council's Arms Length Management Organisation (ALMO), Tower Hamlets Homes Limited ("THH"), was incorporated on 16 May 2007 and commenced trading on 7 July 2008. It is a wholly owned subsidiary of the Council responsible for the management, maintenance and modernisation of the Council's housing stock. The stock remains in the ownership of the Council and rents are collected by THH.

THH is a private company limited by guarantee with no share capital. The composition of the board of the company and the associated voting rights are as follows.

	Number	Rights
Council nominees	5	5
Housing tenants and leasehold	5	5
Independent	5	5
Total	<u>15</u>	<u>15</u>

It should be noted that, although Board members have voting rights at Board meetings, the Council is the sole member of the company and therefore has 100% of the voting rights at the company's Annual General Meeting.

The Council undertakes, in the event of the company's being wound up, to contribute such amounts as may be required for the payment of the debts and liabilities of the company, provided this does not exceed £1. After the satisfaction of all the debts and liabilities, the remaining assets would revert to the Council. THH is an admitted body to the Council's local government pension fund. The full pension obligation and related deficit together with current and past services costs for THH employees passed to the company when it began trading. Should THH cease trading then the full pension obligation and related deficit or surplus would pass back to the Council as an integral part of the general business transfer.

The Council has determined that Group Accounts, showing the consolidated financial activities and financial position of the Council as a "single entity" and THH, need to be prepared since the 2008/09 financial year. The consolidation has been carried out in accordance with the acquisition basis of accounting - the service was externalised at fair value and did not result in an adjustment for goodwill. The income and expenditure of THH for the year are included in the Group Income and Expenditure Account and its assets and liabilities at 31 March 2011 in the Group Balance Sheet.

A copy of THH's accounts is available from the company's registered office at:

Tower Hamlets Homes Limited  
Jack Dash House, 2 Lawn Close, London E14 9YQ

or from Companies House, Cardiff

The accounts are subject to approval and adoption at the Annual General Meeting; and the formal issuing of the audit report

THH's appointed auditors are:

KPMG LLP  
2 Cornwall Street  
Birmingham  
B3 2DL

**GROUP MOVEMENT IN RESERVES STATEMENT**

	NOTES	USABLE RESERVES									UNUSABLE RESERVES						UNUSABLE RESERVES	
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Balance as at 31 March 2010</b>		27,133	104,054	12,978	1,074	16,310	298	16,499	456	<b>178,802</b>	514,696	1,105,581	(689,923)	3,902	764	(4,210)	<b>930,810</b>	<b>1,109,612</b>
<b><u>Movement in reserves during 2010/11</u></b>																		
Surplus or (Deficit) on the Provision of Services		163,715		(291,458)					4,342	(123,401)							0	(123,401)
Other comprehensive expenditure and income										0	31,761		266,714				298,477	298,477
<b>Total Comprehensive Expenditure and Income</b>		<b>163,715</b>	<b>0</b>	<b>(291,458)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,342</b>	<b>(123,401)</b>	<b>31,761</b>	<b>0</b>	<b>266,714</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>298,477</b>	<b>175,076</b>
Adjustments between accounting basis and funding basis under regulations		(162,168)	0	291,266	5,272	8,114	(57)	3,251	(4,307)	<b>141,371</b>	(12,936)	(253,174)	121,270	(748)	121	(210)	(145,677)	(4,306)
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>1,547</b>	<b>0</b>	<b>(192)</b>	<b>5,272</b>	<b>8,114</b>	<b>(57)</b>	<b>3,251</b>	<b>35</b>	<b>17,970</b>	<b>18,825</b>	<b>(253,174)</b>	<b>387,984</b>	<b>(748)</b>	<b>121</b>	<b>(210)</b>	<b>152,800</b>	<b>170,770</b>
Transfers to or from earmarked reserves		(1,042)	1,042							0							0	0
Transfers to or from school reserves		(4,258)	4,258							0							0	0
<b>Increase or (Decrease) in Year</b>		<b>(3,753)</b>	<b>5,300</b>	<b>(192)</b>	<b>5,272</b>	<b>8,114</b>	<b>(57)</b>	<b>3,251</b>	<b>35</b>	<b>17,970</b>	<b>18,825</b>	<b>(253,174)</b>	<b>387,984</b>	<b>(748)</b>	<b>121</b>	<b>(210)</b>	<b>152,800</b>	<b>170,770</b>
<b>Balance as at 31 March 2011 carried forward</b>		<b>23,380</b>	<b>109,354</b>	<b>12,786</b>	<b>6,346</b>	<b>24,424</b>	<b>241</b>	<b>19,750</b>	<b>491</b>	<b>196,772</b>	<b>533,521</b>	<b>852,407</b>	<b>(301,939)</b>	<b>3,154</b>	<b>885</b>	<b>(4,420)</b>	<b>1,083,610</b>	<b>1,280,382</b>
<b><u>Movement in reserves during 2011/12</u></b>																		
Surplus or (Deficit) on the Provision of Services		(34,864)	0	256,111					1,912	<b>223,159</b>							0	223,159
Other comprehensive expenditure and income										0	13,701		(122,987)				(109,284)	(109,284)
<b>Total Comprehensive Expenditure and Income</b>		<b>(34,864)</b>	<b>0</b>	<b>256,111</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,912</b>	<b>223,159</b>	<b>13,701</b>	<b>0</b>	<b>(122,987)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(109,284)</b>	<b>113,875</b>
Adjustments between accounting basis and funding basis under regulations	6	52,225	0	(254,319)	1,639	3,183	(85)	30,406	0	(166,951)	(49,489)	216,053	2,380	(3,130)	74	1,065	166,953	0
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>17,361</b>	<b>0</b>	<b>1,792</b>	<b>1,639</b>	<b>3,183</b>	<b>(85)</b>	<b>30,406</b>	<b>1,912</b>	<b>56,208</b>	<b>(35,788)</b>	<b>216,053</b>	<b>(120,607)</b>	<b>(3,130)</b>	<b>74</b>	<b>1,065</b>	<b>57,669</b>	<b>113,875</b>
Transfers to or from earmarked reserves	Z	(11,394)	11,394							0							0	0
Transfers to or from school reserves		(2,413)	2,413							0							0	0
<b>Increase or (Decrease) in Year</b>		<b>3,554</b>	<b>13,807</b>	<b>1,792</b>	<b>1,639</b>	<b>3,183</b>	<b>(85)</b>	<b>30,406</b>	<b>1,912</b>	<b>56,208</b>	<b>(35,788)</b>	<b>216,053</b>	<b>(120,607)</b>	<b>(3,130)</b>	<b>74</b>	<b>1,065</b>	<b>57,669</b>	<b>113,875</b>
<b>Balance as at 31 March 2012</b>		<b>26,934</b>	<b>123,161</b>	<b>14,578</b>	<b>7,985</b>	<b>27,607</b>	<b>156</b>	<b>50,156</b>	<b>2,403</b>	<b>252,980</b>	<b>497,733</b>	<b>1,068,460</b>	<b>(422,546)</b>	<b>24</b>	<b>959</b>	<b>(3,355)</b>	<b>1,141,279</b>	<b>1,394,257</b>

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

Gross Expenditure	2010/11		Note	2011/12		
	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
<b>Continuing Operations</b>						
27,813	6,375	21,438	Cultural and Related Services	29,790	6,859	22,931
			Cultural, Environmental, Regulatory and Planning Services	0	0	0
49,313	36,879	12,434	Central Services	47,938	38,760	9,178
522,938	420,975	101,963	Children's and Education Services	529,192	437,468	91,724
56,891	14,417	42,474	Environment and Regulatory Services	41,568	9,471	32,097
30,220	19,449	10,771	Highways and Transport Services	31,709	20,704	11,005
376,031	89,701	286,330	Local Authority Housing (Housing Revenue Account)	65,064	90,718	(25,654)
296,010	272,252	23,758	Other Housing Services	305,846	285,696	20,150
29,226	10,371	18,855	Planning Services	30,045	19,648	10,397
121,561	26,329	95,232	Adult Social Care	116,743	29,626	87,117
13,754	1,118	12,636	Corporate and Democratic Core	14,981	2,897	12,084
7,393	139,132	(131,739)	Non-distributed Costs	15,597	34	15,563
<b>1,531,150</b>	<b>1,036,998</b>	<b>494,152</b>	<b>NET COST OF SERVICES</b>	<b>1,228,473</b>	<b>941,881</b>	<b>286,592</b>
		18,202	Other Operating Expenditure			130,450
		46,740	Financing and Investment Income and Expenditure			106,896
		(435,698)	Taxation and Non-Specific Grant Income			(747,110)
		5	Corporation Tax			13
		<b>123,401</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>(223,159)</b>
			<b>Other Comprehensive Income and Expenditure</b>			
		(31,761)	Surplus on revaluation of non-current assets			(13,701)
		(262,407)	Actuarial (gains) or losses on pension assets and liabilities			122,987
		<b>(294,168)</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>109,286</b>
			<b>(170,767) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>	<b>(113,873)</b>		

## GROUP BALANCE SHEET

This statement shows the Group's balances and reserves and its long term indebtedness, and the non-current assets and net current assets employed in its operations as at 31st March 2011.

1 April 2010 £'000	31 March 2011 £'000	Notes	31 March 2012 £'000
<b>Long-term Assets</b>			
2,109,675	1,896,850	Property, plant and equipment	1,850,716
4,799	4,799	Heritage Assets	4,799
1,067	1,008	Long Term Debtors	768
<b>2,115,541</b>	<b>1,902,657</b>	<b>Total Long-term assets</b>	<b>1,856,283</b>
<b>Current Assets</b>			
40,818	100,929	Short-term investments	131,603
531	821	Inventories	517
88,663	89,925	Short-term debtors	74,269
82,723	139,371	Cash and cash equivalents	130,965
<b>212,735</b>	<b>331,046</b>	<b>Total Current Assets</b>	<b>338,299</b>
<b>Current liabilities</b>			
15,324	35,485	Short-term borrowing	66,766
97,384	132,797	Short-term creditors	148,447
1,003	855	Provisions	1,594
4,207	4,418	Provisions for accumulated absences	3,355
<b>117,918</b>	<b>173,555</b>	<b>Total Current liabilities</b>	<b>220,162</b>
<b>Long Term Liabilities</b>			
10,213	12,014	Provisions	13,088
302,475	325,533	Long-term borrowing	25,979
689,924	301,939	Liability related to defined benefit pension schemes	422,546
50,030	90,474	Capital grants receipts in advance	72,255
38,287	41,090	Deferred liabilities	40,299
9,817	8,717	Deferred Income - Receipt in Advance	5,996
<b>1,100,746</b>	<b>779,767</b>	<b>Total Long-Term Liabilities</b>	<b>580,163</b>
<b>1,109,612</b>	<b>1,280,381</b>	<b>NET ASSETS</b>	<b>1,394,257</b>
<b>Reserves</b>			
<b>Usable Reserves</b>			
27,134	23,380	General Fund	26,934
12,978	12,786	Housing Revenue Account	14,578
84,942	85,984	Earmarked reserves	97,378
19,111	23,370	Schools reserves	25,783
16,309	24,424	Capital receipts reserve	27,608
298	241	Deferred capital receipts	156
16,500	19,751	Capital grants unapplied	50,156
1,074	6,346	Major repairs reserve	7,985
456	490	Income & Expenditure Reserve	2,403
<b>178,802</b>	<b>196,772</b>	<b>Total Usable Reserves</b>	<b>252,981</b>
<b>Unusable Reserves</b>			
514,696	533,521	Revaluation Reserve	497,734
1,105,580	852,406	Capital Adjustment Account	1,068,460
0	0	Collection Fund	0
3,902	3,154	Collection Fund Adjustment Account	24
764	885	Financial Instruments Adjustment Account	959
(689,924)	(301,939)	Pensions reserve	(422,546)
(4,208)	(4,418)	Accumulated Absences Account	(3,355)
<b>930,810</b>	<b>1,083,609</b>	<b>Total Unusable Reserves</b>	<b>1,141,276</b>
<b>1,109,612</b>	<b>1,280,381</b>	<b>TOTAL RESERVES</b>	<b>1,394,257</b>



## GROUP CASH FLOW STATEMENT

2010/11		Notes	2011/12
£'000			£'000
(123,401)	Net surplus or (deficit) on the provision of services		223,477
269,859	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>1</u>	205,953
(119,569)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>1</u>	(163,976)
<b>26,889</b>	<b>Net cash flows from Operating Activities</b>		<b>265,454</b>
(13,141)	Investing Activities	<u>3</u>	(5,294)
42,900	Financing Activities	<u>4</u>	(268,566)
<b>56,648</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>(8,406)</b>
82,723	Cash and cash equivalents at the beginning of the reporting period		139,371
<b>139,371</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>130,965</b>

# NOTES TO THE GROUP ACCOUNTS

## 1 NOTE A TO THE CASH FLOW STATEMENT

2010/11 £'000		2011/12	
		£'000	£'000
(123,401)	<b>Net Surplus or (Deficit) on the Provision of Services</b>		223,477
	<b><u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u></b>		
38,119	Depreciation	41,670	
293,778	Impairment and downward valuations	(3,481)	
836	Amortisation	1,270	
120	Adjustments for effective interest rates	0	
241	Increase/Decrease in Interest Creditors	(1,895)	
31,176	Increase/Decrease in Creditors	12,633	
(111)	Increase/Decrease in Interest and Dividend Debtors	(907)	
(607)	Increase/Decrease in Debtors	18,932	
(290)	Increase/Decrease in Inventories	304	
(125,578)	Pension Liability	(2,688)	
1,653	Contributions to/(from) Provisions	1,906	
211	Provision for Equal Pay	(1,062)	
30,311	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	139,271	
<b>269,859</b>			<b>205,953</b>
	<b><u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u></b>		
(105,700)	Capital Grants credited to surplus or deficit on the provision of services	(153,391)	
(13,869)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(10,585)	
<b>(119,569)</b>			<b>(163,976)</b>
<b>26,889</b>	<b>Net cash flows from operating activities</b>		<b>265,454</b>

## 2 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2010/11 £'000		2011/12 £'000
1,605	Interest received	1,931
(28,144)	Interest paid	24,754
<b>(26,539)</b>		<b>26,685</b>

## 3 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2010/11 £'000		2011/12 £'000
(111,038)	Purchase of property, plant and equipment, investment property and intangible assets	(119,541)
(60,111)	Purchase of short-term and long-term investments	(30,674)
(188)	Other payments for investing activities	(118)
13,457	assets	5,561
144,739	Other receipts from investing activities	139,478
<b>(13,141)</b>	<b>Net cash flows from investing activities</b>	<b>(5,294)</b>

## 4 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2010/11 £'000		2011/12 £'000
51,000	Cash receipts of short- and long-term borrowing	497
282	Billing Authorities - Council Tax and NNDR adjustments	0
(369)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(268,381)
(8,013)	Repayments of short- and long-term borrowing	0
<b>42,900</b>	<b>Net cash flows from financing activities</b>	<b>(268,566)</b>

## 5 INCOME AND EXPENDITURE ACCOUNT

The following Tower Hamlets Homes transactions are included in the Group Income and Expenditure Account:

	2010/11 £'000	2011/12 £'000
Operating (profit) / loss	(2,632)	(1,214)
Interest payable	0	0
Interest receivable	(24)	0
Pensions interest cost	(1,691)	(1,020)
Corporation tax	5	13
<b>Total</b>	<b>(4,342)</b>	<b>(2,221)</b>

## 6 BALANCE SHEET

The Group Balance Sheet reflects the following consolidated balances after eliminating intra-group transactions (transactions between Tower Hamlets Homes and the Council).

	The Council		THH		TOTAL	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
Non-current assets - equipment	8,225	7,439	297	211	8,522	7,650
Inventories	821	517	0	0	821	517
Short-term debtors	90,431	74,557	(506)	(288)	89,925	74,269
Cash and cash equivalents	98,963	126,283	2,808	4,682	101,771	130,965
Short-term creditors	130,688	146,245	2,109	2,202	132,797	148,447
Pensions liability	308,691	422,546	(6,752)	0	301,939	422,546
Pensions reserve	(308,691)	(422,546)	6,752	0	(301,939)	(422,546)
Income and Expenditure Reserve	0	0	490	2,403	490	2,403

## PENSION FUND ACCOUNTS

	Note	2010/11 £'000	2011/12 £'000
<b>FUND ACCOUNT</b>			
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
<b>Contributions</b>			
From employers	3	39,659	37,325
From members	3	10,266	9,180
<b>Transfers in</b>			
Transfers in from other pension funds		7,704	5,507
<b>Benefits</b>			
Pensions	4	(29,407)	(32,129)
Lump sum benefits	4	(11,406)	(9,699)
<b>Payments to and on account of leavers</b>			
Refunds of contributions		(2)	(2)
State scheme premiums		(2)	(2)
Transfers in from other pension funds		(5,167)	(5,475)
<b>Administrative expenses</b>	14	(1,003)	(1,002)
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>10,642</b>	<b>3,703</b>
<b>RETURN ON INVESTMENTS</b>			
		2010/11 £'000	2011/12 £'000
Investment income	11	10,562	13,016
Change in market value of investments			
Realised		70,468	(204)
Unrealised	10	(29,888)	844
Investment management expenses	15	(2,118)	(2,174)
<b>NET RETURN ON INVESTMENTS</b>		<b>49,024</b>	<b>11,482</b>
Net increase in the Fund during the year		59,666	15,185
Add: Opening net assets of the scheme		752,501	812,167
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>812,167</b>	<b>827,352</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2011 £'000	2012 £'000
<b>Investments Assets</b>			
Fixed interest securities			
Public sector		0	0
Other		0	0
Equities		180,091	177,933
Index linked securities			
Public sector		0	0
Pooled Investment Vehicles			
Unit Trusts		452,951	460,149
Property		86,158	92,048
Other		79,839	82,772
Derivative Contracts			
Forward Foreign Exchange Contracts		292	510
	10	799,331	813,412
Cash deposits	6	9,362	7,187
Other investment balances	5	1,096	1,270
<b>Investments Liabilities</b>			
Forward Foreign Exchange Contracts	10	(699)	(286)
Other investment balances	5	0	(443)
<b>Current Assets</b>	5	4,385	7,679
<b>Current Liabilities</b>	5	(1,308)	(1,467)
<b>TOTAL NET ASSETS</b>		<b>812,167</b>	<b>827,352</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## 1. INTRODUCTION

The Council is the administering authority for the Pension Fund and has executive responsibility for it. The Council delegates its responsibility for administering the Fund to the Pensions Committee which is responsible for considering all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and other statutes relating to investment issues. The Committee meets quarterly to determine investment policy objectives, appoint investment managers, monitor investment performance and make representations to the Government on any proposed changes to the Local Government Pension Scheme. The Committee is required to obtain proper advice on the investment strategy of the Fund for which it has established an Investment Panel which includes professional investment advisors. The Panel meets quarterly to determine the general investment strategy, monitor the performance of the Fund and individual managers and consider technical reports on investment issues. The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

The day to day administration of the Fund and the operation of the management arrangements and administration of the investment portfolio is delegated to the Corporate Director of Resources.

The Fund is operated as a funded, defined benefits scheme which provides for the payment of benefits to former employees of the London Borough of Tower Hamlets and those of bodies admitted to the Fund. These individuals are referred to as "members". The benefits include not only retirement pensions, but also widows' pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividend receipts and gains on the Fund's investments.

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial 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.

## 2. ACCOUNTING POLICIES

### (a) **Accounts**

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with Chapter 2 ("Recommended Accounting Practice") of the Statement of Recommended Practice (Financial Reports of Pensions Schemes) 2007 and the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Fund is administered in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009.

### (b) **Basis of preparation**

Except where otherwise stated, the accounts have been prepared on an accruals basis, that is income and expenditure are recognised as earned or incurred, not as received or paid.

(c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2012. The actuarial present value of promised retirement benefits, valued on an IAS19 basis is disclosed in note 13 of the Accounts.

### (d) **Investments**

Investments are shown in the Net Assets Statement at market value on the following bases.

(i) Listed securities are shown by reference to bid price at the close of business on 31st March 2012.

(ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2012.

(iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2012.

(iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.

(v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2012. Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

(vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent unrealised gains or losses on forward contracts.

### (e) **Management Expenses**

Fund managers' fees are paid in accordance with the terms of each individual management agreement. The fees are based mainly on a percentage of the value of funds under their management and increase or reduce as the value of the investments change.

### 3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 7.5% dependent on pensionable pay. The employer's 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 ending the 31 March 2012 was 15.8%. Contributions shown in the revenue statement may be categorised as follows:-

	2010/11 £'000	2011/12 £'000
Members normal contributions		
Council	9,246	8,254
Admitted bodies	257	241
Scheduled body	763	685
<b>Total members</b>	<b>10,266</b>	<b>9,180</b>
Employers		
Normal contributions		
Council	20,754	18,755
Admitted bodies	867	956
Scheduled body	1,845	1,714
Deficit funding contributions		
Council	13,624	14,000
Other contributions		
Council	2,569	1,900
<b>Total employers</b>	<b>39,659</b>	<b>37,325</b>
<b>Total contributions</b>	<b>49,925</b>	<b>46,505</b>

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2011/12 employees made contributions of £51,533.43 into the AVC Scheme operated by Aviva (Norwich Union) and £8,560.40 to Equitable Life. The contributions are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831) but are deducted from salaries and remitted directly to the provider.

### 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 relate to the period of previous pensionable employment. Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2010/11				2011/12			
	Council	Admitted Bodies	Scheduled Bodies	Total	Council	Admitted Bodies	Scheduled Bodies	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pensions	(28,428)	(688)	(291)	(29,407)	(30,734)	(810)	(585)	(32,129)
Lump sum retirement benefits	(9,909)	(483)	(264)	(10,656)	(7,143)	(384)	(1,157)	(8,684)
Lump sum death benefits	(750)	0	0	(750)	(1,015)	0	0	(1,015)
<b>Total Pensions and Benefits</b>	<b>(39,087)</b>	<b>(1,171)</b>	<b>(555)</b>	<b>(40,813)</b>	<b>(38,892)</b>	<b>(1,194)</b>	<b>(1,742)</b>	<b>(41,828)</b>
Transfer Values Received	7,704	0	0	7,704	5,507	0	0	5,507
Transfer Values Paid	(5,167)	0	0	(5,167)	(5,475)	0	0	(5,475)
<b>Total</b>	<b>(36,550)</b>	<b>(1,171)</b>	<b>(555)</b>	<b>(38,276)</b>	<b>(38,860)</b>	<b>(1,194)</b>	<b>(1,742)</b>	<b>(41,796)</b>

## 5. DEBTORS AND CREDITORS

Unless otherwise stated, all transactions are accounted for on an accruals basis. The following amounts were debtors or creditors of the Pension Fund as at 31st March.

	2010/11 £'000	2011/12 £'000
<b>Debtors</b>		
<b>Other Investment Balances</b>		
Investment sales	0	0
Dividends receivable	656	841
Tax recoverable	440	429
Interest receivable	0	0
	<u>1,096</u>	<u>1,270</u>
<b>Current Assets</b>		
Contributions due from admitted bodies	22	31
London Borough of Tower Hamlets	4,363	7,648
	<u>4,385</u>	<u>7,679</u>
<b>Total Debtors</b>	<b>5,481</b>	<b>8,949</b>
<b>Creditors</b>		
<b>Other Investment Balances</b>		
Investment purchases	0	443
<b>Current Liabilities</b>		
Unpaid benefits	922	1,097
Administrative expenses	386	370
	<u>1,308</u>	<u>1,467</u>
<b>Total Creditors</b>	<b>1,308</b>	<b>1,910</b>
<b>Net Debtors</b>	<b>4,173</b>	<b>7,039</b>

## 6. CASH

The deposits held by fund managers can be further analysed as follows:

	2010/11 £'000	2011/12 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	3,413	2,893
Ruffer	1	0
Schroders: Multi Asset Portfolio	8	11
Schroders: Property Portfolio	5,930	4,272
<b>TOTAL CASH</b>	<b>9,362</b>	<b>7,186</b>

## 7. TAXATION

### UK Income Tax

Investment income is subject to UK tax which the Fund cannot recover under current tax legislation, except for tax deducted at source from Property unit trusts.

### Value Added Tax

By virtue of Tower Hamlets Council being the Administering Authority, VAT input tax is recoverable on all Fund activities.

### Overseas Tax

Taxation agreements exist between the UK and certain 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.

## 8. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP is published as part of the Local Government Pensions Scheme Annual Report and is due to be submitted to the Council's Pensions Committee in November 2012.

## 9. MEMBERSHIP OF THE FUND

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

	2011	2012
<b>London Borough of Tower Hamlets</b>		
Active Members	5,219	4,780
Pensioners	3,779	3,892
Deferred Pensioners	5,338	5,756
Dependants (2011 restated)	923	928
	<b>15,259</b>	<b>15,356</b>
<b>Admitted &amp; Scheduled Bodies</b>		
Active Members	467	472
Pensioners	135	172
Deferred Pensioners	263	304
Dependants (2011 restated)	10	12
	<b>875</b>	<b>960</b>

The following bodies have been admitted into the Fund:

### Admitted Bodies

- Capita
- Circle Anglia Ltd.
- East End Homes
- Ecovert FM Ltd.
- Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)
- Greenwich Leisure Limited
- Look Ahead Housing and Care
- One Housing Group (formerly Island Homes)
- Redbridge Community Housing Ltd.
- Swan Housing Association
- Tower Hamlets Community Housing

### Scheduled Body

- Bethnal Green Academy
- Canary Wharf College
- Sir William Burrough School
- St. Pauls Way Community School
- Tower Hamlets Homes Limited

## 10. INVESTMENTS

The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

### Manager

- Baillie Gifford Life Ltd.
- GMO UK Ltd.
- Investec Asset Management
- Legal & General Investment Management
- Ruffer LLP
- Schroders Asset Management Property Fund

### Mandate

- Global Equity, Diversified Growth
- Global Equity
- Absolute Return Bonds
- UK Equity, Index Linked Gilts
- Diversified Growth
- Property

The value of the Fund, by manager, as at 31st March was as

	2011		2012	
	£ million	%	£ million	%
Baillie Gifford Life Ltd - Diversified Growth	40.2	5.0	41.7	5.1
Baillie Gifford Life Ltd - Equities	135.0	16.7	137.0	16.7
GMO UK Ltd.	204.7	25.3	200.0	24.4
Investec Asset Management	97.8	12.1	95.5	11.6
Legal & General Investment Management	201.6	24.9	212.0	25.8
Ruffer LLP	39.6	4.9	41.0	5.0
Schroders Asset Management Property Fund	90.2	11.1	93.8	11.4



## 10. INVESTMENTS (continued)

The movement in the opening and closing value of investments during the year, together with related direct transaction costs, were as follows:

	Market Value as at 1 Apr 2011 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2012 £'000	Transaction Costs £'000
Baillee Gifford Life Ltd - Diversified Growth	40,195	52	0	1,494	41,741	0
Baillee Gifford Life Ltd - Equities	135,023	0	0	1,975	136,998	0
GMO UK Ltd.	200,365	90,536	(79,827)	(15,000)	196,074	46
Investec Asset Management	97,834	0	0	(2,310)	95,524	0
Legal & General Investment Management	201,551	0	0	10,474	212,025	0
Ruffer LLP	39,644	1	0	1,387	41,032	0
Schroders Asset Management Property	84,020	10,960	(8,072)	2,824	89,732	0
Martin Currie Investment Management	(1)	0	0	1	0	0
Aberdeen No.2	2	0	0	(2)	0	0
Auriel Capital Management	(1)	0	0	1	0	0
	<b>798,632</b>	<b>101,549</b>	<b>(87,899)</b>	<b>844</b>	<b>813,126</b>	<b>46</b>

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2011 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2012 £'000
<b>UK Investment Assets</b>					
Quoted	488,414	11,013	(8,072)	15,845	507,200
Unquoted	2	0	0	(2)	0
<b>Overseas Investment Assets</b>					
Quoted	310,623	90,822	(80,337)	(15,406)	305,702
Unquoted	(407)	(286)	510	407	224
	<b>798,632</b>	<b>101,549</b>	<b>(87,899)</b>	<b>844</b>	<b>813,126</b>

### Derivative Contracts

The fund managers GMO UK Ltd is permitted to use forward foreign exchange contracts to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of the assets held or to adjust the foreign currency exposure of the portfolio. The only derivative contracts held at 31st March 2012 were forward foreign exchange contracts.

Forward Foreign Exchange Contracts are over-the-counter contracts whereby two parties agree to exchange currencies on a specified future date at an agreed rate of exchange. They are used to manage economic exposure to markets.

The amounts included in the accounts represent the unrealised gains or losses arising from the closing out of the contract at the reporting date. The market value of the contracts is represented by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

The Forward Foreign Exchange Contracts are stated at fair value which is determined by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

The global equity manager GMO is instructed to use forward foreign exchange contracts to minimise currency risk exposure. Net exposure to forward foreign exchange is restricted to 10% of the portfolio.

### Forward Foreign Exchange Contracts

	Sterling value of obligation on purchase or sale date £'000	Sterling value of equal and opposite obligation at 31 March 2012 £'000	Gains/(losses) on Contract £'000
Currency contracted to purchase	(28,734)	28,449	(285)
Currency contracted to sell	31,020	(30,510)	510
<b>Net Position</b>	<b>2,286</b>	<b>(2,061)</b>	<b>225</b>

Contract	Manager	Expiration	Gain/Loss on Contract £'000
Australian Dollar Foreign Currency	GMO UK Ltd	April 2012	(22)
Canadian Dollar Foreign Currency	GMO UK Ltd	April 2012	2
Euro Foreign Currency	GMO UK Ltd	April 2012	17
Hong Kong Dollar Foreign Currency	GMO UK Ltd	April 2012	(60)
Japanese Yen Foreign Currency	GMO UK Ltd	April 2012	325
Norwegian Krone Foreign Currency	GMO UK Ltd	April 2012	3
Singapore Dollar Foreign Currency	GMO UK Ltd	April 2012	(56)
Swedish Krona Foreign Currency	GMO UK Ltd	April 2012	(14)
Swiss Franc Foreign Currency	GMO UK Ltd	April 2012	(2)
US Dollar Forward Currency	GMO UK Ltd	April 2012	32
			<b>225</b>

Unrealised losses were made on foreign exchange contracts in the year amounting to £0.225 million.

## 11. INVESTMENT INCOME

Investment income is broken down as follows.

	2010/11 £'000	2011/12 £'000
Income from fixed interest securities	37	0
Income from index linked securities	340	0
Dividends from UK equities	1,609	0
Dividends from overseas equities	5,660	9,164
Net rents from properties	2,769	2,906
Interest on cash deposits	(59)	(88)
Foreign tax	199	151
Underwriting costs, etc.	7	883
<b>TOTAL</b>	<b>10,562</b>	<b>13,016</b>

## 12. SECURITIES

The value of listed and unlisted securities is broken down as follows:

	2010/11 £'000	2011/12 £'000
Unlisted	(397)	234
Listed	808,391	820,079
Working Capital	4,173	7,039
	<b>812,167</b>	<b>827,352</b>

## 13. ACTUARIAL POSITION

The Local Government Pension Scheme Regulations require a triennial revaluation of the Fund to assess the adequacy of the Fund's investments and contributions in relation to its 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 employer's contribution rate is determined by the Actuary as part of the revaluation exercise.

The 2010 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £305 million and the funding level to be 71%. This compares to a deficit at the previous revaluation in 2007 of £205 million and a corresponding funding level of 78%.

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

	£m
2011/12	14.00
2012/13	15.25
2013/14	16.50

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2010 determined that this would require a contribution (additional to the future contribution rate) of 12.9% of members' pensionable pay equivalent to £14.0 million per annum.

The Council, as Administering Authority, prepares a Funding Strategy Statement (FSS) in respect of the Fund in collaboration with the Fund's Actuary and after consultation with the employers and investment advisors. The Actuary is required to have regard to this statement when carrying out the valuation. The FSS includes the Fund's funding policy, the objectives of which are:

- to ensure the long-term solvency of the Fund
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment
- not to restrain unnecessarily the investment strategy of the Fund so that the Council can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

The basis of valuing the Fund's assets (see note 2) is compatible with the basis of placing a value on members' benefits as both are related to market conditions at the valuation date.

## 13. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2011/12 was 15.8%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2013 and the recommendations implemented from 1st April 2014.

Although the funding shortfall is significant, it should be noted that current legislation provides that the level of members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the Council's responsibility to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised. It should also be recognised that the Council is a long-term investor both because a high proportion of pension benefits do not become payable until far in the future and the Council has a relatively secure long-term income stream.

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with IAS26 took place at 31st March 2010. The main actuarial assumptions used in revaluation and applied during the intervaluation period were as follows:

Financial Assumptions	Nominal	Real
Price inflation (CPI)	3.3%	
Pay increases	5.3%	2.0% Real rates are nominal rates
"Gilt based" discount rate	4.5%	1.2% adjusted for inflation
Funding basis discount rate	5.9%	2.6%

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	21.0	23.8
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	22.9	25.7

### Actuarial Value of Promised Retirement Benefits

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose the actuarial assumptions and methodology should be based on IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1.268 million (£1,122 million in 2010/11).

## 14. ADMINISTRATIVE EXPENSES

	2010/11 £'000	2011/12 £'000
Investment Advice	170	115
Performance Measurement	15	16
Administration	883	850
Other Fees	(65)	20
	<b>1,003</b>	<b>1,001</b>

## 15. RISK MANAGEMENT

### Nature and extent of risks arising from financial instruments

#### Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The Fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers. Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

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

#### Liquidity risk

This is the risk that the Fund might not have the cash flow required in order to meet its financial obligations when they become due. Over the years contributions have tended to be greater than benefits and this has ensured that sufficient cash has been available to meet payments.

The Fund currently operates two bank accounts. One is held by the Fund's custodian (State Street Bank) and holds cash relating to the investment activities and the other is the Council's Pension Fund bank account and this is used to hold cash relating to member activities.

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets.

#### Market risk

This is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises; interest rate risk, currency risk and other price risk. The Fund mitigates these risks as follows:

##### Interest rate risk

Cash deposits held in the Pension Fund bank account are invested in accordance with the Council's approved Treasury Management Strategy.

The Fund holds a percentage of its portfolio in fixed interest securities to mitigate this risk should interest rates fall.

The Fund's direct exposure to interest rate movements as at 31st March 2011 and 31st March 2012 is set out below.

Interest Rate Risk	As At 31st March 2011	As At 31st March 2012
Asset Type	£'000	£'000
Cash and cash equivalents	9,362	7,187
Cash balances	4,385	7,679
Fixed interest securities	135,739	141,436
<b>Total</b>	<b>149,486</b>	<b>156,302</b>

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2012	Change in year in net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Asset Type			
Cash and cash equivalents	7,187	72	(72)
Cash balances	7,679	77	(77)
Fixed interest securities	141,436	1,414	(1,414)
<b>Total change in net assets available</b>	<b>156,302</b>	<b>1,563</b>	<b>(1,563)</b>

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2011	Change in year in net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Asset Type			
Cash and cash equivalents	9,362	94	(94)
Cash balances	4,385	44	(44)
Fixed interest securities	135,739	1,357	(1,357)
<b>Total change in net assets available</b>	<b>149,486</b>	<b>1,495</b>	<b>(1,495)</b>

## 15. RISK MANAGEMENT (continued)

### Currency risk

The Fund invests in financial instruments denominated in currencies other than Sterling and as a result is exposed to exchange rate risk. To alleviate this risk the Fund allows investment managers to use derivative contracts, in accordance with the contract conditions:

The following table summarises the Fund's currency exposure as at 31 March 2012 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2011 £'000	As At 31st March 2012 £'000
Overseas quoted securities	177,487	174,622
Overseas unit trusts	8,511	7,966
Cash	3,230	2,725
<b>Total overseas assets</b>	<b>189,228</b>	<b>185,313</b>

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2012 £'000	Change in year in net assets available	
Asset Type	£'000	+9.9% £'000	-9.9% £'000
Overseas quoted securities	174,622	191,910	157,334
Overseas unit trusts	7,966	8,755	7,177
Cash	2,725	2,995	2,455
<b>Total change in net assets available</b>	<b>185,313</b>	<b>203,659</b>	<b>166,967</b>

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2011 £'000	Change in year in net assets available	
Asset Type	£'000	+100 BPS £'000	-100 BPS £'000
Overseas quoted securities	177,487	195,058	159,916
Overseas unit trusts	8,511	9,354	7,668
Cash	3,230	3,550	2,910
<b>Total change in net assets available</b>	<b>189,228</b>	<b>207,962</b>	<b>170,494</b>

### Other Price risk

To mitigate the risk of a loss owing to a fall in market prices the Fund maintains a diverse portfolio of investments. Diversification ensures that the Fund has a balance of investments that offer different levels of risk and return.

The Fund employs a number of investment managers, with differing but complementary styles, to mitigate the risk of underperformance of any single manager and to ensure that any fall in market prices should not affect the Fund as a whole.

Manager performance and asset allocation policy is regularly reviewed by the Pensions Investment Panel. The Fund also uses certain derivative instruments as part of efficient portfolio management.

### Other price risk - sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2011/12 reporting period.

Price Risk - sensitivity analysis	Potential Market Movements (+/-)
<b>Asset Type</b>	
UK equities	15.6%
Overseas equities	14.3%
Global equity	15.6%
Total fixed interest	4.2%
Alternatives	13.9%
Cash	0.0%
Pooled Property Investments	7.0%

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value as at 31 March 2012 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	7,187	0.0%	7,187	7,187
<b>Investment portfolio assets</b>				
UK equities	166,113	15.6%	192,027	140,199
Global equity	332,848	15.6%	384,772	280,924
Total fixed interest	141,436	4.2%	147,376	135,496
Alternatives	82,773	13.9%	94,278	71,268
Pooled Property Investments	89,732	7.0%	96,013	83,451
Net derivative assets	224	0.0%	224	224
Investment income due	1,270	0.0%	1,270	1,270
Amounts receivable for sales				
Amounts payable for purchases	(443)	0.0%	(443)	(443)
<b>Total assets available to pay benefits</b>	<b>821,140</b>		<b>922,705</b>	<b>719,575</b>

## 15. RISK MANAGEMENT (continued)

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value as at 31 March 2011 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	9,362	0.0%	9,362	9,362
<b>Investment portfolio assets</b>				
UK equities	163,646	15.6%	189,175	138,117
Global equity	335,794	15.6%	388,178	283,410
Total fixed interest	135,739	4.2%	141,440	130,038
Alternatives	79,839	13.9%	90,937	68,741
Pooled Property Investments	84,020	7.0%	89,901	78,139
Net derivative assets	(407)	0.0%	(407)	(407)
Investment income due	1,096	0.0%	1,096	1,096
Amounts receivable for sales				
Amounts payable for purchases				
<b>Total assets available to pay benefits</b>	<b>809,089</b>		<b>909,682</b>	<b>708,496</b>

### Refinancing risk

The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 16. FINANCIAL INSTRUMENTS DISCLOSURES

The net assets of the Fund are made up of the following categories of financial instruments:

	Long-term		Current	
	2010/11 £'000	2010/12 £'000	2010/11 £'000	2010/12 £'000
<b>Financial Assets</b>				
Loans and receivables	0	0	1,118	1,301
Available for sale financial assets	799,039	812,902	0	0
Financial assets at fair value through profit or loss	0	0	14,017	15,344
<b>Total Financial Assets</b>	<b>799,039</b>	<b>812,902</b>	<b>15,135</b>	<b>16,645</b>
<b>Financial Liabilities</b>				
Payables	0	0	(1,308)	(1,910)
Financial liabilities at fair value through profit or loss	0	0	(699)	(286)
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>(2,007)</b>	<b>(2,196)</b>

### Fair Value Hierarchy

IFRS7 requires the Fund to classify fair value instruments using a three-level hierarchy. The three levels are summarised as follows:

Level 1 - inputs that reflect quoted prices for identical assets or liabilities in active markets

Level 2 - inputs other than quoted prices for identical assets or liabilities in active markets

Level 3 - inputs that are not based on observable data

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2012.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	177,933	0	0	177,933
Pooled Funds				0
Unit Trusts	460,149	0	0	460,149
Property Unit Trust	92,048	0	0	92,048
Other	82,772	0	0	82,772
Derivative Contracts				0
Forward Foreign Exchange Contracts	0	224	0	224
Cash and bank Deposits	14,835	0	0	14,835
Current Assets	1,301	0	0	1,301
Current Liabilities	(1,910)	0	0	(1,910)
	<b>827,128</b>	<b>224</b>	<b>0</b>	<b>827,352</b>

During the year ended 31st March 2012 there were no transfers between the levels of the fair value hierarchy

The equivalents at 31st March 2011 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	180,091	0	0	180,091
Pooled Funds				0
Unit Trusts	452,951	0	0	452,951
Property Unit Trust	86,158	0	0	86,158
Other	79,839	0	0	79,839
Derivative Contracts				0
Forward Foreign Exchange Contracts	0	(407)	0	(407)
Cash and bank Deposits	13,725	0	0	13,725
Current Assets	1,118	0	0	1,118
Current Liabilities	(1,308)	0	0	(1,308)
	<b>812,574</b>	<b>(407)</b>	<b>0</b>	<b>812,167</b>

## 17. INVESTMENT MANAGEMENT EXPENSES

	2010/11	2011/12
	£'000	£'000
Payments to Managers	2,118	2,173

Where a fund manager deducts the investment management fee from the net asset value of the Fund this is shown in the Fund Account as an investment management expense and is reflected in the balance sheet as a reduced closing net asset value.

## 18. RELATED PARTY TRANSACTIONS

Information in respect of material transactions with related parties is disclosed elsewhere within the Council's accounts.

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

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31st March 2012, the Fund held an average investment of £5.9m (£3.9m 31st March 2011), earning interest of £94k, (£49k 2010/11).

Fund administration expenses payable to the administrating authority are as set out in the table below.

	2010/11	2011/12
Fund Administration Expenses	£'000	£'000
Payroll / HR Support	790	772
Corporate Finance	78	78
	868	850

## 19. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st March 2012.

## 20. CONTINGENT ASSETS

Admitted body employers in the Fund hold insurance bonds to guard against the possibility of not being able to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

## 21. POST BALANCE SHEET EVENTS

There are no significant post balance sheet events to report.



## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's responsibilities

The Council is required:

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

The Statement of Accounts for 2011/12 will be considered for approval by the Council's Audit Committee during September 2012.

Chair of Committee

### The responsibilities of the Corporate Director of Resources

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

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

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

The Corporate Director of Resources has also:

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

I certify that the Statement of Accounts 2011/12 presents fairly the financial position of the Council at 31<sup>st</sup> March 2012 and its income and expenditure for the year.



Chris Naylor ACA IPFA MACantab  
Corporate Director of Resources

## GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

### FINANCIAL TERMS

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

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

**Accounting standards** - A set of rules explaining how accounts are to be kept. (See 'International Financial Reporting Standards')

**Accrual** - The recognition of income and expenditure in the year that they occur and not when any cash is received or paid.

**Accumulated Absences Account** – This account represents the value of leave rolled over from one financial year to another. This reserve account is used to avoid reducing general fund reserves.

**Actuary** - An independent adviser to the Council on the financial position of the Pension Fund.

**Actuarial Valuation** - Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

**Agency services** - Services provided by or for another local authority or public body where the cost of carrying out the service is reimbursed.

**Amortisation** - The writing off of an intangible asset or loan balance to the Comprehensive Income and Expenditure Statement over an appropriate period of time.

**Amortised Cost** - The carrying value of an asset or liability in the balance sheet, which has been written up or down via the Comprehensive Income and Expenditure Statement.

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

**Billing Authority** – Refers to a local authority that is responsible for the collection of tax, both on behalf of itself and local authorities in its area.

**Budget** - A forecast of future expenditure plans for the Council. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the Council Tax is set. Budgets are revised throughout the year for changes as necessary.

**Capital Adjustment Account** - Represents amounts set aside from revenue resources or capital receipts to finance expenditure on property, plant, and equipment (PPE) or for the repayment of external loans, or certain other capital financing transactions.

**Capital Expenditure** - Expenditure on the acquisition of property, plant, and equipment (PPE) or expenditure which adds to the value of an existing item of PPE.

**Capital Financing Requirement** - Represents the Council's underlying need to borrow for a capital purpose.

**Capital Grants Receipts in Advance** – Balances of capital grants and contributions that have conditions which may require future repayment if not spent.

**Capital Grants Unapplied** – Grant balances that will be used for future capital expenditure.

**Capital Receipt** - Income received from the sale of PPE such as land or buildings.

**Capital Receipts Reserve** - Represents proceeds from the sale of PPE available to meet future capital investment.

**Carrying Value** - In relation to the value of financial instruments, it is the amount to be recognised on the Balance Sheet.

**Cash equivalents** – Highly liquid, safe investments that can easily be converted into cash.

**Chartered Institute of Public Finance and Accountancy (CIPFA)** – A professional accountancy body, specialising in the Public Sector. It promotes best practice by issuing guidelines and Codes of Practice.

**Collection Fund** - A statutory account which receives Council Tax and Non-Domestic Rates to cover the costs of services provided by the Council and its precepting authorities.

**Collection Fund Adjustment Account** - The Collection Fund Adjustment Account represents the Council's share of the Collection Fund Surplus/Deficit.

**Community Assets** - Assets that a local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of Community Assets are parks and historic buildings.

**Comprehensive Income and Expenditure Statement** - A statement showing the expenditure and income of the Council's services during the year demonstrating how costs have been financed from general Government grants and income from local taxpayers.

**Contingent Liability** - 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.

**Consumer Price Index (CPI)** – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The CPI includes some financial services in the basket of goods not included in the RPI.

**Creditors** - Amount of money owed by the Council for goods and services received. Also referred to as Payables.

**Debtors** - Amount of money owed to the Council by individuals, and organisations. Also referred to as Receivables.

**Dedicated Schools Grant** – Grant monies provided by the Department of Education ring-fenced to schools budgets.

**Deferred Capital Receipts** - The balance of outstanding mortgages granted mainly to purchasers of council houses.

**Deferred Income – Receipt in Advance** – This represents a receipt received as part of entering into a building lease. The credit is being released over the term of the lease.

**Deferred Liabilities** – These are future payments that the Council is contractually obliged to pay in future years. These liabilities relate to Private Finance Initiative (PFI) schemes.

**Defined Benefit Scheme** - A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

**Depreciation** - The measure of the wearing out, consumption or other reduction in the useful economic life of PPE, whether arising from use, passage of time or obsolescence through technological or other changes.

**Earmarked Reserves** - Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.

**Fair Value** - In relation to the value of financial instruments, it is the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arms length transaction.

**Finance Lease** - A lease that transfers substantially all of the risks and rewards of ownership of an asset to the lessee.

**Financial Instrument** - Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

**Financial Instrument Adjustment Account** - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWL) debt.

**General Fund (GF)** - The Council's main revenue account from which is met the cost of providing most of the Council's services.

**Group Accounts** – Where a Council has a material interest in a separate entity, the entity's assets and liabilities may need to be incorporated within the council's group accounts. If the council controls an entity, it is a subsidiary (as in the case of Tower Hamlets Homes for the Council).

**Heritage asset** - An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

**Historic Cost** - The actual cost of an asset in terms of past consideration as opposed to current value.

**Housing Revenue Account (HRA)** - A statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

**Impairment** - A reduction in the valuation of PPE caused by consumption of economic benefits or by a general fall in prices.

**Infrastructure Assets** – Inalienable assets, expenditure on which is only recoverable by continued use of the asset created. There is no prospect of sale or alternative use. Examples include roads, bridges, and tunnels.

**Intangible Assets** - Non-financial long-term assets that do not have physical substance but are identifiable and controlled by the Council i.e. purchased software licences.

**Interest Rate Risk** - The uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

**International Financial Reporting Standards (IFRS)** – The set of international accounting standards issued by the International Accounting Standards Board (IASB). Local Authorities are required to produce accounts based on IFRS.

**Inventories** – The value of stocks held and work in progress that have not been completed.

**Investment Properties** – Those properties that are held solely to earn rentals and/or for capital appreciation, rather than for the delivery of services.

**Levy** - Payments to bodies such as the Environment Agency. The cost of these bodies is funded by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

**Long-Term Assets** - Assets that yield benefit to the Council and the services it provides for a period of more than one year.

**Major Repairs Reserve** - Represents the funds available to meet capital investment in council housing

**Minimum Revenue Provision (MRP)** - The amount that has to be charged to revenue to provide for the redemption of debt. Not applicable to the HRA.

**Movement in Reserves Statement** – A summary of the Council's reserves at the balance sheet date split between usable and unusable reserves.

**National Non-Domestic Rates (NNDR) Pool** - Non-Domestic Rates (Business Rates) are paid into a central pool controlled by Government. This money is then redistributed to councils on the basis of resident population.

**Net Book Value** - The amount at which PPE is included in the balance sheet after depreciation has been provided for.

**Net Realisable Value** - The open market value of the asset less the expenses to be incurred in realising the asset.

**Non Current Assets Held for Sale** – Items of PPE whose carrying amount is to be recovered principally through a sale rather than continued use by the Council.

**Operating Lease** - A lease other than a finance lease - a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

**Outturn** - The actual level of expenditure and income for the year.

**Precept** - The charge made by the Greater London Authority on the Council to finance its net expenditure.

**Private Finance Initiative** - Contracts whereby private sector suppliers provide services and/or capital investment in return for a unitary payment; subject to agreed performance targets.

**Projected Unit Method** - Actuarial valuation method whose key feature is to assess future service cost; the Actuary calculates the employer's contribution rate, which will meet the cost of benefits accruing in the year after the valuation date.

**Property, Plant, and Equipment** – The land and building assets under the council's control or ownership.

**Provisions** - Amounts set aside for liabilities and losses, which are certain or very likely to occur but where the exact amount or timing of the payment are uncertain.

**Public Works Loans Board (PWLB)** - Central Government agency which funds much of local government borrowing.

**Registered Social Landlord** - A not-for-profit organisation which owns and manages social housing.

**Reserves** - Amounts set aside which do not fall within the definition of a provision, to fund items of anticipated expenditure. These include general reserves or balances which every Council must maintain as a matter of prudence.

**Retail Price Index (RPI)** – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The RPI includes mortgage interest payments and council tax in the basket of goods not included in the CPI.

**Revaluation Reserve** - Represents the increase in value of the Council's land and building assets from 1st April 2007.

**Revenue Contributions to Capital Outlay (RCCO)** - The use of revenue monies to pay for capital expenditure. Also referred to as Direct Revenue Financing (DRF).

**Revenue Expenditure** - The day-to-day expenditure of the Council - salaries, goods and services and capital financing charges.

**Revenue Support Grant** - General grant paid by the Government to local authorities.

**Right to buy** - The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt, some of which will be retained by the council to spend on capital expenditure, while the remainder must be paid over to the DCLG under pooling arrangements.

**Soft Loan** - Loans given at less than market/commercial rates to community or not-for-profit organisations.

**Supplementary Business Rates (SBR)** – Locally raised business rates for local projects. London Councils are levying a SBR for the Cross-rail project.

**Support Services** - Activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front line services such as finance, information technology and human resources.

**Surplus Assets** – Those assets which are not being used to deliver services, but do not meet the criteria to be classified as either Investment Properties or Non Current Assets Held for Sale.

**Unusable Reserves** – These represent reserve balances that cannot be spent as part of an organisation's medium term financial plan. An example is the revaluation reserve.

**Usable Reserves** – These represent reserve balances that can be spent as part of an organisation's medium term financial plan. Any organisation has to review reserve levels to ensure long-term financial stability. General fund and Housing Revenue Account reserves are usable reserves. Contrast to unusable reserves.

**Value for money (VFM)** – This term is used to describe the relationship between the economy, efficiency, and effectiveness (known as the 'three Es') of a service, function or activity. Value for money is high when there is an optimum balance between all three.

## **Abbreviations used in Accounts**

<b>AGS</b>	Annual Governance Statement
<b>ALMO</b>	Arm's Length Management Organisation (Tower Hamlets Homes)
<b>BSF</b>	Building Schools for the Future
<b>CAA</b>	Capital Adjustment Account
<b>CFR</b>	Capital Financing Requirement
<b>CIES</b>	Comprehensive Income and Expenditure Statement
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>CPI</b>	Consumer Price Index
<b>DCLG</b>	Department of Communities and Local Government
<b>DEFRA</b>	– Department for Environment, Food and Rural Affairs
<b>DfE</b>	Department for Education
<b>DSG</b>	Dedicated Schools Grant
<b>DWP</b>	Department for Work and Pensions
<b>EIR</b>	Effective Interest Rate
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GLA</b>	Greater London Authority
<b>HRA</b>	Housing Revenue Account
<b>IAS</b>	International Accounting Standard
<b>IFRS</b>	International Financial Reporting Standards
<b>LABGI</b>	Local Authority Business Growth Incentive
<b>LAML</b>	London Authorities Mutual Limited
<b>LASAAC</b>	Local Authority (Scotland) Accounts Advisory Committee
<b>LATS</b>	Landfill Allowance Trading Scheme
<b>LBTH</b>	London Borough of Tower Hamlets
<b>LGPS</b>	Local Government Pension Scheme
<b>LOBO</b>	Lender's Option – Borrower's option
<b>LPFA</b>	London Pensions Fund Authority
<b>MRA</b>	Major Repairs Allowance
<b>MRP</b>	Minimum Revenue Provision
<b>NCS</b>	Net Cost of Services
<b>NPV</b>	Net Present Value
<b>(N)NDR</b>	(National) Non-Domestic Rates
<b>PCT</b>	Primary Care Trust
<b>PFI</b>	Private Finance Initiative
<b>PPA</b>	Prior Period Adjustment
<b>PPE</b>	Property, Plant and Equipment
<b>PWLB</b>	Public Works Loans Board
<b>REFCUS</b>	Revenue Expenditure Funded by Capital Under Statute
<b>RICS</b>	Royal Institute of Chartered Surveyors
<b>RPI</b>	Retail Price Index

**RSG** Revenue Support Grant

**SDPS** Surplus or Deficit on the Provision of Services

**SeRCOP** Service Reporting Code of Practice

**SORP** Statement of Recommended Practice

**TH** Tower Hamlets

**THH** Tower Hamlets Homes

**WDA** Waste Disposal Authority



# Agenda Item 8.4

<b>COMMITTEE:</b> <b>Audit Committee</b>	<b>DATE:</b> <b>26 June 2012</b>	<b>CLASSIFICATION:</b> <b>Unrestricted</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b> <b>8.4</b>
<b>REPORT OF:</b> <b>Corporate Director of Resources</b>		<b>TITLE:</b> <b>Treasury Management Activity for Period Ending 31 May 2012</b>		
<b>ORIGINATING OFFICER(S):</b> <b>Alan Finch, Service Head, Finance, Risk &amp; Accountability</b>		<b>Ward(s) affected:</b> <b>N/A</b>		
<b>Oladapo Shonola, Chief Financial Strategy Officer</b>				

<b>Lead Member</b>	<b>Cllr Alibor Choudhury – Resources</b>
<b>Community Plan Theme</b>	<b>All</b>
<b>Strategic Priority</b>	<b>One Tower Hamlets</b>

## **1. SUMMARY**

- 1.1 This report advises the Committee of treasury management activity for the current financial year up to 31 May 2012 as required by the Local Government Act 2003.
- 1.2 The report details the current credit criteria adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns. The current average return on investment stands at 1.49%, which is on target to achieve budgeted cash return on asset of £2.395m.

## **2. DECISIONS REQUIRED**

- 2.1 Members are recommended to note the contents of the treasury management activity report for period ending 31 May 2012.

## **3 REASONS FOR DECISIONS**

- 3.1 The Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 require that regular reports be submitted to Council/Committee detailing the council's treasury management activities.
- 3.2 The regular reporting of treasury management activities should assist in ensuring that Members are able to scrutinise officer decisions and monitor progress on implementation of investment strategy as approved by Full Council.

## **4 ALTERNATIVE OPTIONS**

- 4.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities.

- 4.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council

## **5 BACKGROUND**

- 5.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.
- 5.2 These reports are in addition to the mid-year and annual treasury management activity reports that should be presented to Council midway through the financial year and at year end respectively.
- 5.3 This report details the current credit criteria/risk level adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

## **6. TREASURY MANAGEMENT STRATEGY 2012/13**

- 6.1 The Council's Treasury Management Strategy was approved on 22 February 2012 by Full Council. The Strategy comprehensively outlines how the treasury function was to operate over the financial year 2012-13 and it covered the following:
- Treasury limits in force which will limit the treasury risk and activities of the Council;
  - Prudential and Treasury Indicator;
  - The current treasury position;
  - Prospects for interest rates;
  - The borrowing strategy (including policy on borrowing in advance of need);
  - Debt Rescheduling;
  - The Investment Strategy;
  - Credit Worthiness Policy'
  - Policy on use of external service providers; and
  - The Minimum Revenue Provision (MRP) Strategy

## **7. TREASURY ACTIVITY FOR PERIOD 1 April to 31 May 2012**

- 7.1 This section of the report gives an update on the market and sets out:
- The current credit criteria being operated by the Council.
  - The treasury investment strategy for the current financial year and the progress in implementing this.
  - The transactions undertaken in the period and the investment portfolio outstanding as at 31 May 2012.

## 8 MARKET UPDATE

- 8.1 The economic outlook remains gloomy. Europe remains the central influence on the markets and global economy with fears that the problems in Spain are escalating and that Greece could be on the verge of withdrawal from the Eurozone, depending upon the result of the re-run parliamentary election.
- 8.2 Other worrying trends include record unemployment levels across the Eurozone, and latest data that to across the board weakening in member states economies apart from the German economy. Some are predicting that there will be a challenge to the approach to austerity measure employed to curtail budget deficits as economic growth in the Eurozone remains anaemic.
- 8.3 Although, the US economy continues to create new jobs, this is being achieved at a much slower rate than anticipated by the markets. Other data also point to weakening in the pace of the economic recovery with demand under threat in two key markets; Europe and China.
- 8.4 Turning to the UK, the economy recovery is slow and is failing to inspire any level of confidence in the markets. Q1 data release shows that the UK is now technically in (double dip) recession and the governor of the Bank of England has warned that the economy may not pull out of recession in Q2. Several economic indicators are downbeat and with Europe and US (major export destinations for UK goods) seemingly struggling, the prognosis for the UK economy is not particularly bright.

## 9 CREDIT CRITERIA

- 9.1 The following credit criteria for investment counterparties were established by the Council in February 2012 as part of the budget setting exercise. The Council will continue to invest within the UK and its Government regardless of the country's sovereign rating. Explanation of credit ratings criteria is attached at Appendix 1.

Institution	Minimum Credit Criteria	High	Use	Limit
Debt Management Office (DMO) Deposit Facility	Not applicable		In-house	£100m*
Term deposits – Other Local Authorities	Not applicable		In-house	£10m**
Term deposits – banks and building societies	Short-term F1+, Long-term AA- Sovereign rating AAA		In-house	£30m
Institutions with Government guarantee on ALL deposits by high credit rated (sovereign rating) countries.	Sovereign rating		In-house	£30m
UK Government Gilts	Long Term AAA		In-house	£20m
Institutions with UK Government support.	Sovereign rating		In-house	£30m
Institutions that are owned/part owned by the UK Government	Sovereign rating		In-house	£45m
<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)</b>				
Money Market Funds	AAA rated		In-house	£15m

\*Although limit has been set at £100m for the DMO, in reality there is no restriction on placement with the UK Government

\*\* The group limit for local authorities has been set at £100m.

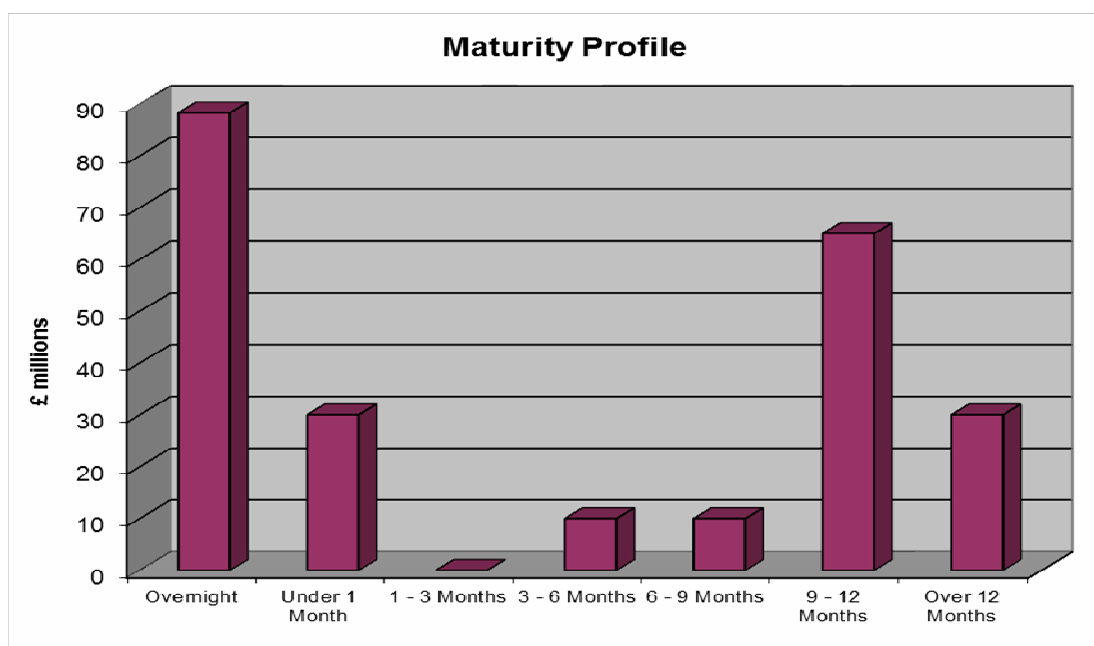
## **10 INVESTMENT STRATEGY**

- 10.1 Sector provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so that Sector's role is purely advisory.
- 10.2 In addition to providing cash management services, Sector also provides treasury consultancy/advisory service to the Council.
- 10.3 Sector's current interest rate projections are that base rate will remain static at 0.50% for the current financial year with no movement in rates until the fourth quarter of 2013. Although, the outlook for interest rate is below expectation, return on investment is expected to outperform budget this financial year.
- 10.4 The Council's bankers, the Co-operative Bank plc, are used as depositors of last resort for investment of additional funds received after the treasury transactions have been completed and the money markets have closed.
- 10.5 The current investment portfolio within the constraints of the Councils credit criteria and liquidity requirement is as set out below and also the maturity profile of the portfolio.

## Investment Portfolio at 31 May 2012

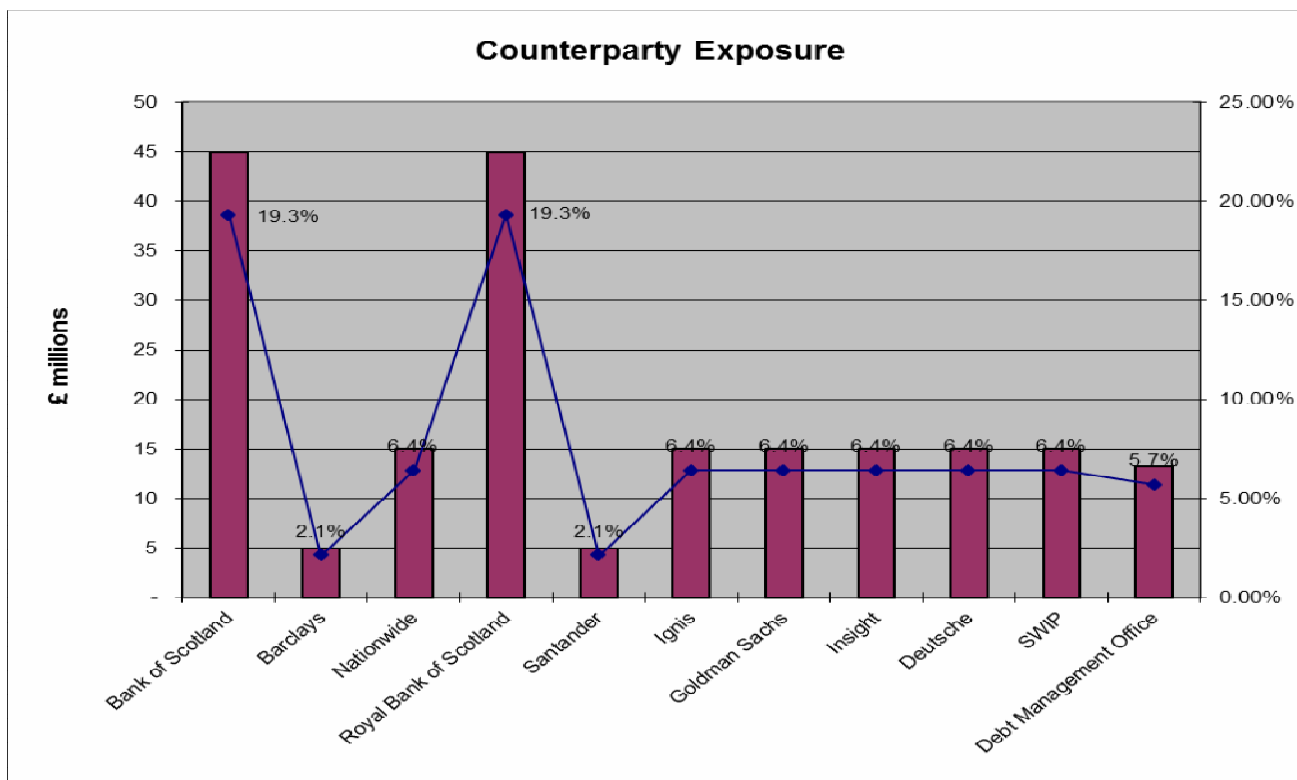
Duration	Breakdown of Investment Portfolio			
Term	Counterparty	Maturity	Amount £M	Rate
Overnight	Ignis	MMF	15.000	0.69%
Overnight	Goldman Sachs	MMF	15.000	0.60%
Overnight	Insight	MMF	15.000	0.65%
Overnight	Deutsche	MMF	15.000	0.58%
Overnight	SWIP	MMF	15.000	0.51%
Overnight	Debt Management Office		13.300	0.25%
	<b>SUB TOTAL</b>		<b>88.300</b>	
1 Month	Overseas Chinese Banking Corporation (OCBC)	18-Jun-12	30.000	0.42%
6 Months	Royal Bank of Scotland	12-Jun-12	10.000	1.31%
9 Months	Bank of Scotland	27-Oct-12	5.000	2.00%
	Royal Bank of Scotland	11-Jan-13	5.000	1.50%
12 Months	Cater Allen (Santander)	19-Jul-12	5.000	2.50%
	Barclays	10-Aug-12	5.000	1.50%
	Nationwide	10-Aug-12	10.000	1.44%
	Nationwide	07-Sep-12	5.000	1.55%
	Bank of Scotland	13-Feb-13	5.000	3.10%
	Bank of Scotland	13-Feb-13	5.000	3.10%
	Royal Bank of Scotland	11-Apr-13	10.000	2.10%
	Bank of Scotland	11-Apr-13	10.000	3.00%
	Bank of Scotland	11-Apr-13	10.000	3.00%
Over 12 Months	Bank of Scotland	27-Jul-12	5.000	2.65%
	Bank of Scotland	27-Jul-12	5.000	2.65%
	Royal Bank of Scotland	11-Oct-13	5.000	2.00%
	Royal Bank of Scotland	03-Jan-14	10.000	4.00%
	Royal Bank of Scotland	27-Jan-15	5.000	3.35%
	<b>SUB TOTAL</b>		<b>145.000</b>	
	<b>TOTAL</b>		<b>233.300</b>	<b>1.494%</b>

## Maturity of Investment Portfolio



10.6 The amount in overnight instruments appears high because of money market fund deposits which although are technically classed as overnight investments, in reality, these are used as longer term investment vehicles. Of the £88.3m in overnight instruments, £75m is held with money market funds. This allows the Council to maintain liquidity whilst still able to secure reasonable return on its assets.

10.7 The Council's exposure to any one counterparty/Group is represented by the below chart including exposure as a percentage of total assets invested as at 31 May 2012.



## **11 INVESTMENT RETURNS**

- 11.1 Investment returns since inception of the cash management arrangement with Sector has been consistently above the portfolio benchmark and the London Interbank Bid Rate (LIBID). Performance against LIBID and benchmark has been strong so far, with year to date return on investment at 1.49%.
- 11.2 The Strategy approved at the 22 February 2012 Council allowed for more flexibility and the benefits of this Strategy is proving extremely valuable given the challenge of a counterparty list that continues to contract in the face of credit worthiness downgrades by the ratings agencies. The latest counterparty list is attached at Appendix 2.
- 11.3 The three main credit agencies have downgraded the credit criteria of most banks across the world. The sovereign ratings of some nations have also taking a hit, most notably the US, which was downgraded by Standard and Poor's last year – some major European countries such as France, Spain and Italy have also seen their credit worthiness slashed by the ratings agencies and there may be more on the way. The Council is not currently invested in any European countries or financial institutions.
- 11.4 Notwithstanding these constraints, the portfolio has outperformed benchmark of 1.25% in the first two months of the year and returns are significantly above the 7 day London Interbank Bid Rate (LIBID), which currently stands at 0.45%. The Council has also seen a spike in the level of balances, which has had the effect of diluting earnings rate, but balances are expected to gradually trend downwards as funds are committed to projects at a faster pace through the rest of the financial year.
- 11.5 The budgeted investment return in 2011/12 is £2.395m. This includes a savings proposal that was approved by Full Council that increased the target investment return by £445k. It is expected that the new target will be achieved.
- 11.6 Below is a table that details performance of investments. The table shows that performance has consistently outperformed LIBID.

<b>Period</b>	<b>LBTH Performance</b>	<b>7 Day LIBID</b>	<b>(Under)/Over Performance</b>
Full Year 2011/12	1.33%	0.48%	0.85%
Return for May 2012	1.46%	0.45%	1.01%
Average to date – 2012/13	1.49%	0.45%	0.93%

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

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

### **13. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 13.1. Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.
- 13.2. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.
- 13.3. The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council's Constitution, the audit committee has the functions of monitoring the Council's risk management arrangements and making arrangements for the proper administration of the Council's affairs.

### **14. ONE TOWER HAMLETS CONSIDERATIONS**

- 14.1 Interest on the Council's cash flow has historically contributed significantly towards the budget.

### **15. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 15.1 There are no Sustainable Actions for A Greener Environment implications.

### **16. RISK MANAGEMENT IMPLICATIONS**

- 16.1 Any form of investment inevitably involves a degree of risk. To minimise risk the investment strategy has restricted exposure of council cash balances to UK backed banks or institutions with the highest short term rating or strong long term rating.

### **17 CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 17.1 There are no crime and disorder reduction implications arising from this report.



## **18 EFFICIENCY STATEMENT**

- 18.1 Monitoring and reporting of treasury management activities ensures the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.

---

### **LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D**

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

***Brief description of "background papers"***

*May 2012 Investment Portfolio Analysis Report*

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

*Oladapo Shonola, Ext. 4733  
Mulberry Place, 4<sup>th</sup> Floor.*

## Appendix 1: Definition of Credit Ratings

### Support Ratings

Rating	
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

### Short-term Ratings

Rating	
F1	<b>Highest short-term credit quality.</b> Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	<b>Good short-term credit quality.</b> A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	<b>Fair short-term credit quality.</b> The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

## Long-term Rating Scales

Rating	Current Definition (August 2003)
<b>AAA</b>	<b>Highest credit quality.</b> 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
<b>AA</b>	<b>Very high credit quality.</b> 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
<b>A</b>	<b>High credit quality.</b> 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
<b>BBB</b>	<b>Good credit quality.</b> 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category

## Individual Ratings

Rating	
<b>A</b>	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
<b>B</b>	A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects
<b>C</b>	An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.
<b>D</b>	A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability, substance and resilience, balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.
<b>E</b>	A bank with very serious problems, which either requires or is likely to require external support.

Country / Financial Institution	Credit Ratings											
	Fitch Rating					Moody's Ratings				S&P Ratings		
	Long Term Status	Long Term	Short Term	Viability	Support	Long Term Status	Long Term	Short Term	FSR	Long Term Status	Long Term	Short Term
Australia	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Canada	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Bank of Montreal	SB	AA-	F1+	aa-	1	SB	Aa2	P-1	B-	SB	A+	A-1
Bank of Nova Scotia	SB	AA-	F1+	aa-	1	SB	Aa1	P-1	B	SB	AA-	A-1+
Canadian Imperial Bank of Commerce	SB	AA-	F1+	aa-	1	SB	Aa2	P-1	B-	SB	A+	A-1
Toronto Dominion Bank	SB	AA-	F1+	aa-	1	NO	Aaa	P-1	B+	SB	AA-	A-1+
Denmark	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Finland	SB	AAA	-	-	-	SB	Aaa	-	-	NO	AAA	-
Nordea Bank Finland plc ~	SB	AA-	F1+	-	1	SB	Aa3	P-1	C	SB	AA-	A-1+
France	NO	AAA	-	-	-	NO	Aaa	-	-	NO	AA+	-
Germany	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Landwirtschaftliche Rentenbank	SB	AAA	F1+	-	1	SB	Aaa	P-1	-	SB	AAA	A-1+
Hong Kong and Shanghai Banking Corporation Ltd	NO	AA	F1+	aa-	1	RD	Aa1	P-1	B+	SB	AA-	A-1+
Luxembourg	SB	AAA	-	-	-	SB	Aaa	-	-	NO	AAA	-
Netherlands	SB	AAA	-	-	-	SB	Aaa	-	-	NO	AAA	-
Bank Nederlandse Gemeenten	SB	AAA	F1+	-	1	SB	Aaa	P-1	A	NO	AAA	A-1+
Norway	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Singapore	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
DBS Bank Ltd	SB	AA-	F1+	aa-	1	RD	Aa1	P-1	B	SB	AA-	A-1+
Oversea Chinese Banking Corporation Ltd	SB	AA-	F1+	aa-	1	SB	Aa1	P-1	B	SB	AA-	A-1+
United Overseas Bank Ltd	SB	AA-	F1+	aa-	1	SB	Aa1	P-1	B	SB	AA-	A-1+
Sweden	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
Nordea Bank AB	SB	AA-	F1+	aa-	1	SB	Aa3	P-1	C	SB	AA-	A-1+
Svenska Handelsbanken AB	SB	AA-	F1+	aa-	1	SB	Aa3	P-1	C	SB	AA-	A-1+
Switzerland	SB	AAA	-	-	-	SB	Aaa	-	-	SB	AAA	-
U.K	NO	AAA	-	-	-	NO	Aaa	-	-	SB	AAA	-
Bank of New York Mellon (International) Ltd	SB	AA-	F1+	-	1	-	-	-	-	-	-	-
Standard Chartered Bank	NO	AA-	F1+	aa-	1	SB	A1	P-1	B-	SB	AA-	A-1+
U.S.A	NO	AAA	-	-	-	NO	Aaa	-	-	NO	AA+	-
Bank of New York Mellon, The	SB	AA-	F1+	aa-	1	NO	Aa1	P-1	B	NO	AA-	A-1+
Wells Fargo Bank NA	SB	AA-	F1+	aa-	1	NO	Aa3	P-1	C+	NO	AA-	A-1+
AAA Rated	-	-	-	-	-	-	-	-	-	-	-	-
Collateralised LA Deposit*	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
Debt Management Office	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
Supranationals	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
UK Gilts	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
Lloyds Banking Group plc	SB	A	F1	bbb	1	RD	A2	-	-	SB	A-	A-2
Bank of Scotland Plc	SB	A	F1	-	1	RD	A1	P-1	D+	SB	A	A-1
Royal Bank of Scotland Group plc	SB	A	F1	bbb	1	RD	A3	P-2	-	SB	A-	A-2
National Westminster Bank Plc	SB	A	F1	-	1	RD	A2	P-1	C-	SB	A	A-1
The Royal Bank of Scotland Plc	SB	A	F1	bbb	1	RD	A2	P-1	C-	SB	A	A-1