

Meeting of the

AUDIT COMMITTEE

Tuesday, 25 September 2012 at 7.00 p.m.

A G E N D A

VENUE

MEETING ROOM C1, FIRST FLOOR, TOWN HALL, MULBERRY
PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

Members:	Deputies (if any):
Chair: Councillor Carlo Gibbs Vice Chair:	
Councillor Craig Aston Councillor Stephanie Eaton Councillor Anwar Khan Councillor Abdal Ullah Councillor David Edgar 1 Vacancy	Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston) Councillor Motin Uz-Zaman, (Designated Deputy representing Councillors Carlo Gibbs, David Edgar, Anwar Khan and Abdal Ullah) Councillor Marc Francis, (Designated Deputy representing Councillors Carlo Gibbs, David Edgar, Anwar Khan and Abdal Ullah,) Councillor Carli Harper-Penman, (Designated Deputy representing Councillors Carlo Gibbs, David Edgar, Anwar Khan and Abdal Ullah)
[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: Antonella Burgio, Democratic Services
Tel: 020 7364 4881, E-mail: antonella.burgio@towerhamlets.gov.uk

LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Tuesday, 25 September 2012

7.00 p.m.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST (Pages 1 - 4)

To note any declarations of disclosable pecuniary interest made by Members.

3. UNRESTRICTED MINUTES

PAGE NUMBER	WARD(S) AFFECTED
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5 - 10

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 26 June 2012.

4. UNRESTRICTED REPORTS FOR CONSIDERATION

4 .1 Fraud Briefing from Protecting the Public Purse

11 - 32

5. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

5 .1 Annual Governance Report - Council Accounts - To Follow

5 .2 Annual Governance Report - Pension Fund Accounts

33 - 56

6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

6 .1 Annual Financial Report 2011/12

57 - 178

6 .2 Quarterly Internal Audit Assurance Report

179 - 246

To note the contents of the Quarterly Internal Audit Assurance Report and to take account of the assurance opinion assigned to the systems reviewed during the

period.

- | | | |
|-------------|---|------------------|
| 6 .3 | Annual Anti -Fraud Report 2011/12 | 247 - 254 |
| | To receive an update of reactive and Anti - Fraud work undertaken during 2011/12. | |
| 6 .4 | Social Housing Fraud Update | 255 - 258 |
| | To receive an update on the work of the Social Housing Fraud team and its successes to date in the recovery of unlawfully let public sector dwellings. | |
| 6 .5 | Progress on National Fraud Initiative 2010-11 , and launch of NFI 2012-13 | 259 - 314 |
| | To receive a report on the background of the London Fraud Initiative and its evolution into the National Fraud Initiative (NFI) and launch of the current NFI 2010-11 which has been managed by the Audit Commission. | |
| 6 .6 | 2011-12 Treasury Management Outturn Report | 315 - 330 |
| | To receive an account of treasury management activity for the financial year ended 31 March 2012 as required by the Local Government Act 2003. | |
| 6 .7 | Treasury Management Activity for Period Ending 31 August 2012 | 331 - 358 |

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Agenda Item 2

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

Isabella Freeman, Assistant Chief Executive (Legal Services), 020 7364 4801; or
John Williams, Service Head, Democratic Services, 020 7364 4204

APPENDIX A: Definition of a Disclosable Pecuniary Interest

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

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

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.00 P.M. ON TUESDAY, 26 JUNE 2012

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

Members Present:

Councillor Carlo Gibbs (Chair)
Councillor Khaled Uddin Ahmed
Councillor Craig Aston
Councillor Carli Harper-Penman
Councillor Anwar Khan

Other Councillors Present:

Officers Present:

Chris Naylor	–	Corporate Director, Resources
Robin Beattie	–	(Service Head, Strategy & Resources & Olympic Impact, Communities Localities & Culture)
Jamie Blake	–	(Service Head of Public Realm, Communities Localities and Culture)
Alan Finch	–	(Service Head Financial Services, Risk & Accountability)
Minesh Jani	–	(Head of Audit and Risk, Financial Services Risk & Accountability, Resources)
Bharat Mehta	–	(Audit Manager)
Kevin Miles	–	(Chief Accountant, Resources)
Tony Qayum	–	(Corporate Fraud Manager, Internal Audit, Resources)
Ann Sutcliffe	–	(Service Head Building Strategic Property and Capital Delivery, Development & Renewal)
Jon Hayes	–	District Auditor, Audit Commission
Sally Ann Eldridge	–	Service Manager, Audit Commission
Mike Clarkson	–	General Manager - Deloitte
David Thomson	–	Acting Director, Neighbourhoods Services, Tower Hamlets Homes
Richard Parkin	–	Head of Neighbourhoods, Tower Hamlets Homes
Simone Scott-Sawyer	–	(Democratic Services)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Ullah and Eaton.

2. DECLARATIONS OF INTEREST

There were none.

3. APPOINTMENT OF VICE-CHAIR

The Chair called for nominations for a Member to serve as Vice-Chair of the Committee for the municipal year 2012 - 13.

Councillor Khales Uddin Ahmed MOVED that Councillor Anwar Khan be elected Vice-Chair and this was SECONDED by Councillor Carlo Gibbs.

No further nominations were received and it was therefore

RESOLVED

That Councillor Anwar Khan be elected Vice-Chair of the Audit Committee for the municipal year 2012-13.

4. UNRESTRICTED MINUTES

That the minutes of the meeting of the Audit Committee held on 20th March 2012 be agreed as a correct record of the meeting and the Chair be authorised to sign them accordingly.

VARY ORDER OF BUSINESS

The Chair **Moved** that the order of business be varied. Accordingly, item 7 was taken first, followed by items 5, 6 and 8.

5. UPDATE ON THE COUNCIL'S WORK PREPARING FOR THE OLYMPICS

Robin Beattie, Service Head Strategy & Resources, introduced the report and gave a PowerPoint presentation to Members. He informed Members that he had corporate responsibility for the co-ordination of the Olympic planning process and highlighted the following points:

- The HR Olympic Policy Development Team sat alongside the “smarter working” plan which dovetailed seamlessly into the Olympic Plan. This covered topics such as home-working to ameliorate traffic flow etc;
- There was a pre-games audit planned to test the robust nature of planning at Directorate level;
- There was work to be done with local pharmacies to gauge the impact on the National Health Service;
- An Olympic Control Centre will be going live on 9th July 2012.

In response to some Members' concerns and questions, Robin Beattie further outlined the following points:

- The Blackwall tunnel will be reduced to one lane during the Olympic period as one lane will be dedicated to Olympic traffic;
- Olympic Employment benefits for Tower Hamlets residents – the Olympics had generated employment opportunities and Robin Beattie promised to obtain the data on this for Members;
- Security – this remained unclear at present as Central Government had failed to provide support for the borough. However, the Council would continue to lobby the Government;
- Emergency Planning – Robin Beattie knew of one emergency scenario to be trialled before the Olympics and promised to provide further information to Members outside the Committee meeting. They were currently trialling the Borough Olympic Co-ordination Centre[BOCC] arrangements;
- “Green” Olympics – Robin Beattie was aware of the promises that had been made by Lord Coe in this respect, however due to budgetary constraints, some of these promises had not materialised. This was outside the Council's remit;
- Critical Services –as regards those members of staff working from home and those with care responsibilities who may need to leave earlier, the service managers would need to draw up effective rota systems;
- Officers ensured that they collaborated with other boroughs by attending the 6-host borough group meetings. This was an important part of the Olympic planning process and would comprise the Chief Executive, Leaders and the Mayor who regularly met to discuss common issues, risks etc. The Mayor of Tower Hamlets was usually represented at these meetings or would attend with officers from the Corporate Management Team [CMT].

RESOLVED:

That the presentation be noted.

6. AUDIT COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP

Simone Scott-Sawyer, Senior Committee Officer, Democratic Services introduced the report and highlighted the main issues for Members to note as follows:

- Appendix 1 – the terms of reference of the Committee;
- Appendix 2 – Audit Committee Membership 2012/13;
- Appendix 3 – Audit Committee meeting dates 2012/13.

RESOLVED

That the Audit Committee's Terms of Reference, Membership and meeting dates for the 2012/13 municipal year be noted.

7. UNRESTRICTED AUDIT COMMISSION REPORTS FOR CONSIDERATION

7.1 PROGRESS REPORT

Jon Hayes, District Auditor, Audit Commission introduced the report. He highlighted the salient points on pages 26 – 30 and informed Members that another report would be submitted to the Committee in September.

RESOLVED:

That the report be noted.

8. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

8.1 INTERNAL AUDIT REPORT

Minesh Jani, Head of Risk Management and Audit, introduced the report. He pointed out to Members that Appendix 4 contained a list of the pieces of work which had been carried out by the Internal Audit department last year. 77% of the audit areas were classified as substantial or full assurance and 23% were classified as limited assurance.

Officers outlined the following additional points for Members:

MELA – immigration, human trafficking issues

Minesh Jani stated that officers in the Communities, Localities and Culture directorate were aware of the risks in this area and would seek independent audit assurance to ensure the Boishakhi Mela Trust had complied with due processes. . A governance system, which had been audited had been agreed for the Boishakhi Mela Trust and the intention was to audit the Mela's compliance with its own governance arrangements. The Boishakhi Mela Trust publish their own externally audited accounts of their income and expenditure, but Tower Hamlets would carry out an independent internal audit. Minesh Jani promised to share findings from this audit with the Committee once completed.

Limited Assurance - management of asbestos and legionella

Ann Sutcliffe, Head of Building Schools for the Future, stated that one of the areas of concern at present was that asbestos certificates were not immediately visible to operatives. Therefore a "gap" analysis was to be carried out to identify where work needed to be done and the Council was considering updating its software to store all certificates centrally and make them more accessible.

Management of voids [limited assurance]

Minesh Jani stated that there was an area of concern regarding the accuracy of information. It was often difficult to ascertain when a property became void

and it was often not clear when a tenant surrendered his tenancy. Occasionally, there was a discrepancy between the actual surrender date and the date on the form, hence its limited assurance status. David Thomson, Acting Director, Neighbourhoods Services, Tower Hamlets Homes, explained the actions planned and his intention to ensure agreed recommendations were implemented.

Vehicle removal contract

Minesh Jani stated that this was an area which officers were keen to improve on, particularly around payments. Jamie Blake, Service Head, Public Realm, added that the relevant methodology was now in place to ensure that checks and balances were carried out. Six monthly reviews had also been implemented.

RESOLVED:

That the Annual Internal Audit Report be noted.

8.2 ANNUAL GOVERNANCE STATEMENT 2011/12

Minesh Jani, Head of Risk Management and Audit, introduced the report. He informed Members that this was a statutory document which must accompany the statement of accounts. The guidance and guidelines were obtained from the Chartered Institute of Public Finance and Accounting [CIPFA].

RESOLVED:

That the Annual Governance Statement 2011 – 12 be noted.

8.3 ANNUAL FINANCIAL REPORT 2011/12

Alan Finch, Service Head, Finance, tabled some additional information, giving further detail on “note 42” for Members and gave them an update on the figures.

The Chair pointed out some amendments to be made - firstly on page 196 as regarded related parties and the Council’s financial interests, as he was listed on the Tower Hamlets Community Housing Board twice. Secondly, the Chair was no longer the Council’s Enterprise Board representative. Alan Finch promised to contact the Chair outside the meeting to confirm the amendments.

RESOLVED:

That the Annual Financial report 2011 – 12 be noted.

8.4 2011/12 TREASURY MANAGEMENT OUT-TURN REPORT - UPDATE TO 31ST MAY 2012

Alan Finch, Service Head, Finance, introduced the report and highlighted the following points:

- The average return on investment was 1.49 % which was above the target of 1.25%;
- The shrinking nature of the returns had been noted, although there was no cause to panic at the moment as the investment decisions were led by Fitch ratings, in addition credit ratings and other intelligence sources.

RESOLVED:

That report be noted.

The meeting ended at 9.00 p.m.

Chair, Councillor Carlo Gibbs
Audit Committee

Agenda Item 4.1

Report To: Audit Committee	Date 25 September 2012	Classification Unrestricted	Report No.	Agenda Item No.
REPORT OF: Corporate Director, Resources		Fraud Briefing from Protecting the Public Purse		
ORIGINATING OFFICER(S): Minesh Jani, Head of Risk Management and Audit		WARD(S) AFFECTED: N/A		

1. SUMMARY

- 1.1. The attached report summarises the work of the Audit Commission who compared Tower Hamlets performance in tackling a range of fraud with other similar authorities. The work of the Commission focused on six specific types of frauds, highlighted as the most common from an earlier survey of all local authorities in England, these being; housing and council tax benefit fraud; single person discount fraud; housing tenancy fraud; social service fraud (personalised budgets); procurement fraud; and Blue Badge fraud.

2. RECOMMENDATION

- 2.1. The Audit Committee is : -

- asked to note the contents of this report and to take account of the matters raised by the Audit Commission in their report; and
- make suggestions and recommendations as it considers necessary to assist in the management of fraud risks.

3. NATIONAL PICTURE

- 3.1. The Audit Commission in their publication "Protecting the Public Purse 2011" focuses on fighting fraud against local government and has been written for councillors and senior officers responsible for governance. In their report, the Audit Commission highlight fraud as a significant problem affecting everyone in the UK.
- 3.2. In 2011, the National Fraud Authority (NFA) estimated that each year public, private and third sector organisations, as well as individuals,
- lose over £38 billion to fraud;

- fraud costs every adult in the country £765 a year; and
 - fraud against public sector organisations costs £21.2 billion, with fraud against councils costing more than £2 billion a year
- 3.3. The Audit Commission's 2010/11 survey of fraud against councils and related bodies shows that councils detected more than £185 million worth of fraud, involving 121,000 cases. The total value of detected fraud losses for 2010/11 increased by 37 per cent compared with 2009/10, with the number of fraud cases also increasing and councils recovered nearly 1,800 homes from tenancy fraudsters. These homes had a total replacement value of over £266 million.

4. LOCAL PICTURE

- 4.1. The overall message from this report is that on the whole, Tower Hamlets is broadly on par with other inner London Boroughs and others in its peer group in tackling fraud. In 2010/11, the Tower Hamlets detected fraud estimated at approximately £8.7M. Within this, the traditional areas of known fraud such as housing and council tax benefit fraud are particularly well targeted. The more recent initiatives such as tenancy fraud makes up a substantial proportion of the fraud detected ((£7.8M) A separate report on this is presented elsewhere in the agenda. The report recommends a number of areas where the risk profiling will be required to better understand fraud risks and how they may be managed better particularly around social services fraud, procurement fraud and single person discount fraud. The other general message that is coming out from the Audit Commission, the National Fraud Authority and others such as the "big 4" is fraud is on the increase and organisations need to be alert to this rising trend.
- 4.2. With this latter point in mind, and to ensure the risk of fraud risk is better managed, in March 2011, all Service Heads responsible for managing the types of frauds identified in this Audit Commission report were contacted and provided with details of how fraudsters can exploit their systems and case studies of what other authorities have done to manage fraud risks in their area better. It is envisaged Service Heads will have used this information to safeguard the interests of the Council, particularly in this climate of financial restraint. The Corporate Fraud team will continue to alert Corporate Directors of significant frauds in line with normal protocols. This will alert Corporate Directors to fraud risks that have been exposed by fraudsters.
- 4.3. The Audit Commission will present this report to the Audit Committee on 25th September 2012.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

5.1. These are contained within the body of this report.

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

6.1. There are no immediate legal implications arising from this report.

7. ONE TOWER HAMLETS

7.1. There are no specific one Tower Hamlets considerations.

7.2. There are no specific Anti-Poverty issues arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

8.1. This report highlights the potential areas of fraud risks that any local authority is likely to be exposed to. A considered assessment of the nature and impact of the fraud risks will allow the authority to make better use of its resources.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

9.1. 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 :

N/A

Minesh Jani, 0207 364 0738

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Fraud Briefing 2012

London Borough of Tower Hamlets

DRAFT

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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DRAFT

Introduction

- 1 This briefing is intended to help you to understand how well your Council appears to be tackling fraud.
- 2 All councils in England were asked, in summer 2011, to complete the Audit Commission's survey of detected fraud for 2010/11. Almost 100 per cent of councils completed the survey and told us how well they consider they are doing in the fight against fraud.
- 3 In this briefing we use the results of the survey to compare your reported performance in preventing and detecting fraud with the reported performance of other councils for the 2010/11 financial year. This is the last year for which comparable information is currently available.
- 4 We recognise stand alone figures do not provide definitive answers about your performance. We therefore compare your fraud data with figures from other councils, including fraud risks where you have provided us with no information. Finally, we suggest issues where you may wish to take action.
- 5 In your case, our analysis compares your results with the national picture, other inner London councils and a cluster of neighbouring councils. Included in your cluster are: Greenwich, Hackney, Lewisham, Newham, and Southwark councils.
- 6 The 2011/12 detected fraud results for all councils in England will be published later this year. Although we are unable at this time to compare your 2011/12 performance with your cluster group, we are able to note your level of detected fraud in 2011/12.
- 7 At the end of this briefing we have included a checklist based on the one published in our national report '*Protecting the Public Purse 2011*' (*PPP 2011*). This is intended to help audit committees, and others responsible for governance, to assess the effectiveness of their counter-fraud arrangements.
- 8 In September last year, we presented the 2011 Fraud Briefing to the Audit Committee. Although action points were agreed at that time we recognise that the 2011/12 detected fraud data is unlikely to yet reflect the impact of actions agreed at that meeting. The impact of those actions should be reflected in the 2012/13 detected fraud figures.
- 9 We recommend you use this checklist annually to assess your counter-fraud performance and arrangements.

The national picture

10 Our 2010/11 fraud survey results show councils and related bodies detected around 121,000 cases of fraud valued at £185 million. It should be noted the survey results relate only to detected fraud which normally represents only a small proportion of the total amount of fraud committed against councils.

11 These cases included:

- 59,000 housing benefit and council tax benefit frauds amounting to a loss of £110 million to the public purse. These frauds represented almost three quarters of the total detected fraud by councils;
- 56,000 council tax single person and student discount frauds amounting to £22 million;
- 145 cases of council procurement fraud involving losses of £14.6 million, a 400 per cent increase on 2009/10; and
- 102 cases of proven social care budget fraud worth over £2.2 million; and

12 In addition to the above figures, councils recovered almost 1,800 homes in 2010/11 from unlawful tenants with an estimated replacement value of over £266 million.

13 In 2010/11 councils kept better records than in 2009/10. However, some councils did not keep complete records of all types of fraud and did not always classify fraudulent activity as fraud. Most councils were able to provide us with information for more traditional fraud risks, such as housing benefits. But information about some types of fraud, such as tenancy, council tax and recruitment fraud remains less robust.

14 We recommend all councils treat fraud as fraud and keep complete records in the future.

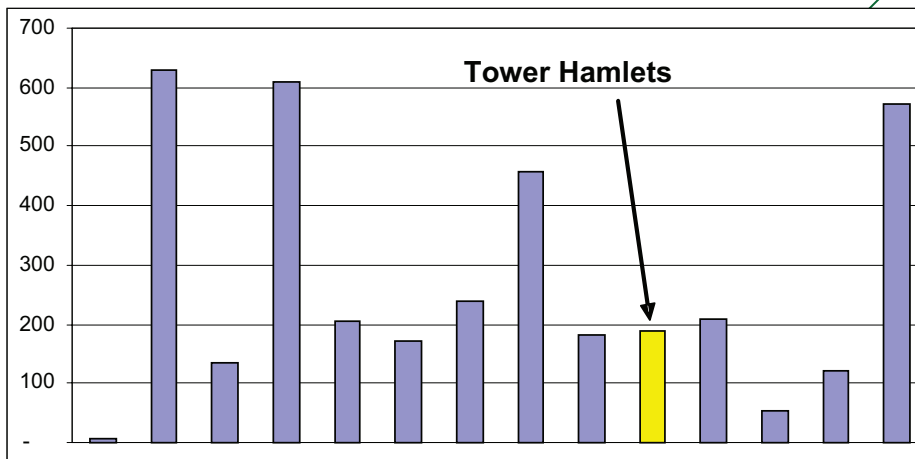
15 All London councils completed the fraud survey.

How does your Council compare?

Housing and council tax benefits (HB/CTB) fraud

16 The number of your reported HB/CTB fraud cases dropped from 832 in 2009/10 to 187 in 2010/11. But the value of your detected fraud increased from £607,392 to £646,250 in the same period.

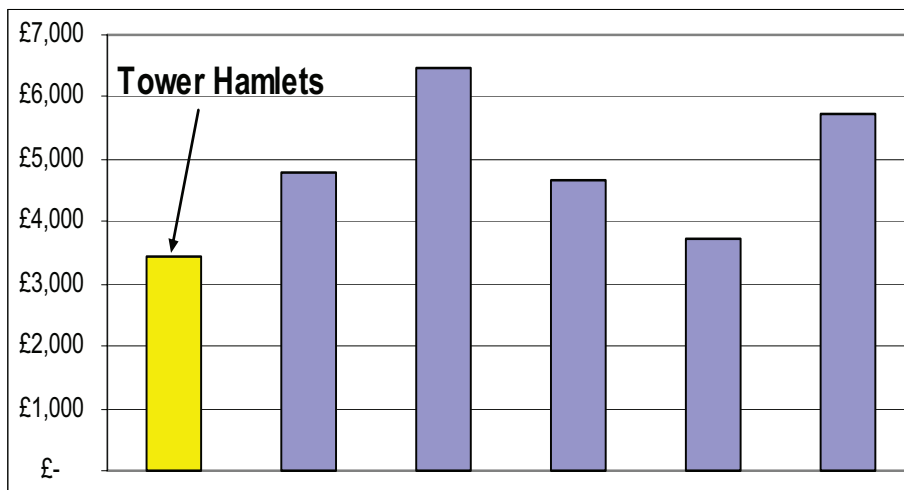
Figure 1: The number of HB/CTB detected fraud cases compared to other inner London councils in 2010/11



17 In 2011/12 you reported 177 cases with a value of £861,873. This may indicate you are focusing on higher value cases than previously.

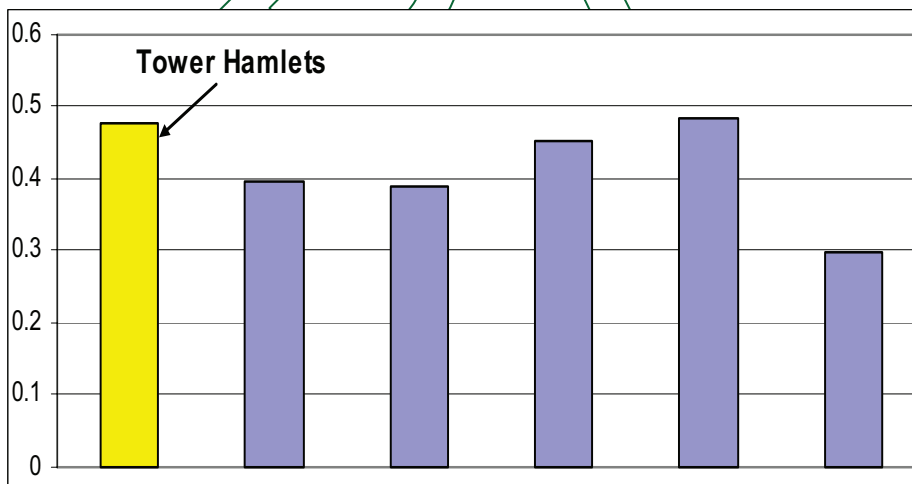
18 However, compared to your neighbours you have the lowest average value per detected HB/CTB case. Nevertheless, it is worth noting that the levels of rent in your borough are lower than other councils and this may be the cause of the lower average per detected case value.

Figure 2: Average value of HB/CTB detected fraud cases compared to neighbouring councils in 2010/11



19 This perception of rent levels affecting average detected case values is given greater strength because your HB/CTB detected fraud cases as a percentage of your claimant caseload is the second highest compared to your neighbours. Although this percentage is the same as last year it demonstrates a good level of efficiency in detecting HB/CTB fraud compared to your neighbours.

Figure 3: Detected HB/CTB fraud cases as a percentage of HB/CTB claimant caseload compared to neighbouring councils in 2010/11



How you can improve

20 You have maintained your performance in fighting HB/CTB fraud that we noted last year.

21 This is a time of great change within welfare benefits. We suggest you make every effort to ensure your performance is not allowed to slip.

Council tax discount fraud

22 In 2010/11 you reported no cases of council tax discount fraud. This compares with 1,500 detected cases of single person discount (SPD) fraud with a value of £400,000 for 2009/10. In 2009/10 this was the highest number of detected cases for inner London councils and second highest for London as a whole.

23 In 2011/12 you have again reported no cases of council tax fraud. However, in 2011/12 you undertook a comprehensive review of all single person discount awards in partnership with an external data analysis company. For the first time you included benefit claimants within the review. Resulting from the review, you removed 849 discounts (383 admissions / 466 non-responses). You estimate the total saving to the Council of this exercise at about £200k.

24 In your 2011 Fraud Briefing our recommendation was "*You should review the cost and benefits achievable by further targeting of SPD fraudsters*". You have reviewed your SPD claims and made significant savings. However, given you have reported for two years that you have no SPD fraud cases you are either not labelling fraud as fraud or there is a breakdown in internal reporting and fraud classification.

25 The first step to tackling any fraud is acknowledging the risk. Our calculations show that the national average level of council tax fraud is likely to be about 4 per cent.

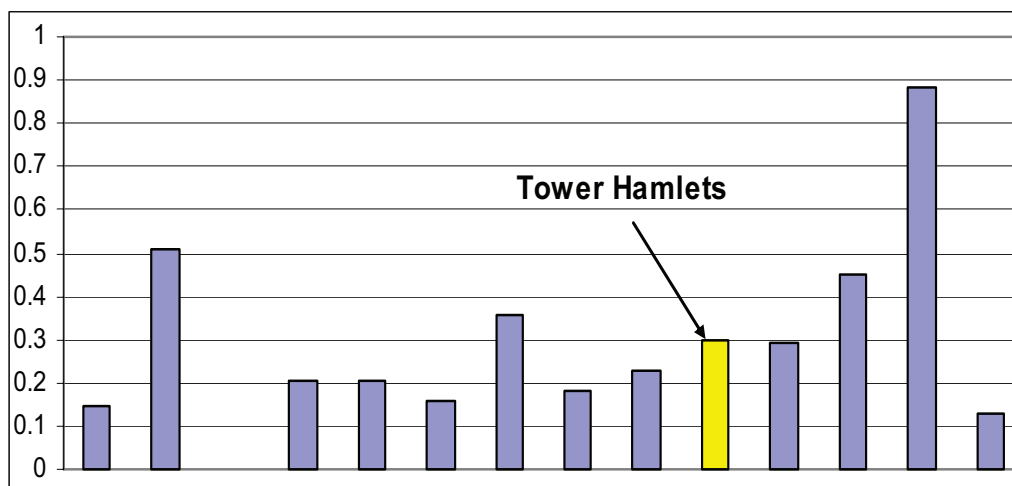
How you can improve

26 You should give serious consideration to reviewing your council tax fraud risk. Assess what counter fraud controls are currently in place and what measures need to be put in place to ensure much needed income is not lost to fraudsters.

Housing tenancy fraud

27 Tower Hamlets, along with 13 other inner London councils, manage their own housing stock. In 2009/10 you reported 12 detected cases of tenancy fraud, with a replacement value of about £1.8 million. In 2010/11 you reported 37 cases of tenancy fraud, with a replacement value of over £5.5 million – over three times as many cases. This is commendable, reflecting the greater national priority to tackle tenancy fraud.

Figure 4: Detected housing tenancy fraud as a percentage of housing stock - inner London councils 2010/11



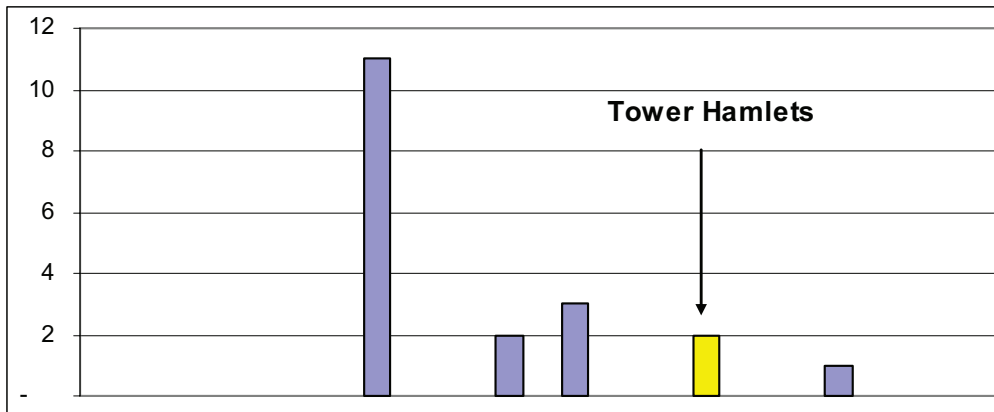
28 In the 2010/11 financial year you recruited three specialist investigators, they became fully operational in September 2010. In 2009/10 you had the fifth lowest level of detected housing tenancy fraud. In 2010/11 you had the fifth highest level of detected housing tenancy fraud amongst inner London councils.

29 For 2011/12 you have reported 40 detected cases. It would have cost £6 million to build an equivalent number of new homes.

30 In 2010/11, and again in 2011/12, you reported that you are joint working with 16 Registered Social Landlords (RSLs).

31 In 2010/11 you were one of only five inner London councils which reported 'Right to Buy' frauds. You reported two detected cases of fraud valued at £32,000. You also said you intended to give greater attention to 'Right to Buy' cases. One of your neighbours reported 11 detected cases valued at £176,000. For 2011/12 you have reported one case valued at £16,000. Changes in the 'Right to Buy' incentive scheme from April 2012 may make 'Right to Buy' discounts more attractive to potential fraudsters.

Figure 5: Detected 'Right to Buy' fraud cases for inner London councils 2010/11. A neighbouring council to Tower Hamlets reported 11 detected cases with a value of £176,000



How you can improve

- 32** The increasing number of properties recovered reflects positively on the greater attention you have given in recent years to tackling tenancy fraud. Continue to support your housing tenancy fraud response.
- 33** Continue to explore with local RSLs the scope to work together more to tackle tenancy fraud to your mutual benefit.
- 34** Review 'Right to Buy' fraud prevention and detection arrangements to ensure they are proportionate to the changing fraud risk environment.

Social services fraud

35 In 2010/11 you reported two cases of detected social services fraud valued at £165,000. This compares to your one reported case valued at £1,000 in 2009/10. In 2010/11 you were one of only three inner London councils to report social services fraud and one of only seven for London as a whole. The total value of your social services fraud and your average value for each case was the highest in London.

36 For 2011/12 you have reported 2 social services fraud cases valued at £101,202. Your average value per social services detected fraud case is £50,601; whereas, your average value per HB/CTB detected fraud case is £4,869. This demonstrated the significant fraud loss risk that can occur when fraudster target social services.

How you can improve

37 You should consider the risk of social service fraud in your area and your response.

Procurement fraud

38 In 2009/10 you reported 15 cases of detected procurement fraud valued at £12,000. In 2010/11 you reported no cases and no cases for 2011/12.

39 In 2009/10 inner London councils reported 31 cases of procurement fraud, but reported only 10 in 2010/11. Nationally reported cases of procurement fraud fell from 165 in 2009/10 to 145 in 2010/11. However, the value of reported procurement fraud rose from £2.7 million to £14.6 million in the same period – an increase of over 400 per cent

40 Of the seven London councils which reported procurement fraud only one provided a value for the cases. It is best practice that all fraud is given a financial value in order to establish the full loss taxpayers suffer.

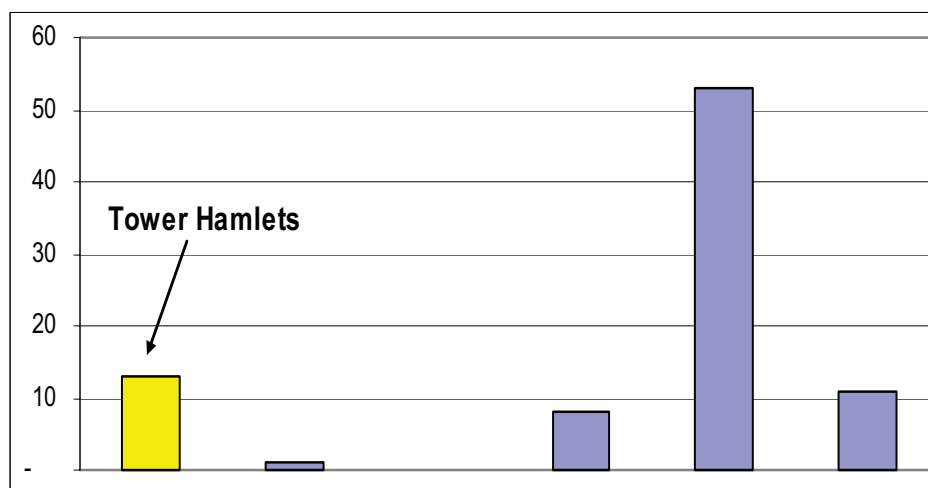
How you can improve

41 You should consider the risk of procurement fraud and, in the light of any counter-fraud work you have undertaken, reflect on whether you need to do more.

Blue badge fraud

42 In 2009/10 you reported 16 cases of detected blue badge fraud, in 2010/11 it was 13 cases, and in 2011/12 you have reported 12 cases. Although the number of your detected blue badge fraud cases is declining, your 2010/11 performance remains better than most of your neighbours.

Figure 6: Blue badge fraud compared to your neighbours 2010/11



How you can improve

- 43** Continue to tackle blue badge fraud in your area and your response.

Internal fraud

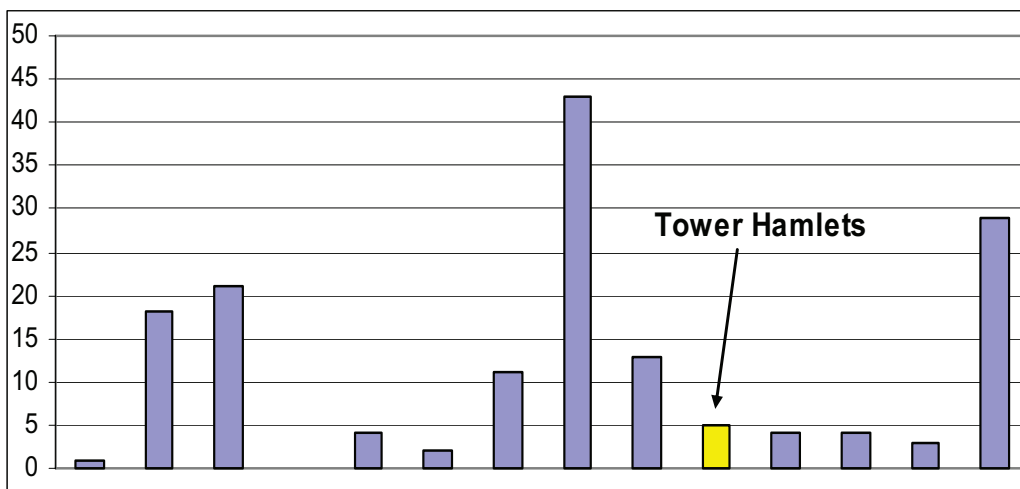
44 In 2010/11 you reported 5 cases of internal fraud, including 1 benefit fraud, 1 tenancy fraud, 2 social services fraud, and 1 payroll and contract fulfilment fraud. The inner London average for detected internal fraud cases was 11.

45 In 2009/10 you reported over 40 cases, including 27 cases of payroll and employee contract fulfilment fraud, eight cases of recruitment fraud, and five cases of abuse of position fraud. In 2011/12 you have reported 2 cases valued at £6,100, both were HB/CTB cases.

46 Although there has been a decline in the number of detected internal fraud cases your 2010/11 figures remain above the national average. In 2010/11 nationally 1.3 percent of cases and 10.5 per cent of value of detected fraud is committed internally. In 2010/11 2.2 per cent of cases and 21.8 per cent of the value of detected fraud is committed internally at Tower Hamlets - this includes 2 internal social services fraud valued at £165,000.

47 In difficult economic times and employee uncertainty about the future internal fraud risks increase.

**Figure 7: Internal fraud cases compared to inner London councils
2010/11**



How you can improve

48 You should ensure that you have in place appropriate safeguards to prevent and detect internal fraudsters.

DRAFT

Summary

49 We suggest you take the following action to improve your fight against fraud.

Your fraud risks	Action we recommend	Tower Hamlets response
Housing benefit and council tax benefit - HB / CTB	You have maintained your performance in fighting HB/CTB fraud that we noted last year. This is a time of great change within welfare benefits. We suggest you make every effort to ensure your performance is not allowed to slip.	
Council tax	You should give serious consideration to reviewing your council tax fraud risk. Assess what counter fraud controls are currently in place and what measures need to be put in place to ensure much needed income is not lost to fraudsters.	
Housing tenancy	<p>The increasing number of properties recovered reflects positively on the greater attention you have given in recent years to tackling tenancy fraud. Continue to support your housing tenancy fraud response.</p> <p>Continue to explore with local RSLs the scope to work together more to tackle tenancy fraud to your mutual benefit.</p> <p>Review 'Right to Buy' fraud prevention and detection arrangements to ensure they are proportionate to the changing fraud risk environment.</p>	
Social services	You should consider the risk of social service fraud in your area and your response.	
Procurement	You should consider the risk of procurement fraud. In the light of any counter-fraud work you have undertaken reflect on whether you need to do more.	
Blue badge	You should consider the risk of blue badge fraud in your area and your response.	

Your fraud risks	Action we recommend	Tower Hamlets response
Internal fraud	You should ensure that you have in place appropriate safeguards to prevent and detect internal fraudsters.	

DRAFT

Audit Commission Counter Fraud Checklist for you to complete

General	Y/N	Action to be taken
1. Do we have a zero tolerance approach against fraud?		
2 Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with Fighting Fraud Locally?		
3. Do we have dedicated counter-fraud staff?		
4. Do counter-fraud staff review all the work of our organisation?		
5. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?		
6. Have we assessed our management of counter-fraud work against good practice?		
7. Do we raise awareness of fraud risks? a. With new staff (including agency staff)? b. With existing staff? c. With elected members? d. With our contractors?		
8. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?		
9. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?		
10. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?		
11. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on the matches investigated?		
12. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?		
13. Do we have effective whistleblowing arrangements?		
14. Do we have effective fidelity insurance arrangements?		

Fighting fraud with reduced resources		
15. Have we reassessed our fraud risks since the change in the financial climate?		
16. Have we amended our counter-fraud action plan as a result?		
17. Have we reallocated staff as a result?		
Housing tenancy		
18. Do we take proper action to ensure that we only allocate social housing to those who are eligible?		
19. Do we ensure that social housing is occupied by those to whom it is allocated?		
Procurement		
20. Are we satisfied our procurement controls are working as intended?		
21. Have we reviewed our contract-letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?		
Recruitment		
22. Are we satisfied our recruitment procedures achieve the following? a. Do they prevent us employing people working under false identities? b. Do they confirm employment references effectively? c. Do they ensure applicants are eligible to work in the UK? d. Do they require agencies supplying us with staff to undertake the checks that we require?		
Personal budgets		
23. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?		
24. Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?		
Council tax		
25. Are we effectively controlling the discounts and allowances we give to council taxpayers?		

Housing and council tax benefits		
<p>26. When we tackle housing and council tax benefit fraud do we make full use of the following?</p> <p>a. National Fraud Initiative?</p> <p>b. Department for Work and Pensions Housing Benefit matching service?</p> <p>c. Internal data matching?</p> <p>d. Private sector data matching?</p>		
Audit Commission, 2011.		

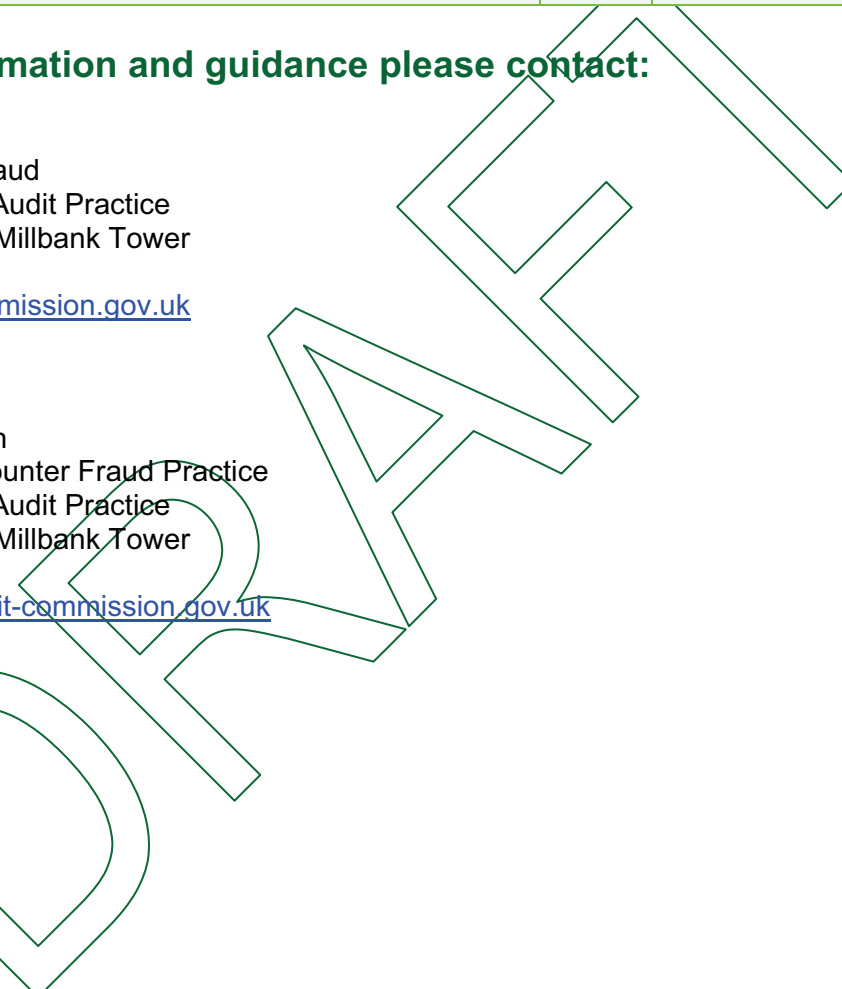
For more information and guidance please contact:

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Annual governance report

London Borough of Tower Hamlets Pension Fund

Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 audit of the pension fund financial statements which is substantially complete.

Subject to the completion of the closing procedures, I intend to issue an unqualified opinion on the pension fund financial statements.

Management have amended the financial statements for the errors identified during the audit. None of these had an impact on the financial position of the pension fund.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

I ask the audit committee to:

- consider the matters raised in this report before approving the pension fund financial statements;
- take note of the adjustments to the financial statements included in this report (appendix 2);
- approve the letter of representation (appendix 3), on behalf of the pension fund before I issue my opinion; and
- agree your response to the proposed action plan (appendix 5).

Financial statements

The pension fund's financial statements are an important mechanism for the pension fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the pension fund financial statements included within the Council's Statement of Accounts. Appendix 1 contains a copy of my draft audit report.

Corrected errors

My audit of the pension fund statements identified non trivial errors which have been corrected by management, these are detailed in Appendix 2. I found one material error during the course of my audit. The cash balance of £7.579 million was disclosed as a debtor balance with the Council's general fund. This is due to the Council's treasury arrangement whereby pension fund cash holdings are pooled with the Council's other bank balances to maximise the return on temporary investments. Officers have corrected this error to show the cash balance.

Significant risks and my findings

I reported to you in my March 2012 Audit Plan the risks that I identified relevant to my audit of your financial statements. Table 2 reports to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>The quality assurance review of the pension fund financial statements prior to submission for audit does not identify all the matters it should.</p>	<p>The quality of the 2011/12 draft financial statements was consistent with last year. There is scope for further improvement in this area. Examples include:</p> <ul style="list-style-type: none"> - the related party transactions note and financial instruments risk note were incomplete; - several working papers and supporting notes in the pension fund financial statements were not available at the start of the audit; and - officers have deleted a note included in the draft accounts analysing securities held by the pension fund. This note is not required by the Code and included £14.2 million of working capital that were not securities. Sufficient analysis of the fund's investment portfolio is available elsewhere in the financial statements.
<p>Valuation of derivatives and misclassification of investments.</p>	<p>My review of the valuation of derivatives and the classification of investments has not highlighted any issues.</p>
<p>The Council opened a separate bank account for the pension fund in line with LGPS Regulations 2009. However, during the early part of 2011/12, some payments and receipts were still being processed through the Council's main bank account.</p>	<p>My testing found that the some payments and receipts in 2011/12 relating to the pension fund were not processed through the new pension fund bank account. Some transactions continued to originate from the Council's main bank account with a monthly transfer being made between the two accounts. This is not in accordance with the Regulations. I have confirmed that the year end cash position is materially correct.</p>

Recommendation

- R1** Undertake a more detailed quality review of the draft pension fund financial statements. In particular, ensure that all disclosure requirements are in accordance with the Code and working papers have been prepared to support all notes in the accounts.
- R2** The Council should ensure all payments and receipts relating to the pension fund are processed through the fund's separate bank account, in accordance with the Regulations.

Significant weaknesses in internal control

It is the Council's responsibility to develop and implement systems of internal financial control for the pension fund and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as auditor is to consider whether the pension fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the pension fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

My testing of the council's financial systems found a number of instances where the operation of controls was not evidenced. An example of such a weakness included, but was not limited to, the monthly review by HR managers of starters and leavers. As a result, I have been unable to place reliance on the controls in these areas, as they relate to the audit of the pension fund, and have undertaken additional substantive testing.

Recommendation

- R3** Evidence the operation of controls more consistently to strengthen the internal control environment.

Other matters

I am required to report significant findings from the audit and other matters that are significant to your oversight of the pension fund's financial reporting process, including:

- qualitative aspects of your accounting practices;
- matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- other audit matters of governance interest.

There are no matters I wish to report.

Pension Fund Annual Report

The draft Pension Fund Annual Report was submitted for audit review on 3 August 2012. I expect to report on the financial statements included in the Annual Report by 30 September 2012

Fees

I reported my planned audit fee in the March 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 2: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	35,000	35,000
Non-audit work	0	0
Total	35,000	35,000

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF TOWER HAMLETS

Opinion on the financial statements

I have audited the financial statements of the London Borough of Tower Hamlets for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework applied to their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director of Resources and the auditor

As explained more fully in the Statement of the Corporate Director of Resources’ Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group’s circumstances and have been consistently applied and adequately disclosed; the

reasonableness of significant accounting estimates made by the Corporate Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Tower Hamlets as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director of Resources and auditor

As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities, the Corporate Director of resources is responsible for the preparation of the Authority and Group's Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, the London Borough of Tower Hamlets put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate as I am still to complete the work necessary to issue my assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Jon Hayes

District Auditor

1st Floor Millbank Tower, Millbank, London, SW1P 4HQ

xx September 2012

Appendix 2 – Corrected errors

I identified the following errors during the audit which management have corrected in the revised financial statements.

Nature of error	Fund Account		Net Assets Statement	
	Item of account	Dr £'000s	Cr £'000s	Cr £'000s
External audit fees are required to be disclosed separately in the notes to the financial statements.	External Audit Fees Other Fees	35 35		
Cash in the pension fund bank account was disclosed as a debtor.	Cash Debtor		7,579	7,579
Disclosure notes	Nature of adjustment			
Securities	A note detailing the securities held by the fund was removed as it is not required by the Code. The note contained working capital to the value of £14.2 million which should not have been disclosed as securities.			
Investments	An unrealised gain of £0.225 million on forward foreign exchange contracts was disclosed as an unrealised loss in the narrative to this note.			
Accounting policies	The accounting policies for cash and cash equivalents and financial instruments were not disclosed within the notes to the financial statements.			
Related party transactions	The related party transaction note was incomplete and referred to the London Borough of Tower Hamlets financial statements for information about related parties. The Code requires a separate disclosure for the pension fund.			

Appendix 3 – Draft letter of management representation

London Borough of Tower Hamlets - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other [insert relevant details directors of the London Borough of Tower Hamlets, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of the London Borough of Tower Hamlets

I confirm that the this letter has been discussed and agreed by the Audit Committee on 25 September 2012

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues the opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out under the Code to meet the auditor's statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the pension fund. This term includes the members of the Council and the Audit Committee.

Appendix 5 – Action plan

Recommendations

Recommendation 1

Undertake a more detailed quality review of the draft pension fund financial statements. In particular, ensure that all disclosure requirements have been adhered to and working papers have been prepared to support all notes in the accounts.

Responsibility Oladapo Shonola

Priority Medium

Date June 2013

Comments Officers will conduct as thorough review of accounts as possible before publication of the draft accounts prior to the start of the audit.

Recommendation 2

The Council should ensure all payments and receipts relating to the pension fund are processed through the fund's separate bank account, in accordance with the Regulations.

Responsibility Oladapo Shonola

Priority Medium

Date March 2013

Comments Officers have made progress in ensuring pension payments & receipts are processed via the pension bank account. A review will be conducted to ensure the remaining pension transactions (mainly pension payroll) are processed via the pension bank account where practical.

Recommendation 2

Evidence the operation of controls more consistently to strengthen the internal control environment.

Responsibility S Kilbey

Priority	High
Date	March 2013
Comments	HR will continue to review procedures around starters and leavers and changes in procedures will be addressed as part of the implementation of Northgate system enhancements in progress.

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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.



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Agenda Item 6.1

Report To:	Date	Classification	Report No.	Agenda Item No.
Audit Committee	25 September 2012	Unrestricted		
REPORT OF:		Statement of Accounts 2011/12 – Audit Report and approval		
Chris Naylor - Corporate Director, Resources		WARD(S) AFFECTED:		
ORIGINATING OFFICER(S): Alan Finch, Service Head, Finance, Risk & Accountability		N/A		

1. SUMMARY

- 1.1 This report presents the Authority's Statement of Accounts for the financial year ending 31st March 2012 now the majority of the audit has been conducted. The latest version of the accounts as at 14th September is attached. Although there are disclosure changes to the accounts, the Council's overall financial position is unchanged from the draft circulated to Members in June.
- 1.2 The auditors will also be presenting their annual audit report at this meeting which will contain their opinion on the Accounts subject to any further review work they feel is necessary. Members of the Committee will be asked to approve the Statement of Accounts at this meeting.

2. RECOMMENDATIONS

Audit Committee is recommended to:-

- 2.1 Approve the Statement of Accounts for the financial year ended 31st March 2012, having regard for the auditor's Annual Governance Report (agenda item 5).
- 2.2 Agree that if the auditor identifies any further significant issues the Chair of the Committee be delegated to approve any subsequent amendments to the Statement of Accounts that may be necessary as the result of further audit work and the Chief Finance Officer will brief members of the committee and, if necessary, prepare a formal report to the next meeting of the committee.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)

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

Brief description of "background papers"

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

Closure of Accounts Working Files
Accounts & Audit Regulations 2003 Approval of Accounts
Best Value Accounting Code of Practice
Code of Practice on Local Authority Accounting in the UK
HRA Closure of Accounts Working Papers
Capital Working Papers

Kevin Miles, Ext. 6791
Kevin Miles, Ext. 6791
Kevin Miles, Ext. 6791
Kevin Miles, Ext. 6791
Paul Leeson, Ext. 4995
Alison Gebbett, Ext. 3360

3. BACKGROUND

- 3.1 In June, officers presented the draft Statement of Accounts for 2011/12 (including the pension fund accounts) which was subject to audit. This was the second set of accounts to be compliant with the requirements of International Financial Reporting Standards (IFRS). This report now presents the current draft of the accounts following the completion of the majority of the audit review.
- 3.2 To follow Chartered Institute of Public Finance and Accountancy (CIPFA) best practice, Audit Committee is requested to approve the Statement of Accounts which will then be formally published.
- 3.3 The Audit Commission will be presenting their Annual Governance Report (see agenda item 5) detailing changes made to the draft accounts and any matters of a non-trifling nature that need to be brought to the attention of the Committee.

4. STATEMENT OF ACCOUNTS 2011/12

- 4.1 The restated Statement of Accounts for 2011/12 is attached to the report as Appendix 1. This includes the Council's Income and Expenditure Account for the year, the Balance Sheet as at 31st March 2012, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, the Group Accounts (incorporating the accounts for Tower Hamlet Homes) and the Council's Pension Fund Accounts.
- 4.2 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" published by CIPFA.
- 4.3. The accounts are an important aspect of the financial management of the Council as they set out the Council's financial position as at 31st March each year. They include details of the main assets and liabilities, and the year-on-year movements both in the income and expenditure accounts and balance sheet. The accounts are also an integral part of the Medium Term Financial Planning process.
- 4.4. Though the usable reserves of the Accounts are unchanged from the draft previously circulated, there have been a number of amendments to the treatment of some transactions and year-end balances in the Accounts. These amendments are as follows:
 - 4.4.1 **Reserve transfers** - June Cabinet agreed to transfer the £554,000 General Fund underspend in 2011/12 and £400,000 from the ICT future sourcing programme to an earmarked reserve for a mainstream grants fund. This amendment has been reflected in the restated accounts – this amendment was agreed after the June Audit Committee agenda had been prepared.

- 4.4.2 **Corrected errors** – whilst the District Auditor is satisfied that, in all significant respects, the London Borough of Tower Hamlets put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2012 there are a number of errors which were identified in the course of the audit. These concerned the disclosure of information in the notes to the financial statements and therefore did not impact on the Council's out-turn for the year or its available resources.

One item affected the balance sheet. In drawing up the 2010/11 financial statements, officers had not received final confirmation that St Paul's School had achieved trust status, so the value of the school (£76.9m) was removed during 2011/12. The work to implement the new financial system is intended to improve property records further. The related parties note has been updated to exclude disclosures that on reflection are outside the scope of the reporting requirements.

- 4.4.3 **Addressing of audit risks** – officers liaised closely with auditors to ensure risk areas, such as the accounting for heritage assets and the HRA reform were addressed and accounted for in accordance with latest guidance. Officers are reviewing debtor and creditor balances as part of preparing for the new finance system and will review year-end accruals for disclosure for the 2012/13 accounts.

- 4.4.4 **Significant weaknesses in internal control** – The audit has flagged up some weaknesses of internal control as indicated in the auditor's report and officers' response to the auditor's recommendations will be circulated at your meeting.

- 4.5. Members are now requested to approve the Statement of Accounts for 2011/12, subject to any further audit testing. The auditors are required to complete and sign off the Whole of Government Accounts return as part of providing their opinion on the accounting statements.

- 4.6 A summarised version of the accounts will also be published once the audit has been completed and the accounts have been formally approved.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 5.1 The comments of the chief financial officer are incorporated within this report of which he is the author

6. RISK MANAGEMENT

- 6.1 There are no specific risk management implications.

7. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER

- 7.1. The Accounts and Audit Regulations 2003 specify the process by which the authority's accounts are initially approved and then examined by the external auditor.

8. ONE TOWER HAMLETS CONSIDERATIONS

- 8.1 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.
- 8.2. 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.

9. ANTI-POVERTY CONSIDERATIONS

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

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

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

LONDON BOROUGH OF TOWER HAMLETS

ANNUAL FINANCIAL REPORT 2011-12

ANNUAL FINANCIAL REPORT 2011-12

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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 Service Reporting 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

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 Council's spend is in line with the revenue budget for the year and the level of general reserves increased by £3.0 million to £26.4 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 £79.3 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 11 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 76 to 78) and the surplus or deficit on the Pension Fund Account (detailed on pages 86 to 98). 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 79 to 85.

Review of the Year

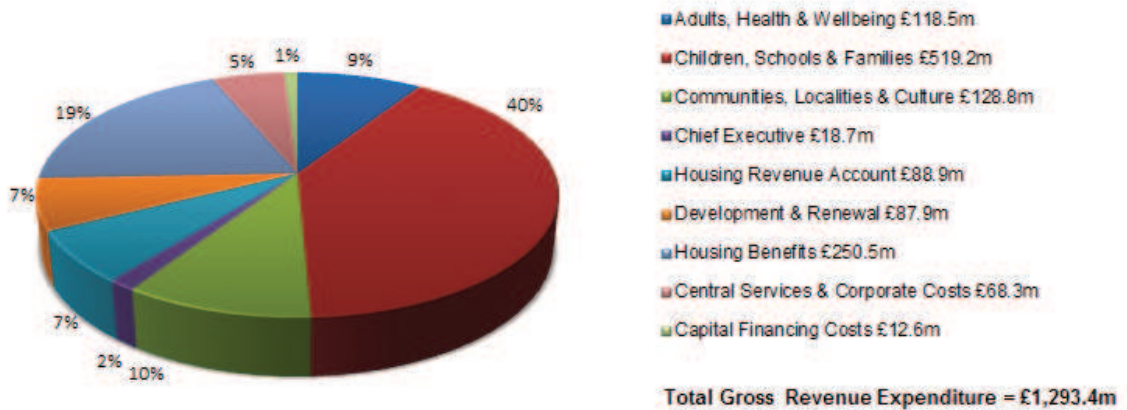
Revenue Income and Expenditure

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, the Council's spend is in line with the net General Fund budget of £311 million 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.

Analysis of Gross Revenue Expenditure by Service Area



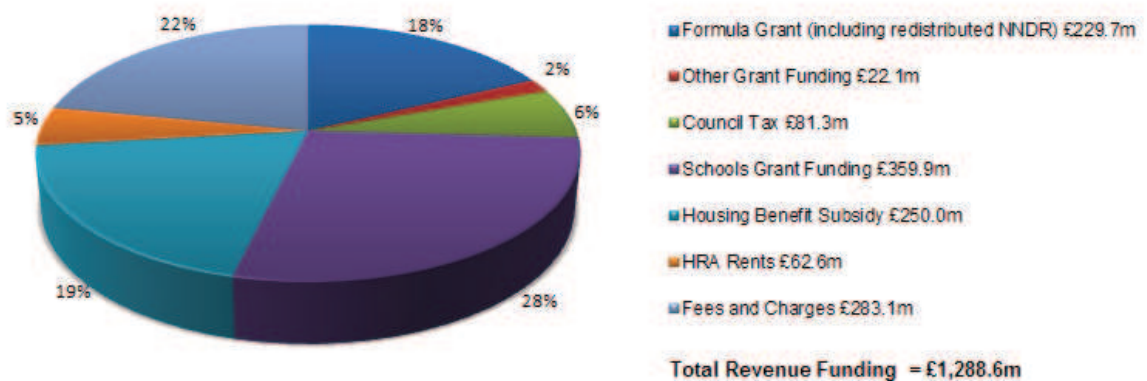
The reduction in government grant funding for the year required the Council to realise savings of some £30 million in its service budgets compared with 2010/11.

Revenue Funding

Government grants and subsidies continue to be the main sources of revenue funding (£0.86 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.

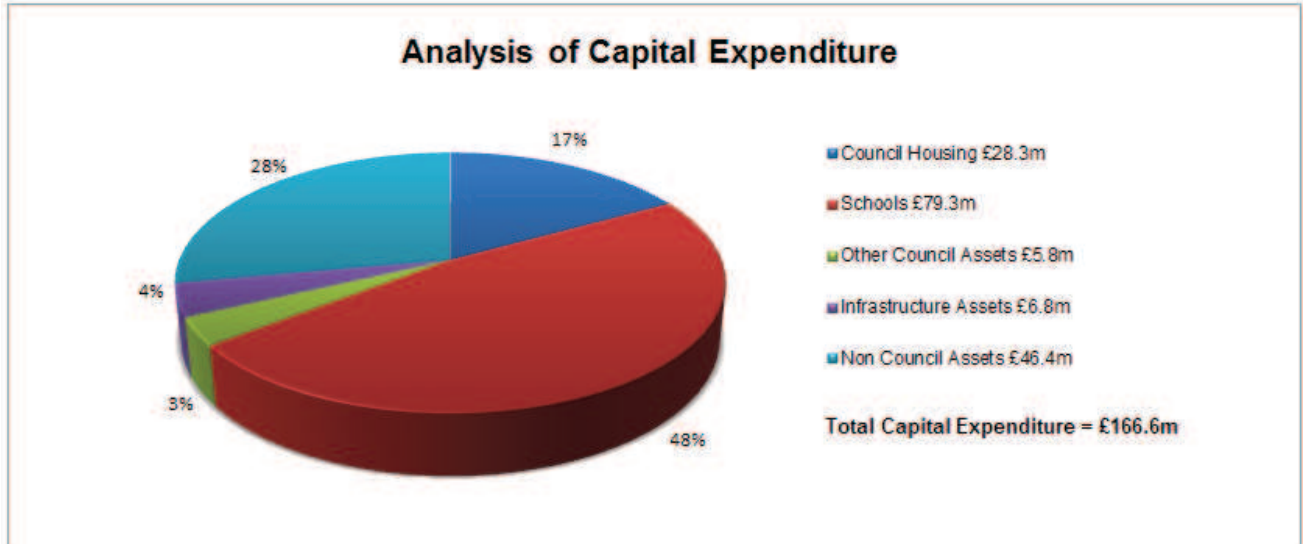
The main specific grant continues to be the Dedicated Schools Grant which can only be used to fund the education services and is largely ‘passported’ directly to the schools. An analysis of all the funding sources is shown in the diagram below.

Analysis of Revenue Funding Sources



Capital Investment

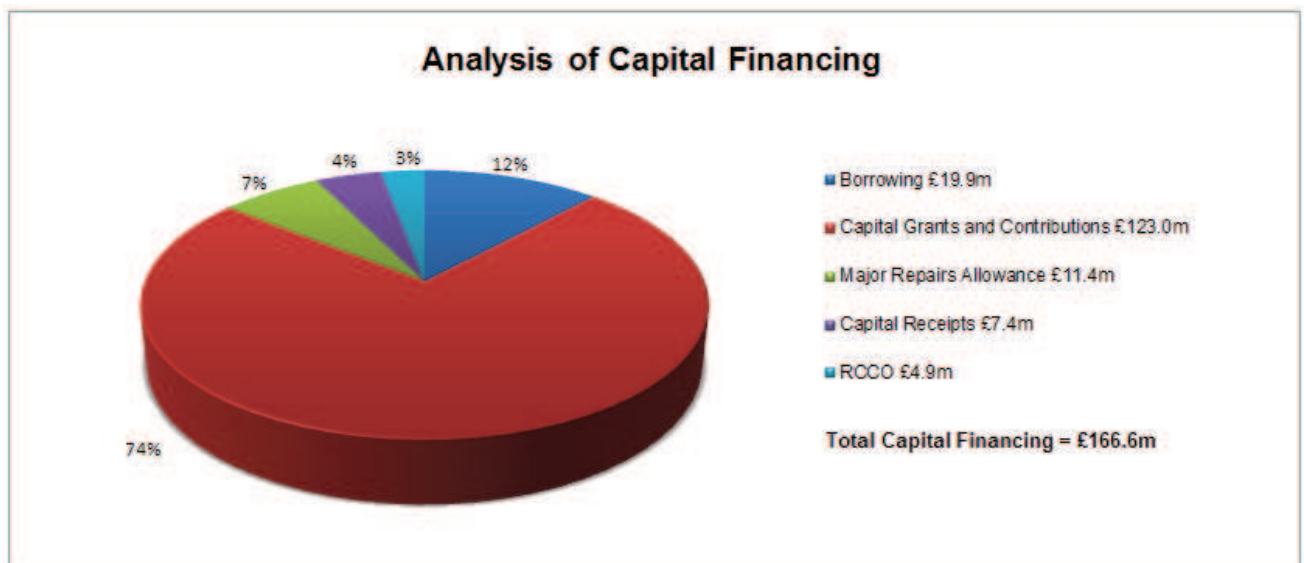
The Council has continued to make considerable capital investment in its capital assets. The following table sets out the broad categories of investment during the year with the main areas of spending being on schools (primarily



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 31st 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

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 £'000
		GENERAL FUND BALANCE £'000	EARMARKED GENERAL FUND RESERVES* £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	DEFERRED CAPITAL RECEIPTS £'000	TOTAL UNUSABLE RESERVES £'000	
Balance as at 31 March 2010		27,133	104,054	12,978	1,074	16,310	16,499	178,048	514,696	1,105,581	(689,923)	3,902	764	(4,210)	298	931,108	1,109,156
Movement in reserves during 2010/11																	
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
Total Comprehensive Expenditure and Income		163,715	0	(291,458)	0	0	0	(127,743)	31,762	0	259,963	0	0	0	0	291,725	163,982
Adjustments between accounting basis and funding basis under regulations		(162,168)	0	291,266	5,272	8,115	3,251	145,736	(12,936)	(253,174)	121,270	(748)	121	(210)	(57)	(145,734)	2
Net Increase or Decrease before Transfers to Earmarked Reserves		1,547	0	(192)	5,272	8,115	3,251	17,993	18,826	(253,174)	381,233	(748)	121	(210)	(57)	145,991	163,984
Transfers to or from earmarked reserves		(1,042)	1,042	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves		(4,258)	4,258	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase or (Decrease) in 2010/11		(3,753)	5,300	(192)	5,272	8,115	3,251	17,993	18,826	(253,174)	381,233	(748)	121	(210)	(57)	145,991	163,984
Balance as at 31 March 2011 carried forward		23,380	109,354	12,786	6,346	24,425	19,750	196,041	533,522	852,407	(308,690)	3,154	885	(4,420)	241	1,077,099	1,273,140
Movement in reserves during 2011/12																	
Surplus or (Deficit) on the Provision of Services		(34,864)	0	256,111	0	0	0	221,247	0	0	0	0	0	0	0	0	221,247
Other comprehensive expenditure and income		0	0	0	0	0	0	0	13,701	0	(116,236)	0	0	0	0	(102,533)	(102,533)
Total Comprehensive Expenditure and Income		(34,864)	0	256,111	0	0	0	221,247	13,701	0	(116,236)	0	0	0	0	(102,533)	118,714
Adjustments between accounting basis and funding basis under regulations		52,225	0	(254,319)	1,639	3,183	30,406	(166,866)	(49,489)	216,053	2,380	(3,130)	74	1,065	(85)	166,868	0
Net Increase or Decrease before Transfers to Earmarked Reserves		17,361	0	1,792	1,639	3,183	30,406	54,381	(35,788)	216,053	(113,856)	(3,130)	74	1,065	(85)	64,335	118,714
Transfers to or from earmarked reserves		(11,948)	11,948	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves		(2,413)	2,413	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase or (Decrease) in Year		3,000	14,361	1,792	1,639	3,183	30,406	54,381	(35,788)	216,053	(113,856)	(3,130)	74	1,065	(85)	64,335	118,714
Balance as at 31 March 2012		26,380	123,715	14,578	7,985	27,608	50,156	250,422	497,734	1,068,460	(422,546)	24	959	(3,355)	156	1,141,432	1,391,854

Deferred Capital Receipts were shown as Usable Reserve in 2010/11 published accounts. As per CIPFA Guidance note it is an Unusable Reserve, therefore it is been disclosed as Unusable Reserve in 2011/12 accounts.

HRA Reserves - The Housing Revenue Account reserve balance of £14.578 million includes an earmarked HRA reserve of £1 million for future housing supply.

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 Gross Income	Net Expenditure	Note	Gross Expenditure	2011/12 Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
Continuing Operations						
30,210	6,790	23,420	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	421,065	101,873	Children's and Education Services	529,192	437,468	91,724
49,154	9,293	39,861	Environment and Regulatory Services	41,568	9,471	32,097
30,251	19,449	10,802	Highways and Transport Services	31,709	20,704	11,005
375,395	89,701	285,694	Local Authority Housing (Housing Revenue Account) ¹	66,921	90,718	(23,797)
296,010	272,252	23,758	Other Housing Services	305,846	285,696	20,150
34,535	14,990	19,545	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 ³	14,584	250	14,334
1,530,514	1,031,898	498,616	NET COST OF SERVICES	1,229,317	942,097	287,220
		18,202	Other Operating Expenditure			130,450
		46,623	Financing and Investment Income and Expenditure ²			108,193
		(435,698)	Taxation and Non-Specific Grant Income ²			(747,110)
		127,743	(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES			(221,247)
Other Comprehensive Income and Expenditure						
		(31,761)	Surplus on revaluation of non-current assets			(13,701)
		(259,963)	Actuarial (gains) or losses on pension assets and liabilities			116,236
		(291,724)	OTHER COMPREHENSIVE INCOME AND EXPENDITURE			102,535
(163,981) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE						(118,712)

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
Long-term Assets				
2,109,420	1,896,553	Property, plant and equipment	12	1,850,505
4,799	4,799	Heritage Assets	43	4,799
1,067	1,008	Long Term Debtors	13	768
2,115,286	1,902,360	Total Long-term assets		1,856,072
Current Assets				
40,818	100,929	Short-term investments	15	131,603
0	0	Assets held for sale	21	945
531	821	Inventories	16	517
88,620	90,431	Short-term debtors	19	74,557
81,700	136,563	Cash and cash equivalents	20	126,283
211,669	328,744	Total Current Assets		333,905
Current liabilities				
15,324	35,485	Short-term borrowing	15	2,266
96,519	130,688	Short-term creditors	22	146,245
1,003	855	Provisions	23	1,594
4,207	4,418	Provisions for accumulated absences	23	3,355
117,053	171,446	Total Current liabilities		153,460
Long Term Liabilities				
10,213	12,014	Provisions	23	13,088
302,475	325,533	Long-term borrowing	15	90,479
689,924	308,691	Liability related to defined benefit pension schemes	41	422,546
50,030	90,474	Capital grants receipts in advance	37	72,255
38,287	41,090	Deferred liabilities	40	40,299
9,817	8,717	Deferred Income - Receipt in Advance		5,996
1,100,746	786,519	Total Long-Term Liabilities		644,663
1,109,156	1,273,139	NET ASSETS		1,391,854
Reserves				
Usable Reserves				
27,134	23,380	General Fund		26,380
12,978	12,786	Housing Revenue Account		14,578
84,942	85,984	Earmarked reserves	8	97,932
19,111	23,370	Schools reserves	8	25,783
16,309	24,424	Capital receipts reserve		27,608
16,500	19,751	Capital grants unapplied		50,156
1,074	6,346	Major repairs reserve		7,985
178,048	196,041	Total Usable Reserves		250,422
Unusable Reserves				
514,696	533,521	Revaluation Reserve	25	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)
298	241	Deferred capital receipts		156
931,108	1,077,098	Total Unusable Reserves		1,141,432
1,109,156	1,273,139	TOTAL RESERVES		1,391,854

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		221,247
272,277	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>26A</u>	204,593
(119,569)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>26A</u>	(163,976)
24,965	Net cash flows from Operating Activities		261,864
(13,002)	Investing Activities	<u>27</u>	(3,577)
42,900	Financing Activities	<u>28</u>	(268,567)
54,863	Net increase or decrease in cash and cash equivalents		(10,280)
81,700	Cash and cash equivalents at the beginning of the reporting period		136,563
136,563	Cash and cash equivalents at the end of the reporting period	<u>20</u>	126,283

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 31st 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 31st 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
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible 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 appropriate service 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 31st 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 and past service costs, settlements and curtailments on account of retirement benefits.

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 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- **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

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	Exit Packages	Reallocated Cultural, Environmental, Regulatory & Planning Services	Restated 2010/11 Statements
	Statements			
Cultural, Environmental, Regulatory and Planning Services				
Gross expenditure	117,491	0	(117,491)	0
Gross income	(31,365)	0	31,365	0
Net expenditure	86,126	0	(86,126)	0
Children's and Education Services				
Gross expenditure	514,007	2,350	6,581	522,938
Gross income	(418,789)	0	(2,276)	(421,065)
Net expenditure	95,218	2,350	4,305	101,873
Central Service				
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
Culture and Related Services				
Gross expenditure	0	858	29,352	30,210
Gross income	0	0	(6,790)	(6,790)
Net expenditure	0	858	22,562	23,420
Environmental and Regulatory Services				
Gross expenditure	0	777	48,377	49,154
Gross income	0	0	(9,293)	(9,293)
Net expenditure	0	777	39,084	39,861
Highways and Transport Services				
Gross expenditure	29,927	293	31	30,251
Gross income	(19,449)	0	0	(19,449)
Net expenditure	10,478	293	31	10,802
Local Area Housing (Housing Revenue Account)				
Gross expenditure	375,395	0	0	375,395
Gross income	(89,701)	0	0	(89,701)
Net expenditure	285,694	0	0	285,694
Other Housing Services				
Gross expenditure	295,572	438	0	296,010
Gross income	(272,252)	0	0	(272,252)
Net expenditure	23,320	438	0	23,758
Planning Services				
Gross expenditure	0	689	33,846	34,535
Gross income	0	0	(14,990)	(14,990)
Net expenditure	0	689	18,856	19,545
Adult Social Care				
Gross expenditure	121,500	897	(836)	121,561
Gross income	(27,165)	0	836	(26,329)
Net expenditure	94,335	897	0	95,232
Corporate and Democratic Core				
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
Non Distributed Costs				
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)
Net Cost of Services Sub-Total (unchanged)				
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

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	Adjustments Made	Restated 1 Apr 2010 Statements
	£'000	£'000	£'000

Non-Current Assets

Heritage Assets	0	4,799	4,799
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Non-Usable Reserves

Revaluation Reserve	(509,897)	(4,799)	(514,696)
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31st March 2011 Balance Sheet

	2010/11 Statements	Adjustments Made	Restated 2010/11 Statements
	£'000	£'000	£'000

Non-Current Assets

Heritage Assets	0	4,799	4,799
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Non-Usable Reserves

Revaluation Reserve	(528,722)	(4,799)	(533,521)
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Note 37 - Grant Income has been restated to detail material revenue grants not disclosed within the 2010/11 accounting statements.

NOTE 37 - GRANT INCOME 2010/11

	2010/11 Statement	Adjustments Made	Restated 2010/11 Statement
	£'000	£'000	£'000

Credited to Services

Capital Grants funding REFCUS	(19,231)	0	(19,231)
Developers' Contributions (capital) funding REFCUS	(2,064)	0	(2,064)
Developers' Contributions (revenue)	(2,086)	0	(2,086)
Standards Fund	(3,632)	(40,247)	(43,879)
PFI Credits	0	(11,828)	(11,828)
Learning Skills Council Post 16 schools	0	(14,672)	(14,672)
Other revenue grants	(1,725)	(50,126)	(51,851)
Total Credited to Services	(28,738)	(116,872)	(145,610)

Total Grant Income in Comprehensive Income & Expenditure Account	(184,258)	(116,873)	(301,131)
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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 £2 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 practicable. 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

Previous Year Items

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.

Current Year Items

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	TOTAL AUTHORITY RESERVES
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account									
<u>Reversal of items debited or credited to the Comprehensive I&E</u>									
Charges for depreciation and impairment of non current assets	26,995	0	1,758	13,021	0	0	41,774	(41,774)	0
Revaluation losses on PPE (charged to SDPS)	4,300	0	(7,782)	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
Amortisation of intangible assets	1,270	0	0	0	0	0	1,270	(1,270)	0
Capital grants and contributions applied	(101,402)	0	(1,827)	0	0	(19,756)	(122,985)	122,985	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	43,017	0	3,353	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	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	(236,199)	236,199	0
<u>Inclusion of items not debited or credited to the Comprehensive Income & Expenditure Statement</u>									
Statutory provision for the financing of capital investment	(8,877)	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	(4,862)	4,862	0
Adjustments involving the Capital Receipts Reserve									
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
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(7,462)	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
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
Unattached capital receipts	(16)	0	(4,177)	0	4,193	0	0	0	0
Deferred Capital Receipts	0	0	0	0	85	0	85	(85)	0
Adjustment involving the Major Repairs Reserve									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(11,382)	0	0	(11,382)	11,382	0
Adjustments involving the Financial Instruments Adjustment Account									
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	101	0	(175)	0	0	0	(74)	74	0
Adjustment involving the Pensions Reserve									
Reversal of items relating to retirement benefits debited or credited to the CIES	31,546	0	713	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	(34,639)	34,639	0
Adjustments involving the Collection Fund Adjustment Account									
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	3,130	(3,130)	0
Adjustments involving the Unequal Pay Back Pay Adjustment Account									
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
<u>Other adjustments include</u>									
Adjustments involving the Capital Grants Unapplied Account									
Capital grants and contributions unapplied credited to CIES when receivable	(46,873)	0	(3,289)	0	0	50,162	0	0	0
Adjustment between the Capital Adjustment Account and the Revaluation Reserve									
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0
Transfers from General Fund (as directed by Secretary of State)									
	0	0	0	0	0	0	0	0	0
Adjustments involving the Accumulated Absences Account									
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,063)	0	0	0	0	0	(1,063)	1,063	0
Total Adjustments	52,225	0	(7,541)	(1,382)	3,183	30,406	(166,866)	166,866	0

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	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account									
<u>Reversal of items debited or credited to the Comprehensive I&E</u>									
Charges for depreciation and impairment of non current assets	23,829	0	1,477	12,913	0	0	38,219	(38,219)	0
Revaluation losses on PPE (charged to SDPS)	1,210	0	293,654	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
Amortisation of intangible assets	836	0	0	0	0	0	836	(836)	0
Capital grants and contributions applied	(74,541)	0	(5,989)	0	0	(21,918)	(102,448)	102,448	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	24,646	0	7,676	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	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	(7,373)	7,373	0
Capital expenditure charged against the General Fund and HRA balances	(6,851)	0	(335)	0	0	0	(7,186)	7,186	0
Adjustments involving the Capital Receipts Reserve									
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
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(5,792)	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
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
Unattached capital receipts	(214)	0	(236)	0	450	0	0	0	0
Deferred Capital Receipts	0	0	(19)	0	76	0	57	(57)	0
Adjustment involving the Major Repairs Reserve									
Reversal of Major Repairs Allowance credited to the HRA	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	(7,641)	7,641	0
Adjustments involving the Financial Instruments Adjustment									
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	(121)	121	0
Adjustment involving the Pensions Reserve									
Reversal of items relating to retirement benefits debited or credited to the CIES	(78,795)	0	(6,416)	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	(36,059)	36,059	0
Adjustments involving the Collection Fund Adjustment Account									
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	748	(748)	0
Adjustments involving the Unequal Pay Back Pay									
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
<u>Other adjustments include</u>									
Adjustments involving the Capital Grants Unapplied Account									
Capital grants and contributions unapplied credited to CIES	(20,269)	0	(4,900)	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
Adjustment between the Capital Adjustment Account and the									
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0
Transfers from General Fund (as directed by Secretary of	(406)	0	406	0	0	0	0	0	0
Adjustments involving the Accumulated Absences Account									
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	211	0	0	0	0	0	211	(211)	0
Total Adjustments	(162,168)	0	291,267	5,272	8,114	3,251	145,736	(145,736)	0

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
GENERAL FUND							
General Fund Reserve	27,134	(3,754)	0	23,380	0	3,000	26,380
EARMARKED RESERVES							
Corporate							
1 Improvement & Efficiency	11,296	(5,444)	1,181	7,033	(66)	4,529	11,496
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
Service Specific							
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
Revenue Reserves - Other							
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
Capital Reserves							
22 Capital Programme (General Fund)	13,353	(1,290)	4,700	16,763	(151)	4,288	20,900
Earmarked Reserve Total	117,033	(22,175)	27,282	122,140	(13,105)	29,258	138,293
Total Usable Reserve Total	144,167	(25,929)	27,282	145,520	(13,105)	32,258	164,673

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 earmarked 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
Levies		
257	- Lee Valley Regional Park Authority	263
168	- Environment Agency	175
1,297	- London Pensions Fund Authority	1,300
1,722	Total Levies	1,738
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)
18,202	Total	130,450

10 Financing and Investment Income and Expenditure

2010/11 £'000		2011/12 £'000
28,505	Interest payable and similar charges	26,926
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)
46,623	Total	108,193

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)
(435,698)	Total	(747,110)

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
Cost or Valuation									
At 1 April 2011	789,321	1,182,639	20,917	126,064	49,602	11,664	616	2,180,823	295,002
Additions	28,262	81,186	1,395	6,825	520	0	769	118,957	19,785
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(12,913)	9,679	0	0	0	(140)	0	(3,374)	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	8,316	(4,834)	0	0	0	0	0	3,482	0
Derecognition - Disposals	(568)	(141,327)	(32)	0	0	(1,570)	0	(143,497)	0
Derecognition - Other	0	(6,510)	0	(281)	0	0	0	(6,791)	0
Assets Reclassified (to)/from Held for Sale	0	0	0	0	0	(945)	0	(945)	0
Other Reclassification of Assets	0	(1,430)	0	0	0	1,430	0	0	0
At 31 March 2012	812,418	1,119,403	22,280	132,608	50,122	10,439	1,385	2,148,655	314,787
Accumulated Depreciation and Impairment									
At 1 April 2011	151,412	90,733	12,692	28,978	0	455	0	284,270	18,595
Depreciation charge	13,021	23,406	2,175	3,188	0	183	0	41,973	6,014
Depreciation written out to the Revaluation Reserve	(12,913)	(4,097)	0	0	0	(65)	0	(17,075)	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
Derecognition - Disposals	0	(10,402)	(26)	0	0	(138)	0	(10,566)	0
Derecognition - Other	0	(397)	0	(55)	0	0	0	(452)	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	0	(111)	0	0	0	111	0	0	0
At 31 March 2012	151,520	99,132	14,841	32,111	0	546	0	298,150	24,609
Net Book Value									
At 31 March 2012	660,898	1,020,271	7,439	100,497	50,122	9,893	1,385	1,850,505	290,178
At 31 March 2011	637,909	1,091,906	8,225	97,086	49,602	11,209	616	1,896,553	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
Cost or Valuation									
At 1 April 2010	1,071,840	1,112,540	14,147	117,188	48,410	4,270	0	2,368,395	282,267
Additions	29,714	72,277	2,506	8,876	1,612	0	616	115,601	7,822
Donations	0	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(12,586)	29,897	0	0	0	500	0	17,811	(64)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(283,172)	(11,690)	0	0	0	0	0	(294,862)	0
Derecognition - Disposals	(16,805)	(2,745)	0	0	0	(2,356)	0	(21,906)	0
Derecognition - Other ³	0	(8,639)	(134)	0	(420)	0	0	(9,193)	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other reclassification of assets	330	(9,580)	0	0	0	9,250	0	0	0
Other Movements in Cost or Valuation ¹	0	579	4,398	0	0	0	0	4,977	4,977
At 31 March 2011	789,321	1,182,639	20,917	126,064	49,602	11,664	616	2,180,823	295,002
Accumulated Depreciation and Impairment									
At 1 April 2010	151,056	72,210	9,691	26,018	0	0	0	258,975	11,346
Depreciation charge	12,913	20,743	1,717	2,960	0	83	0	38,416	5,847
Depreciation written out to the Revaluation Reserve	(12,587)	(1,364)	0	0	0	0	0	(13,951)	(214)
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
Derecognition - Disposals	0	(198)	0	0	0	(141)	0	(339)	0
Derecognition - Other ³	0	(329)	(118)	0	0	0	0	(447)	0
Reclassification of Assets	30	(543)	0	0	0	513	0	0	0
Other movements in Depreciation and Impairment ¹	0	214	1,402	0	0	0	0	1,616	1,616
At 31 March 2011	151,412	90,733	12,692	28,978	0	455	0	284,270	18,595
Net Book Value									
At 31st March 2011	637,909	1,091,906	8,225	97,086	49,602	11,209	616	1,896,553	276,407
At 1st April 2010	920,784	1,040,330	4,456	91,170	48,410	4,270	0	2,109,420	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 £46.119 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
TOTAL	77.688	31.569	46.119	

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
Value at 31 March 2012	660,898	1,020,271	7,439	100,497	50,122	9,893	1,385	1,850,505

13 LONG TERM DEBTORS

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

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
Software licences	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
Financial Liabilities						
Borrowings at amortised cost	325,533	90,479	34,803	1,475	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
Total Liabilities	366,623	130,778	103,756	72,414	470,379	203,192
Financial Assets						
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
Total Financial Assets	0	0	255,634	269,150	255,634	269,150

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.
5. In addition to the above financial liabilities, the Council has contingent liabilities for warranties provided to landlords. Details are outlined in note 45 to the accounts. The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations.

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	26,926	0
Interest income	0	1,697	0	2,838
TOTAL INTEREST AND INVESTMENT INCOME	28,505	1,697	26,926	2,838

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
Financial Liabilities	470,378	539,978	203,192	206,299

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
Financial Assets	255,634	255,750	269,150	269,973

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%
TOTAL	237,492	0%	0%	0%

	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%
TOTAL	257,886	0%	0%	0%

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
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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
TOTAL	402,107	133,044
Less than 1 year	35,370	2,266
Between 1 and 2 years	76,871	4,846
Between 2 and 5 years	60,789	13,340
Between 5 and 10 years	114,229	28,680
More than 10 years	114,848	83,912
TOTAL	402,107	133,044

In the more than 10 years category, there are £77.5 million of Lender's Option, Borrower's Option (LOBO) market loans, of which £64.5 million have call dates in the next 12 months, with the remaining £13 million having the first call date within 5 years. 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)
Impact on Income and Expenditure Account	(401)	258

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
Impact on Income and Expenditure Account	43,439	1,836

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
Total	353	130

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
Balance outstanding at start of year	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)
Balance outstanding at year-end	17	19	804	498	821	517

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
Total	90,431	74,557

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
Total Cash and Cash Equivalents	136,563	126,283

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
Value at 1st April	0	0	0	0
Assets newly classified as held for sale:				
Property, Plant and Equipment	0	945	0	0
Value at 31st March	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
Total	130,688	146,245

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
TOTAL	5,210	(4,861)	4,924	5,273	(4,955)	4,631	4,949

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
TOTAL	10,213	(551)	2,352	12,014	(2,589)	3,663	13,088

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 Governments 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.
- (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)
241	Deferred Capital Receipts	156
1,077,098	Total Unusable Reserves	1,141,432

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	Balance at 1 April	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)
533,521	Balance at 31 March	497,733

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
1,105,580	Balance at 1 April	852,406
	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
852,406	Balance at 31 March	1,068,459

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	Balance at 1 April	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
885	Balance at 31 March	959

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)	Balance at 1 April	(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
(308,690)	Balance at 31 March	(422,546)

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	Balance at 1 April	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)
3,154	Balance at 31 March	24

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)	Balance at 1 April	(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
(4,418)	Balance at 31 March	(3,355)

Deferred Capital Receipts

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2010/11 £'000		2011/12 £'000
298	Balance at 1 April	241
(57)	Transfer to the Capital Receipts Reserve upon receipt of cash	(85)
241	Balance at 31 March	156

Deferred Capital Receipts were shown as Usable Reserve in 2010/11 published accounts. As per CIPFA Guidance note it is an unusable reserve, therefore it is been disclosed as unusable reserve in 2011/12 accounts.

26a NOTE A TO THE CASH FLOW STATEMENT

2010/11 £'000		2011/12 £'000
(127,743)	Net Surplus or (Deficit) on the Provision of Services	221,247
	<u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u>	
38,022	Depreciation	41,772
293,779	Impairment and downward valuations	(3,481)
836	Amortisation	1,270
120	Adjustments for effective interest rates	175
241	Increase/Decrease in Interest Creditors	(1,895)
29,932	Increase/Decrease in Creditors	15,936
(111)	Increase/Decrease in Interest and Dividend Debtors	(920)
(1,157)	Increase/Decrease in Debtors	13,791
(290)	Increase/Decrease in Inventories	304
(121,270)	Pension Liability	(2,380)
1,653	Contributions to/(from) Provisions	1,812
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
272,277		204,593
	<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>	
(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)
(119,569)		(163,976)
24,965	Net cash flows from operating activities	261,864

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	1,918
(28,144)	Interest paid	(28,544)
(26,558)		(26,626)

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	(30,452)
(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	140,966
(13,002)	Net cash flows from investing activities	(3,577)

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
(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	(268,382)
42,900	Net cash flows from financing activities	(268,567)

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	2,258	2,356	98	2,183	2,352	169	(75)
TOTAL TRADING ACCOUNTS	2,258	2,356	98	2,183	2,352	169	(75)

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
Income			
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
Expenditure	1,794	2,985	3,460
Surplus/(Deficit) for the year	(168)	(60)	150

2010/11	ICES £'000	LDSA £'000	OTS £'000	DCTP* £'000
Income				
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
Expenditure	1,880	2,913	3,338	5,024
Surplus/Deficit for the year	0	12	273	0

* 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
Total	889	938

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
Corporate Directors						
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
	977,109	400	0	151,081	0	1,128,590

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
Total Chief Executive	211,569	0	0	31,669	0	243,238
Corporate Directors						
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
	1,004,457	0	0	145,253	6,166	1,155,876

* 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
	532	(18)	407	(173)	939	475	(8)	298	(58)	773

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	480	462
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	12
Total	593	570

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 2011/12 agreed in advance	0	0	0
D Agreed budgeted distribution in 2010/11	22,075	229,067	251,142
E Actual central expenditure	(20,967)	0	(20,967)
F Actual ISB deployed to schools	0	(229,067)	(229,067)
G Council contribution for 2010/11	0	0	0
H Carry forward to 2011/12	1,108	0	1,108

- A DSG figure as issued by the Department for Children Schools and Families (DCSF) on 25 June 2010.
- B Figure brought forward from 2009/10 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 2010/11 which substituted for DSG in funding the Schools Budget.
- H Carry forward to 2011/12.

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
D Agreed initial budgeted distribution in 2011/12	28,121	268,140	296,261
E In-year adjustments	(2,372)	2,372	0
F Final budget distribution for 2011/12	25,749	270,512	296,261
G Actual central expenditure	(19,834)	0	(19,834)
H Actual ISB deployed to schools	0	(270,512)	(270,512)
I Council contribution for 2011/12	0	0	0
J Carry forward to 2012/13	5,915	0	5,915

- 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 Restated*	2011/12
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Non-Ringfenced Government Grants		
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)
Total Non-Ringfenced Government Grants	(71,496)	(64,780)
Capital Grants and Contributions		
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)
Total Capital Grants and Contributions	(84,024)	(116,247)
Credited to Services		
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	(43,879)	(2,332)
PFI Credits	(11,828)	(10,104)
Learning Skills Council Post 16 schools	(14,672)	(15,124)
Early Intervention Grant	0	(20,734)
Other revenue grants	(51,851)	(19,640)
Total Credited to Services	(145,611)	(106,903)
Total Grant Income in Comprehensive Income & Expenditure Account	(301,131)	(287,930)

In the 2010/11 published accounts the following revenue grants credited to services were not disclosed in Grant Income Note 36 of 2010/11: Standards fund £40.2m, Child care partnership £16.7m, Special Education Grant £11.5m, PFI Credits £11.8m, Learning and Skills Council Post 16 Schools £14.7m and other Revenue Grant £21.9m. Total Revenue Grant credited to services was £145.6m

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	31 March 2012
	£'000	£'000
Capital Grants Receipts in Advance		
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
Total	90,474	72,255

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.

38 RELATED PARTIES (continued)

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-Isharah At Rich Mix	R MA Saunders	Council Representative			
Bethnal Green Museum of Childhood	D Jones	Council Rep			
Bethnal Green Technology College	K Ahmed	School Governor (in 2010/11 only)	15		
Bishop Challoner Catholic Collegiate School	A Asad	Member	46	78	
Bromley By Bow Centre	R MA Saunders	Council Representative	1,005	456	31
	H Uddin	Employee			
Chisenhale Gallery	J J Peck	Independent Board Member (in 2010/11 only)	31		
Citizens Advice Bureau	C Gibbs	Person in household board member in a private capacity	288	247	
	A Whitelock	Trustee			
Collective of Bangladeshi School Governors	M Mukit	Executive Committee Member (in 2010/11 only)	27		
	S Islam	Member (in 2010/11 only)			
Collingwood Tenants And Residents Assoc	R MA Saunders	Husband - Chris Weavers, is a Member of both			
Cultural Industries Development Agency	D Jones	Council Representative	30		
Eastside Books Ltd	D Jones	Director of bookshop that supplies books to LBTH schools			
East End Homes	H Uddin	Board Member	763	925	20
	M Uz-Zaman	Board Member			
Greater London Authority	E E Davis	Previously an Employee of this Org until Nov 2011			
Greater London Enterprise Board	C Gibbs	Council Representative (10/11)	17		
Greenwich & Docklands Festivals	J J Peck	Council Representative		30	
Half Moon Young Peoples Theatre	R MA Saunders	Board Member		48	
Ian Mikardo High School	R MA Saunders	Husband - Chris Weavers, is the Head General		65	
Island Football Club	M Miah	Chair of Island FC which is a project of Island Neighbourhood		22	
Island Homes Housing Association	M Miah	Resident Board Member - receives a monthly allowance			
Island Neighbourhood Project	M Miah	Community Development Worker - Employee			
Isle of Dogs Community Foundation	D J Edgar	Council Representative	826	807	
	T J Archer	Trustee			
Jagonari	L Pavitt	Council Representative		47	
Kingsley Hall Community Centre	R Khan	Trustee			
Kobi Nazrul Centre	Z Rahman	Board Member - Voluntary (in 2010/11 only)	15		
Leaside Regeneration Ltd	D J Edgar	Council Representative		15	
Moat Homes Ltd	C Harper-Penman	Director of Communications and Public Affairs			
Ocean Regeneration Trust	R U Ahmed	Cabinet Member		100	
Oxford House In Bethnal Green	S Islam	Board Member		33	
Poplar Harca	K U Ahmed	Board Member	2,264	1,884	86
	K Uddin	Services Board			
Princes Trust	A T Jackson	Council Representative (in 2010/11 only)	55		
Rich Mix Cultural Foundation	R MA Saunders	Council Representative	45		
Solander Gardens Community & Education	H Miah	Secretary			
Spitalfields Housing Association Ltd	M Mukit	Board Member			
Sports Network Council	M Mukit	Executive Committee Member (in 2010/11 only)	23		
T H Primary Care Trust	D Jones	Appointed as a non-executive member by NHS Appointments (2010/	1,479		
The London Thames Gateway	K Uddin	Council Rep		62	
The Moat School	C Harper-Penman	Director of Communications and Public Affairs		32	
Tower Hamlets Community Housing	H U Abbas	Council Representative	243	238	27
	S Islam	Council Representative			
	C Gibbs	Council Representative		52	
	T J Archer	Finance and Development Committee Member			
Tower Hamlets Community Transport Ltd	A Asad	Council Representative		56	
Tower Hamlets Council Of Mosques	A Ullah	Executive Committee Member	109	63	
Tower Hamlets Homes	K Ahmed	Council Representative & Chair			
Tower Hamlets Law Centre	L Rahman (Mayor)	Member	247		
Tower Hamlets Sports Council	A M O Ahmed	Council Representative			
	K Ahmed	Council Representative			
	E E Davis	Council Representative			
	L Pavitt	Council Representative			
	D Snowdon	Council Representative			
Visit London	D Jones	Was Seconded from London Councils (in 2010/11 only)	28		
Wapping Bangladesh Association	S Haque	Council Representative (in 2010/11 only)	28		
Women's Environmental Net Work	S Aktar	Trustee - Board Member (in 2010/11 only)	17		

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
Adults Health and Wellbeing				
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
Children Schools and Families				
Not later than one year	292	470	223	740
Later than one year and not later than five years	848	470	643	592
Later than five years	982	0	682	0
Communities Localities and Culture				
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
Development and Renewal				
Not later than one year	6,110	178	6,384	177
Later than one year and not later than five years	22,363	0	7,504	0
Later than five years	9,120	0	1,592	0
Total				
Not later than one year	6,550	994	6,771	1,528
Later than one year and not later than five years	23,801	1,259	8,801	2,533
Later than five years	12,341	105	4,593	1,300
	42,692	2,358	20,165	5,361

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
Adults Social Care				
Minimum Lease Payments	148	0	164	0
Highways & Transport				
Minimum Lease Payments	0	628	0	755
Children's and Education Services				
Minimum Lease Payments	312	677	223	895
Development and Renewal				
Minimum Lease Payments	6,120	442	6,384	314
Total				
Minimum Lease Payments	6,580	1,747	6,771	1,964

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)	(3,029)
Later than one year and not later than five years	(5,808)	(10,796)
Later than five years	(10,823)	(19,692)
	(18,315)	(33,517)

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
Asset value at 31 March 2011	46,778	226,320	3,308	276,406
Depreciation	(995)	(4,815)	(203)	(6,014)
Revaluations	0	0	0	0
Enhancements	1,462	18,323	0	19,785
Asset value at 31 March 2012	47,245	239,828	3,105	290,178

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liabilities at 31 March 2011	7,269	31,340	3,163	41,772
Repayments	(146)	(338)	(198)	(682)
Liabilities at 31 March 2012	7,123	31,002	2,965	41,090
Consisting of:				
Long term liability	6,935	30,597	2,767	40,299
Short-term liability	188	405	198	791
Liability value at 31 March 2012	7,123	31,002	2,965	41,090

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liability				
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
	7,123	31,002	2,965	41,090
Interest				
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
	8,755	56,646	0	65,401
Service Charges				
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
	11,448	43,687	0	55,135

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
Comprehensive Income and Expenditure Account						
Net Cost of Services						
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
Net Operating Expenditure						
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)
Net Charge to the Comprehensive Income and Expenditure Account	(81,838)	31,402	(3,373)	857	(85,211)	32,259
Movement in Reserves Statement - General Fund Balance						
Reversal of net charges made for retirement benefits in accordance with IAS 19	81,838	(31,402)	3,373	(857)	85,211	(32,259)
Actual amount charged against the General Fund Balance for pensions in the year	35,119	33,729	940	910	36,059	34,639

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 2010/11 expected return on assets in the scheme included 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)
31st March	(1,042,983)	(1,214,784)	(54,168)	(59,245)	(1,097,151)	(1,274,029)

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)
31st March	740,326	803,077	48,135	48,405	788,461	851,482

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	2008/09	2009/10	2010/11	2011/12
	£'000	£'000	£'000	£'000	£'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)	(67,502)	(54,168)	(59,245)
Fair value of assets					
The Council	661,906	555,794	796,161	740,326	803,077
LPFA	41,758	36,592	39,386	48,135	48,405
Deficit in the scheme					
The Council	(175,945)	(260,106)	(661,807)	(302,657)	(411,707)
LPFA	(7,081)	(10,459)	(28,116)	(6,033)	(10,840)
Total deficit in the schemes	(183,026)	(270,565)	(689,923)	(308,690)	(422,547)

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
	%	%	%	%	%
The Council					
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
London Pensions Fund Authority					
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

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting 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 revaluation losses and revenue expenditure funded from capital under statute (REFCUS) 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	(10,865)	(7,319)	(77,534)	(53,211)	(63,083)	(38,434)	1,264	(79,137)	(328,319)
Government grants	(4,950)	0	(352,008)	(4,629)	(1,863)	(284,395)	(1,264)	(11,552)	(660,661)
TOTAL INCOME	(15,815)	(7,319)	(429,542)	(57,840)	(64,946)	(322,829)	0	(90,689)	(988,980)
Employee expenses	27,680	8,468	336,060	33,416	22,142	48,573	(10,385)	2,225	468,179
Other service expenses	86,191	5,010	159,541	76,096	60,431	231,223	9,112	53,030	680,634
Support service recharges	4,580	5,218	23,557	19,330	5,374	57,080	0	34,644	149,783
TOTAL EXPENDITURE	118,451	18,696	519,158	128,842	87,947	336,876	(1,273)	89,899	1,298,596
NET EXPENDITURE	102,636	11,377	89,616	71,002	23,001	14,047	(1,273)	(790)	309,616

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
Net expenditure in the Directorate Analysis	309,616
Net expenditure of services and support services not included in the Analysis	8,758
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(6,572)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(24,582)
COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT	287,220

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	Services &	Amounts not	Amounts not	Cost of	Corporate	TOTAL
	analysis	support	reported to	included in	services	amounts	
	£'000	in analysis	Management	I&E	£'000	£'000	£'000
		£'000	for Decision	£'000			
			Making				
			£'000				
Fees, charges and other service income	(328,319)	90,014	(42,149)	282	(280,172)		(280,172)
Interest and investment income	0	0	0	0	0	(2,838)	(2,838)
Unattached capital receipts	0	0	0	0	0	(4,193)	(4,193)
Government grants and contributions - service specific	(660,661)	0	(1,264)	0	(661,925)	0	(661,925)
Income from Council tax	0	0	0	0	0	(78,161)	(78,161)
Government grants and contributions - non-service specific	0	0	0	0	0	(64,780)	(64,780)
Distribution from non-domestic rates pool	0	0	0	0	0	(175,443)	(175,443)
Capital Grants and Contributions	0	0	0	0	0	(116,247)	(116,247)
HRA Settlement Determination (including premia)	0	0	0	0	0	(312,479)	(312,479)
(Surplus)/Deficit on Trading Activities	0	0	0	0	0	(179)	(179)
TOTAL INCOME	(988,980)	90,014	(43,413)	282	(942,097)	(754,320)	(1,696,417)
Employee expenses	468,179	0	(1,085)	0	467,094	0	467,094
Other service expenses	680,634	1,754	41,408	(24,864)	698,932	0	698,932
Support service recharges	149,783	(83,010)	0	0	66,773	0	66,773
Depreciation, amortisation and impairment	0	0	(3,482)	0	(3,482)	0	(3,482)
Interest payments	0	0	0	0	0	26,926	26,926
Precepts and levies	0	0	0	0	0	1,738	1,738
Payments to Housing Capital Receipts Pool	0	0	0	0	0	24	24
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	132,881	132,881
Pensions interest costs and expected return on pensions assets	0	0	0	0	0	8,004	8,004
HRA Settlement Determination (including premia)	0	0	0	0	0	76,280	76,280
(Surplus)/Deficit on Trading Activities	0	0	0	0	0	0	0
TOTAL EXPENDITURE	1,298,596	(81,256)	36,841	(24,864)	1,229,317	245,853	1,475,170
SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	309,616	8,758	(6,572)	(24,582)	287,220	(508,467)	(221,247)

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 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 revaluation losses and revenue expenditure funded from capital under statute (REFCUS) 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
- 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)	(269,730)
Government grants	(2,154)	92	(350,941)	(6,037)	(2,241)	(267,797)	(2,517)	(14,535)	(646,130)
TOTAL INCOME	(19,792)	(10,499)	(449,521)	(59,001)	(64,643)	(346,747)	133,951	(99,608)	(915,861)
Employee expenses	30,814	10,794	343,811	39,491	25,406	34,145	21,795	1,954	508,209
Other service expenses	89,745	12,128	181,221	77,990	53,749	275,234	(141,524)	60,569	609,113
Support service recharges	4,258	5,708	24,860	20,402	5,262	53,366	(77)	38,420	152,200
TOTAL EXPENDITURE	124,817	28,629	549,893	137,884	84,417	362,745	(119,805)	100,943	1,269,523
NET EXPENDITURE	105,025	18,130	100,372	78,883	19,774	15,999	14,145	1,334	353,662

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
Net expenditure in the Directorate Analysis	353,662
Net expenditure of services and support services not included in the Analysis	293,088
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(151,389)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	3,255
COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT	498,616

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)
TOTAL INCOME	(915,861)	41,864	(157,901)	0	(1,031,898)	(437,845)	(1,469,743)
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)
TOTAL EXPENDITURE	1,269,523	251,224	6,512	3,255	1,530,514	66,972	1,597,486
SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	353,662	293,088	(151,389)	3,255	498,616	(370,873)	127,743

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 history.

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 council has held these assets for a number of years. It was not practicable or cost effective to obtain valuations prior to 2010.

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 £'000	2010/11 Acquisitions £'000	2010/11 Disposals £'000	Balance at 31/3/2011 £'000	2011/12 Acquisitions £'000	2011/12 Disposal £'000	Balance at 31/3/2012 £'000
Value of Heritage Assets held by Council							
(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
TOTAL HERITAGE ASSETS	4,799	0	0	4,799	0	0	4,799

(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 Sheet does not include all Trust Fund assets and liabilities and so does not comply fully with relevant accounting standards, although the amounts involved are not material.

	Balance at 1/4/2010	2010/11 Expenditure	2010/11 Income	Balance at 31/3/2011	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 - sui	159	126	86	119	442	2,652	2,329
(d) Tower Hamlets Further Education	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
TOTAL TRUST FUNDS	1,793	573	480	1,700	955	3,358	4,103

- (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
- (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
EXPENDITURE			
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
Sums directed by the Secretary of State that are expenditure in accordance with the Code		7,676	3,353
TOTAL EXPENDITURE		375,395	66,921
INCOME			
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
TOTAL INCOME		89,701	90,718
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT		285,694	(23,797)
HRA services share of Corporate and Democratic Core		175	157
NET COST OF HRA SERVICES		285,869	(23,640)
HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account			
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	12	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
DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES		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			190		(1,790)
Transfers to or (from) reserves			0		1,000
Balance on the Statutory HRA Carried Forward			(12,788)		(13,578)

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
Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year				
Revenue expenditure funded from capital under statute	(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
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year				
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
Net additional amount required by statute to be credited to the HRA Balance for the year		(291,266)		254,321

2 HOUSING STOCK

The type and number of dwellings in the Council's housing stock at 31st 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
TOTAL AT 31st MARCH	12,509	12,518

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
TOTAL	697,074	718,561

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 st 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 st March 2011	637,909	57,970	1,195	697,074
Additions, disposals, transfers and revaluations	22,989	(1,219)	(283)	21,487
TOTAL VALUE AT 31st MARCH 2012	660,898	56,751	912	718,561

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
Balance at 1st April	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)
Balance at 31st March	6,346	7,985

5 CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	2010/11			2011/12		
	Dwellings £'000	Other £'000	Total £'000	Dwellings £'000	Other £'000	Total £'000
Expenditure	29,551	7,676	37,227	28,262	3,353	31,615
Sources of finance						
Borrowing	8,718	7,676	16,394	12,500		12,500
Capital Receipts	2,609		2,609	1,986		1,986
Capital Grants and Contributions	10,248		10,248	2,965		2,965
Major Repairs Reserve	7,641		7,641	8,029	3,353	11,382
Direct Revenue Financing	335		335	2,782		2,782
TOTAL CAPITAL FINANCING	29,551	7,676	37,227	28,262	3,353	31,615

(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
TOTAL CAPITAL RECEIPTS	10,141	5,487

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
TOTAL DEPRECIATION	14,390	14,778

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
Net Cost of Services						
Current service costs	19	1	4	8	23	9
Net Operating Expenditure						
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
Net Charge to the Income and Expenditure Account	8,640	693	52	20	8,692	713
Statement of Movement in the HRA Balance						
Reversal of net charges made for retirement benefits in accordance with IAS19	(8,640)	(693)	(52)	(20)	(8,692)	(713)
Employer's contribution to scheme	1,897	2,447	3	7	1,900	2,454

8 RENT ARREARS

	2010/11 £'000	2011/12 £'000
Gross rent arrears at 31 st 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. No 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)
TOTAL HOUSING REVENUE ACCOUNT SUBSIDY	14,129	11,552

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
INCOME					
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		260,880		259,953
Business Rate Supplement			12,582		12,006
Reduction in provision for bad debts	5		0		0
TOTAL INCOME			<u>378,398</u>		<u>379,734</u>
EXPENDITURE					
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		259,920		259,007	
Cost of collection allowance		<u>960</u>	260,880	<u>946</u>	259,953
Business Rate Supplement					
Payment to Greater London Authority		12,515		11,973	
Cost of collection allowance		<u>67</u>	12,582	<u>33</u>	12,006
Increase in provision for bad debts	6		433		2,268
TOTAL EXPENDITURE			<u>379,408</u>		<u>383,954</u>
INCREASE/(DECREASE) IN FUND BALANCE			(1,010)		(4,220)
COLLECTION FUND BALANCE					
Balance at the beginning of the year			5,263		4,253
(Deficit)/Surplus for the year			(1,010)		(4,220)
BALANCE AT END OF YEAR	1		4,253		33

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
Total	107,175	86,951	109,357	91,668

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
TOTAL	1,195.34	100,818	1,195.34	106,286	0	0.00

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

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

From 2010-11 onwards, the total amount, less certain reliefs and other deductions, is paid to the Greater London Authority on whose behalf it is collected. Under these arrangements, the amounts included in these accounts are analysed as follows:

2010/11 £'000		2011/12 £'000
13,674	Non Domestic Rates Due	13,446
	Less Allowances and Other Adjustments	
687	Mandatory & Discretionary Relief	656
759	Provision for Bad Debts	784
67	Cost of Collection	33
15,187	Collectable from Business Rate Supplement Payers	11,973

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

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 on behalf of the Council.

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	4	4
Housing tenants and leasehold	3	3
Independent	3	3
Total	10	10

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 2012 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		
		GENERAL FUND BALANCE £'000	EARMARKED GENERAL FUND RESERVES* £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	INCOME EXPENDITURE RESERVE £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES £'000	TOTAL AUTHORITY RESERVES £'000
Balance as at 31 March 2010		27,133	104,054	12,978	1,074	16,310	16,499	456	178,504	931,108	1,109,612
<u>Movement in reserves during 2010/11</u>											
Surplus or (Deficit) on the Provision of Services		163,715	0	(291,458)	0	0	0	4,342	(123,401)	0	(123,401)
Other comprehensive expenditure and income		0	0	0	0	0	0	0	0	298,477	298,477
Total Comprehensive Expenditure and Income		163,715	0	(291,458)	0	0	0	4,342	(123,401)	298,477	175,076
Adjustments between accounting basis and funding basis under regulations		(162,168)	0	291,266	5,272	8,115	3,251	(4,307)	141,429	(145,734)	(4,305)
Net Increase or Decrease before Transfers to Earmarked Reserves		1,547	0	(192)	5,272	8,115	3,251	35	18,028	152,743	170,771
Transfers to or from earmarked reserves	Z	(1,042)	1,042	0	0	0	0	0	0	0	0
Transfers to or from school reserves		(4,258)	4,258	0	0	0	0	0	0	0	0
Increase or (Decrease) in Year		(3,753)	5,300	(192)	5,272	8,115	3,251	35	18,028	152,743	170,771
Balance as at 31 March 2011 carried forward		23,380	109,354	12,786	6,346	24,425	19,750	491	196,532	1,083,851	1,280,383
<u>Movement in reserves during 2011/12</u>											
Surplus or (Deficit) on the Provision of Services		(34,864)	0	256,111	0	0	0	2,221	223,468	0	223,468
Other comprehensive expenditure and income		0	0	0	0	0	0	0	0	(109,593)	(109,593)
Total Comprehensive Expenditure and Income		(34,864)	0	256,111	0	0	0	2,221	223,468	(109,593)	113,875
Adjustments between accounting basis and funding basis under regulations		52,225	0	(254,319)	1,639	3,183	30,406	(309)	(167,175)	167,177	0
Net Increase or Decrease before Transfers to Earmarked Reserves		17,361	0	1,792	1,639	3,183	30,406	1,912	56,293	57,584	113,875
Transfers to or from earmarked reserves	Z	(11,948)	11,948	0	0	0	0	0	0	0	0
Transfers to or from school reserves		(2,413)	2,413	0	0	0	0	0	0	0	0
Increase or (Decrease) in Year		3,000	14,361	1,792	1,639	3,183	30,406	1,912	56,293	57,584	113,875
80											
Balance as at 31 March 2012		26,380	123,715	14,578	7,985	27,608	50,156	2,403	252,825	1,141,433	1,394,258

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
Continuing Operations						
30,210	6,790	23,420	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	421,065	101,873	Children's and Education Services	529,192	437,468	91,724
49,154	9,293	39,861	Environment and Regulatory Services	41,568	9,471	32,097
30,251	19,449	10,802	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
34,535	14,990	19,545	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	15,227	250	14,977
1,531,150	1,036,998	494,152	NET COST OF SERVICES	1,228,103	942,097	286,006
		18,202	Other Operating Expenditure			130,450
		46,740	Financing and Investment Income and Expenditure			107,173
		(435,698)	Taxation and Non-Specific Grant Income			(747,110)
		5	Corporation Tax			13
		123,401	(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES			(223,468)
			Other Comprehensive Income and Expenditure			
		(31,761)	Surplus on revaluation of non-current assets			(13,701)
		(262,407)	Actuarial (gains) or losses on pension assets and liabilities			123,296
		(294,168)	OTHER COMPREHENSIVE INCOME AND EXPENDITURE			109,595
(170,767) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE						(113,873)

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
Long-term Assets			
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
2,115,541	1,902,657	Total Long-term assets	1,856,283
Current Assets			
40,818	100,929	Short-term investments	131,603
0	0	Assets held for sale	945
531	821	Inventories	517
88,663	89,925	Short-term debtors	74,269
82,723	139,371	Cash and cash equivalents	130,965
212,735	331,046	Total Current Assets	338,299
Current liabilities			
15,324	35,485	Short-term borrowing	2,266
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
117,918	173,555	Total Current liabilities	155,662
Long Term Liabilities			
10,213	12,014	Provisions	13,088
302,475	325,533	Long-term borrowing	90,479
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
1,100,746	779,767	Total Long-Term Liabilities	644,663
1,109,612	1,280,381	NET ASSETS	1,394,257
Reserves			
Usable Reserves			
27,134	23,380	General Fund	26,380
12,978	12,786	Housing Revenue Account	14,578
84,942	85,984	Earmarked reserves	97,932
19,111	23,370	Schools reserves	25,783
16,309	24,424	Capital receipts reserve	27,608
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
178,504	196,531	Total Usable Reserves	252,825
Unusable Reserves			
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)
298	241	Deferred capital receipts	156
931,108	1,083,850	Total Unusable Reserves	1,141,432
1,109,612	1,280,381	TOTAL RESERVES	1,394,257

GROUP CASH FLOW STATEMENT

2010/11		Notes	2011/12
£'000			£'000
(123,401)	Net surplus or (deficit) on the provision of services		223,468
269,859	Adjustments to net surplus or deficit on the provision of services for non cash movements	1	204,253
(119,569)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1	(163,976)
26,889	Net cash flows from Operating Activities		263,745
(13,141)	Investing Activities	3	(3,584)
42,900	Financing Activities	4	(268,567)
56,648	Net increase or decrease in cash and cash equivalents		(8,406)
82,723	Cash and cash equivalents at the beginning of the reporting period		139,371
139,371	Cash and cash equivalents at the end of the reporting period		130,965

NOTES TO THE GROUP ACCOUNTS

1 NOTE A TO THE CASH FLOW STATEMENT

2010/11 £'000		2011/12	
		£'000	£'000
(123,401)	Net Surplus or (Deficit) on the Provision of Services		223,468
	<u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u>		
38,119	Depreciation	41,865	
293,778	Impairment and downward valuations	(3,481)	
836	Amortisation	1,270	
120	Adjustments for effective interest rates	175	
241	Increase/Decrease in Interest Creditors	(1,895)	
31,176	Increase/Decrease in Creditors	16,029	
(111)	Increase/Decrease in Interest and Dividend Debtors	(920)	
(607)	Increase/Decrease in Debtors	13,573	
(290)	Increase/Decrease in Inventories	304	
(125,578)	Pension Liability	(2,688)	
1,653	Contributions to/(from) Provisions	1,812	
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	
269,859			204,253
	<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>		
(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)	
(119,569)			(163,976)
26,889	Net cash flows from operating activities		263,745

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	1,981
(28,144)	Interest paid	(28,544)
(26,539)		(26,563)

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	(30,452)
(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
144,739	Other receipts from investing activities	140,966
(13,141)	Net cash flows from investing activities	(3,584)

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	(682)
(8,013)	Repayments of short- and long-term borrowing	(268,382)
42,900	Net cash flows from financing activities	(268,567)

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
Total	(4,342)	(2,221)

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
FUND ACCOUNT			
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	39,659	37,325
From members	3	10,266	9,180
Transfers in			
Transfers in from other pension funds		7,704	5,507
Benefits			
Pensions	4	(29,407)	(32,129)
Lump sum benefits	4	(11,406)	(9,699)
Payments to and on account of leavers			
Refunds of contributions		(2)	(2)
State scheme premiums		(2)	(2)
Transfers in from other pension funds		(5,167)	(5,475)
Administrative expenses	14	(1,003)	(1,002)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		10,642	3,703
RETURN ON INVESTMENTS			
		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)
NET RETURN ON INVESTMENTS		49,024	11,482
Net increase in the Fund during the year		59,666	15,185
Add: Opening net assets of the scheme		752,501	812,167
CLOSING NET ASSETS OF THE SCHEME		812,167	827,352
NET ASSETS STATEMENT AS AT 31ST MARCH			
		2011 £'000	2012 £'000
Investments Assets			
Fixed interest securities			
Public sector		0	0
Other		0	0
Equities		180,091	177,932
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	813,411
Cash deposits	6	9,362	7,187
Other investment balances	5	1,096	1,270
Investments Liabilities			
Forward Foreign Exchange Contracts	10	(699)	(285)
Other investment balances	5	0	(443)
Current Assets	5	4,385	7,679
Current Liabilities	5	(1,308)	(1,467)
TOTAL NET ASSETS		812,167	827,352

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.
- (vii) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

(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 Rates used during the financial year ending the 31 March 2012 range from 15.8% to 44.1% of pensionable pay. The Council paid an agreed additional monetary contribution of £14m to recover the deficit. 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
Total members	10,266	9,180
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
Total employers	39,659	37,325
Total contributions	49,925	46,505

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
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)
Total Pensions and Benefits	(39,087)	(1,171)	(555)	(40,813)	(38,892)	(1,194)	(1,742)	(41,828)
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)
Total	(36,550)	(1,171)	(555)	(38,276)	(38,860)	(1,194)	(1,742)	(41,796)

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
Debtors		
Other Investment Balances		
Investment sales	0	0
Dividends receivable	656	841
Tax recoverable	440	429
Interest receivable	0	0
	<u>1,096</u>	<u>1,270</u>
Current Assets		
Contributions due from admitted bodies	22	31
London Borough of Tower Hamlets Pension Fund	4,363	69
	<u>4,385</u>	<u>100</u>
Total Debtors	5,481	1,370
Creditors		
Other Investment Balances		
Investment purchases	0	443
Current Liabilities		
Unpaid benefits	922	1,097
Administrative expenses	386	370
	<u>1,308</u>	<u>1,467</u>
Total Creditors	1,308	1,910
Net Debtors	4,173	(540)

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	12
Schroders: Property Portfolio	5,930	4,272
London Borough of Tower Hamlets Pension Fund	0	7,579
TOTAL CASH	9,362	14,766

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 which is due to be submitted to the Council's Pensions Committee on 15th November 2012.

9. MEMBERSHIP OF THE FUND

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

	2011	2012
London Borough of Tower Hamlets		
Active Members	5,219	4,780
Pensioners	3,779	3,892
Deferred Pensioners	5,338	5,756
Dependants	931	936
	15,267	15,364
Admitted & Scheduled Bodies		
Active Members	467	472
Pensioners	135	172
Deferred Pensioners	263	304
Dependants	2	4
	867	952

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
	798,632	101,549	(87,899)	844	813,126	46

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
UK Investment Assets					
Quoted	488,414	11,013	(8,072)	15,845	507,200
Unquoted	2	0	0	(2)	0
Overseas Investment Assets					
Quoted	310,623	90,821	(80,337)	(15,406)	305,701
Unquoted	(407)	(285)	510	407	225
	798,632	101,549	(87,899)	844	813,126

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
Net Position	2,286	(2,061)	225

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
			225

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
TOTAL	10,562	13,016

12 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.

12. 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).

13. ADMINISTRATIVE EXPENSES

	2010/11 £'000	2011/12 £'000
Investment Advice	170	115
Performance Measurement	15	16
Administration	883	847
Audit Fees	35	35
Other Fees	(100)	(11)
	1,003	1,002

14. 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 LBTH Pension Fund bank account and this is used to hold cash relating to member activities.

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets.

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
Total	149,486	156,302

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)
Total change in net assets available	156,302	1,563	(1,563)

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)
Total change in net assets available	149,486	1,495	(1,495)

14. 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
Total overseas assets	189,228	185,313

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2012 £'000	Change in year in net assets	
		+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
Total change in net assets available	185,313	203,659	166,967

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2011 £'000	Change in year in net assets	
		+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
Total change in net assets available	189,228	207,962	170,494

The percentage change in the year of 9.9% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

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 (+/-)
Asset Type	
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
Cash and cash equivalents	7,187	0.0%	7,187	7,187
Investment portfolio assets				
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)
Total assets available to pay benefits	821,140		922,705	719,575

14. 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
Cash and cash equivalents	9,362	0.0%	9,362	9,362
Investment portfolio assets				
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				
Total assets available to pay benefits	809,089		909,682	708,496

Refinancing risk

The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

15. 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	2011/12 £'000	2010/11 £'000	2011/12 £'000
Financial Assets				
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
Total Financial Assets	799,039	812,902	15,135	16,645
Financial Liabilities				
Payables	0	0	(1,308)	(1,910)
Financial liabilities at fair value through profit or loss	0	0	(699)	(285)
Total Financial Liabilities	0	0	(2,007)	(2,195)

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	177,932	0	0	177,932
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)
	827,127	224	0	827,351

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)
	812,574	(407)	0	812,167

16. INVESTMENT MANAGEMENT EXPENSES

	2010/11 £'000	2011/12 £'000
Payments to Managers	2,118	2,174

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.

17. RELATED PARTY TRANSACTIONS

The London Borough of Tower Hamlets Pension Fund is administered by The London Borough of Tower Hamlets.

In accordance with IAS24 'Related Party Disclosure', material transactions with related parties not disclosed elsewhere in the financial statements are detailed below.

The Council incurred costs of £850k (£868k 2010/11) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £15.3m (£14.0m 2010/11) to the Fund in respect of back funding. All monies owing to and from the Fund were paid in the year.

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

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 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 administering authority are as set out in the table below.

	2010/11 £'000	2011/12 £'000
Fund Administration Expenses		
Payroll / HR Support	790	772
Corporate Finance	78	78
	868	850

Key Management Personnel

	2010/11 £'000	2011/12 £'000
Key Management Personnel		
Short Term Employee Benefits	326	353
Post-employment Benefits	51	53

18. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st March 2012.

19. 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.

20. 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 31st March 2012 and its income and expenditure for the year.



Chris Naylor ACA IPFA MACantab
Corporate Director of Resources
28th June 2012

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 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

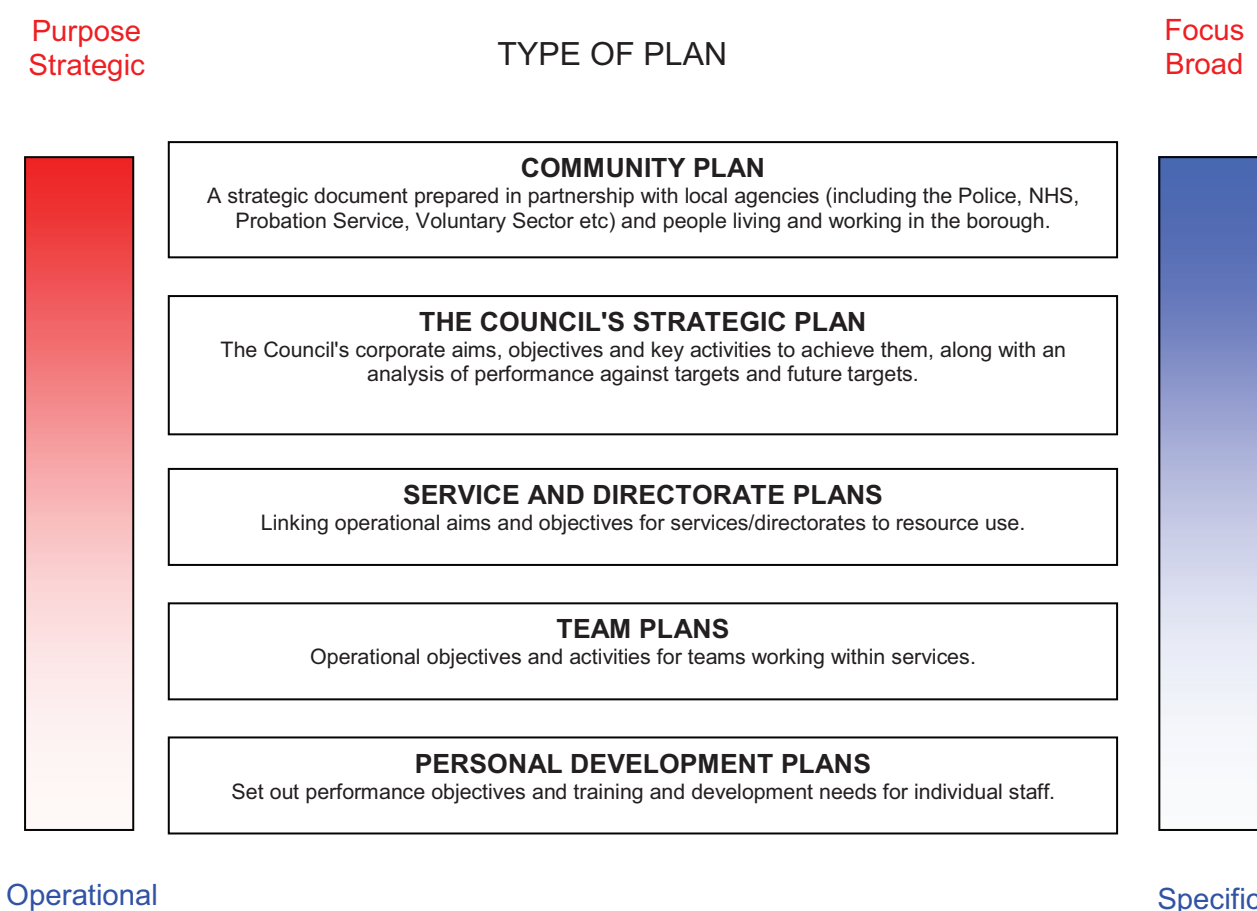
Over the last year, there has been significant consultation with local people to refresh the Community Plan through Local Strategic Partnership (LSP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people. An analysis of key messages from 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 identified one area where action is appropriate to enhance the control environment and ensure continuous improvement. The area is set out below.

Governance Issue	Action taken and next steps	CMT Lead
The annual external audit raised a number of queries relating to creditors and the year-end cut-off procedures.	Issues raised from the audit process have been reviewed and action taken to improve current arrangements as part of the implementation of the new finance system.	Corporate Director, Resources

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:

GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

FINANCIAL TERMS

Accounting period - The period of time covered by the Council's accounts. The Council's financial year is from the period 1st April to the following 31st March.

Accounting policies – The specific principles, bases, conventions, rules, and practices applied by the Council in preparing and presenting the financial statements.

Accounting standards - A set of rules explaining how accounts are to be kept. (See 'International Financial Reporting Standards')

Accrual - The recognition of income and expenditure in the year that they occur and not when any cash is received or paid.

Accumulated Absences Account – This account represents the value of leave rolled over from one financial year to another. This reserve account is used to avoid reducing general fund reserves.

Actuary - An independent adviser to the Council on the financial position of the Pension Fund.

Actuarial Valuation - Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

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 (PWLB) 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

AGS	Annual Governance Statement
ALMO	Arm's Length Management Organisation (Tower Hamlets Homes)
BSF	Building Schools for the Future
CAA	Capital Adjustment Account
CFR	Capital Financing Requirement
CIES	Comprehensive Income and Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Consumer Price Index
DCLG	Department of Communities and Local Government
DEFRA	– Department for Environment, Food and Rural Affairs
DfE	Department for Education
DSG	Dedicated Schools Grant
DWP	Department for Work and Pensions
EIR	Effective Interest Rate
GAAP	Generally Accepted Accounting Principles
GLA	Greater London Authority
HRA	Housing Revenue Account
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
LABGI	Local Authority Business Growth Incentive
LAML	London Authorities Mutual Limited
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LATS	Landfill Allowance Trading Scheme
LBTH	London Borough of Tower Hamlets
LGPS	Local Government Pension Scheme
LOBO	Lender's Option – Borrower's option
LPFA	London Pensions Fund Authority
MRA	Major Repairs Allowance
MRP	Minimum Revenue Provision
NCS	Net Cost of Services
NPV	Net Present Value
(N)NDR	(National) Non-Domestic Rates
PCT	Primary Care Trust
PFI	Private Finance Initiative
PPA	Prior Period Adjustment
PPE	Property, Plant and Equipment
PWLB	Public Works Loans Board
REFCUS	Revenue Expenditure Funded by Capital Under Statute
RICS	Royal Institute of Chartered Surveyors
RPI	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 6.2

Report To:	Date	Classification	Report No.	Agenda Item No.
Audit Committee	25 September 2012	Unrestricted		
REPORT OF:		Quarterly Internal Audit Assurance Report		
Corporate Director, Resources				
ORIGINATING OFFICER(S):		WARD(S) AFFECTED:		
<i>Minesh Jani, Head of Risk Management and Audit</i>		N/A		

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period June 2012 to August 2012.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

2. RECOMMENDATION

- 2.1. The Audit Committee is asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

3. Background

- 3.1. From April 2005, we have assigned each review one of four ratings, depending upon the level of our findings. The ratings we use are: -

Assurance	Definition
Full	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
Substantial	While there is a basically sound system there are weaknesses which put some of the control objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;
Limited	Weakness in the system of controls are such as to put the system objectives at risk or the level of non-compliance puts the system objectives at risk;
Nil	Control is generally weak leaving the system open to significant error or abuse, or significant non-compliance with basic controls leaves the system open to error or abuse.

- 3.2. In addition, each review is also considered in terms of its significance to the authority in line with the previously agreed methodology. The significance of each auditable area is assigned, based on the following factors: -

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

4. Overall Audit Opinion

- 4.1. Overall, based on work performed in the year to date, I am able to give a substantial level of assurance over the systems and controls in place within the authority.

5. Overview of finalised audits

- 5.1. Since the last Assurance Report that was presented to the Audit Committee in June 2012, twenty three final reports have been issued.

The findings of these audits are presented as follows:

The chart below summarises the assurance rating assigned by the level of significance of each report.

Appendix 1 provides a list of the audits organised by assurance rating and significance.

Appendix 2 provides a brief summary of each audit.

- 5.2. **Members are invited to consider the following:**

The overall level of assurance provided (para 5.3-5.5).

The findings of individual reports. Audit Committee may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.

- 5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2003 and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

(Please refer to the table on the next page).

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	15	1	-	16
	Moderate	-	6	1	-	7
	Low	-	-	-	-	-
Total Numbers		-	21	2	-	23
Total %		-	91%	9%	-	100%

- 5.4. From the table above it can be seen that of the 16 finalised audits which focused on high risk or high value areas; 15 were assigned Substantial Assurance and 1 was assigned Limited assurance. A further 7 audits were of moderate significance and of these, 6 were assigned Substantial Assurance and 1, Limited Assurance.
- 5.5. Overall, 91% of audits resulted in an adequate assurance (substantial or full). The remaining 9% of audits have an inadequate assurance rating (limited or nil).

6. Performance Indicators

- 6.1. At the start of the year, three performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the Chief Executive's Monitoring process. The table below shows the actual and targets for each indicator for the period:-

Performance measure	Target	Actual
Percentage of Audit Plan completed up to July 2012	23%	27%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	81% 22 out of 27
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	84% 26 out of 31

The table above shows that the proportion of internal audit work completed to July 2012 is 27% against the target of 23%. This is principally due to most of the schools being audited in the first quarter of the financial year which has meant that the audit plan is ahead of the target.

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 81%, whereas the percentage of priority 2 recommendations was 84%. Relevant Corporate Directors were sent copies of the final Follow Up audit reports. Details of all priority 1 and priority 2 recommendations not implemented are set out in Appendix 3. Further to the usual actions, meetings are being convened with key officers to seek assurances that agreed recommendations will be implemented promptly. The Audit Committee will recall that in relation to the follow up audit on Probationary Tenancies, officers from Tower Hamlets Homes reported the progress to the members of the Committee at the June 2012 meeting.

7. Comments of the Chief Financial Officer

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

8. Concurrent Report of the Assistant Chief Executive (Legal Services)

- 8.1. There are no immediate legal implications arising from this report.

9. One Tower Hamlets

- 9.1. There are no specific one Tower Hamlets considerations.
- 9.2. There are no specific Anti-Poverty issues arising from this report.

10. Risk Management Implications

- 10.1. This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. This risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

11. Sustainable Action for a Greener Environment (SAGE)

- 11.1. 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 :

N/A

Minesh Jani, 0207 364 0738

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Summary of Audits Undertaken

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Communities, Localities and Culture	Parking Appeals – Systems Audit
	Moderate	Communities, Localities and Culture	Chipside Parking Implementation
SUBSTANTIAL			
	Extensive	Development and Renewal	Overcrowding Strategy
	Extensive	Development and Renewal	Management of Community Building Portfolio
	Extensive	Development and Renewal	Monitoring of Facilities Management Contracts Systems Audit
	Extensive	Development and Renewal	Management of Energy Supply Payments
	Extensive	Corporate Review	Performance Management
	Extensive	Corporate Review	Leavers - Follow Up Audit
	Extensive	Tower Hamlets Homes	Financial Systems
	Extensive	Tower Hamlets Homes	Budgetary Control
	Extensive	Tower Hamlets Homes	Health and Safety at Work - Follow Up Audit
	Extensive	Tower Hamlets Homes	Decent Homes – Contract Audit

Summary of Audits Undertaken

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
Substantial	Extensive	Resources	Occupational Health
	Extensive	Resources	Housing Benefits
	Extensive	Resources	Treasury Management - Systems Audit
	Extensive	Assistance Chief Executive	Information Security - Paper Based Data Storage and Security Follow Up Audit
	Extensive	Communities, Localities and Culture	Highways Works Contract Management
	Moderate	Children, Schools and Families	Bow School of Maths
	Moderate	Children, Schools and Families	Cyril Jackson Primary School
	Moderate	Children, Schools and Families	Cubitt Town Infants School
	Moderate	Children, Schools and Families	Independent School Fees Follow Up Audit
	Moderate	Adults, Health and Wellbeing	Apanseth
	Moderate	Adults, Health and Wellbeing	Look Ahead

Summary of Audits Undertaken

APPENDIX 2

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Parking Appeals Systems Audit	July 2012	<p>The objective of this audit was to provide assurance that the systems of control over the Parking Appeals functions were sound, secure and adequate.</p> <p>The Parking Appeals Service is responsible for dealing with and processing appeals submitted by motorists who claim that Parking Charge Notices (PCNs) have been incorrectly issued to them. Appellant who dispute the decisions made by the Council can appeal to the independent Parking And Traffic Appeals Service (PATAS). 721 appeals were referred to PATAS between April 2011 and Jan 2012.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • Formal and informal representations were date stamped on receipt and then organised into batches. • Correspondence received is scanned onto the system in a timely manner and a Batch log is kept and updated continually. <p>The main weaknesses are:</p> <ul style="list-style-type: none"> • Cancellations are not specifically sample checked on a monthly basis. • A system error with Chipside resulted in the Parking Appeals Service being unable to contest some PATAS cases. • The current Appeals Policy needs to be revised to reflect the implementation of the Chipside IT system. • Delays were occurring in responding to letters within timescales although the audit did not identify loss of income. • Proof of validation for cancelling notices was not always recorded on Chipside. • PCN check forms were not always signed or dated to evidence review. <p>The findings were agreed with the Service Head, Public Realm and the final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	Extensive	Limited

Management Comments

The audit of parking appeal unfortunately coincided with the implementation of the Chipside Case Management IT system. However, all monitoring systems now reflect the new processing regime and the correct response to appeals notification has reduced to below 20 days.

All reconciliations have been progressed to the required timescale.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Chipside Parking Implementation	August 2012	<p>This audit was designed to provide assurance over the application and implementation controls of the Council Parking application Chipside, which was in the process of being implemented at the time of the audit. The audit covered the following areas:- Application Management and Governance, System Security, Interface Control and Processing, Change Control, Support Arrangements and Implementation Controls.</p> <p>We raised 10 recommendations:-</p> <ul style="list-style-type: none"> • The contract and associated service level documentation for the Case Manager application should be signed by both parties and appropriate licensing arrangements put in place for the Council's usage of the system. • The governance arrangements should be documented this includes clearly identifying the roles and responsibilities that are required to support and maintain the application. The confidentiality and sensitivity of data that is processed through the application should be noted and classified • The Case Manager application password settings should conform to the London Borough of Tower Hamlets ICT Information Security Policy. • A formal Case Manager user access procedure should be implemented that sets out the user name and access requirements. • A formal process to amend master data (Core system data) should be introduced that requires authorisation by an appropriate level of management and includes a sign off that the system has been correctly updated • The system administrator should review the Chipside Case Manager audit logs on a regular basis to determine whether any unsuccessful login attempts are an attempt to gain unauthorised access to the system • Management should consider establishing formal periodic reviews of all Case Manager user accounts • The change control process that is in place for the Chipside application is formally documented. 	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Chipside Parking Implementation	August 2012	<ul style="list-style-type: none"> • An assessment should be carried out on what has not yet been implemented and what the impact is of the remaining areas of functionality to be implemented. A lessons learned exercise should also be carried out on the initial implementation and any key areas for improvement or success used to feed into a plan for ongoing development of the application • Management should ensure that the implementation of the Case Manager application is supported by project documentation and the implementation is in line with the Council Project Methodology and provide this to internal audit <p>The findings and recommendations were agreed with the Policy and Performance Enhancement Manager and a copy of the final report was issued to the Service Head – Public Realm and the Corporate Director – Communities, Localities and Culture.</p>	Moderate	Limited

Management Comments

This audit was carried out while the Case Manager application was still being implemented and many of the recommendations stemmed from issues that Parking Services were not only already aware of but already had plans to deal with. As such, all actions have been addressed to the agreed schedule.

Recommendations raised have been dealt with during the implementation processes and only three weaknesses are currently due to be actioned by the end of September. Work is on-going on the remaining three recommendations and we expect the work to be completed by the end of September.

Summary of Audits Undertaken

APPENDIX 2

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Overcrowding Strategy	June 2012	<p>This audit sought to provide assurance that the systems and procedures supporting the Council's Overcrowding Strategy were sound, secure and achieved the objectives and priorities. The main findings are summarised below:-</p> <ul style="list-style-type: none"> • The Overcrowding Strategy was part of the high level Housing Strategy and there was an Action Plan that set out how the Strategy would be delivered. The Action Plan stated the individuals responsible for implementing the actions and the deadlines to be followed. • The Overcrowding Strategy was communicated to local residents via the internet. • The Common Housing Register Forum - a partnership between the Council and 18 Housing Associations had been set up to monitor the delivery of the Strategy. • Recommendations from the Common Housing Register Forum were discussed with corporate committees to ensure adequate resources were available to deliver the Overcrowding Strategy. <p>The main weaknesses were:</p> <ul style="list-style-type: none"> • Delays were identified in the presenting of the 2011/12 Overcrowding Reduction Strategy mid-year progress report to the Common Housing Register Forum. • The Housing Strategy Action Plan update, which included overcrowding reduction, was produced for 2010/11 but was never actually presented to the Great Place to Live Community Plan Delivery Group as they did not meet. <p>The findings were agreed with the Service Head, Strategy Regeneration and Sustainability. The final report was issued to the Corporate Director, Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Community Building Portfolio	June 2012	<p>This audit provided assurance over the systems for managing the Community Building Portfolio and allocations to Third Sector Organisations. The Council's Asset Management Plan (AMP), approved by Cabinet on 09/02/2009, identifies the strategy for the portfolio management and Third Sector occupation of community buildings. LBTH owns some 80 community buildings. Currently, Strategic Housing D & R have responsibility for community buildings, managed by Asset Management. Decisions on allocations are made by the Third Sector & External Funding team. We found adequate arrangements for the allocation of Council-owned property to third sector organisations. There were clear divisions of duty between the application, assessment and approval process. Some 46 organisations in occupation had been issued with a Tenancy at Will agreement of which 15 had not been signed by organisations. A peppercorn rent had been charged, which was not paid. We recommended that where organisations refuse to sign agreements, eviction should be considered.</p> <p>A system of quality checks and spot checks needed to be introduced to monitor compliance with procedures. We found instances where organisations submitting applications did not provide the required three months banking records. We recommended that bank statements for the last 12 months should be submitted to demonstrate financial viability. We were unable to fully evidence assessment process as the officer undertaking the assessment did not sign or date the assessment form. We also recommended that as part of the assessment process, the applicant organisations' current liabilities should be considered with regards to any outstanding rent arrears on other Council buildings leased to them. The Community Buildings Portfolio was being managed in the interim by Asset Management and a decision was required on its future. An external Consultant's report highlighted the need for review of the current allocations process, revising the current Asset Management Strategy and a new model letting agreement. All findings and recommendations were agreed with Service Head, Corporate Asset Management and Capital Delivery and the Third Sector & External Funding Manager. Final report was issued to the Corporate Director, Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Monitoring of Facilities Management Contracts Systems Audit	July 2012	<p>The objective of this review was to provide assurance to management that controls for management and monitoring those contracts administered by Facilities Management were sound and secure.</p> <p>On the basis of findings raised, we recommended that the governance arrangements should be strengthened to ensure that all the procurement and monitoring activities were well documented, risk assessed, controlled and monitored to achieve key business objectives and priorities of the Council. Officers managing contracts and quotations required training on key elements of contract monitoring. Contract management procedures needed to be documented. Our testing also showed that minutes of meetings with contractors needed to be transparent to demonstrate that issues were carried forward and resolved. Variations needed to be tracked to manage the risk of additional work being awarded to contractors. In providing various FM services to Directorates, FM charges costs against the budgets owned by other Directorates. Therefore, there should be a duty to report back to Directorates on the quality of services and value for money being provided by various contractors monitored by FM. We have recommended that an annual report should be produced by FM to discharge this responsibility.</p> <p>All findings and recommendations were agreed with the Service Head – Corporate Asset Management and Capital Delivery and final report was issued to Corporate Director – Development and Renewal.</p>	Extensive	Substantial

Summary of Audits Undertaken

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Payments for Energy Supplies	Aug. 2012	<p>This audit sought to provide assurance that sound systems were in place for managing and controlling payments to energy suppliers.</p> <p>Our review showed that complex process maps were drawn up to show various stages in the billing, payments and recharges processes. However, these needed to be supported by written procedures to include roles, responsibilities and accountabilities of all parties. There were in excess of 2,600 sites supplied with gas and electricity under the Council contract. Due to movements in the Council's portfolio of buildings, the database was out of date and needed to be updated.</p> <p>Our testing of a sample of 28 sites for electricity and gas supplies showed that the billing and data transfer from Suppliers to Team Sigma and Team Sigma to LBTH was working adequately. For sites whose cost centres were known by D&R Finance, energy payments were recharged directly to those cost centres. For schools, a re-billing process was put in place to ensure that energy payments made by the Council were recharged to individual schools via Debtors section through Debtors Accounts raised to individual schools. However, there was a delay in recharging schools for 2011/12, which had been regularised and a programme had been drawn up for quarterly recharges.</p> <p>Electricity and gas tariffs and rates charged by suppliers agreed with the contracted rates and tariffs for each site. Our testing of payments made to energy suppliers showed that the payments system was adequate and controls were designed to identify coding errors, potential duplicate payments etc. However, there was no overall reconciliation process in place with the Council's General Ledger system. Our testing showed some minor discrepancies between Team Sigma data and Supplier Invoices.</p> <p>All findings and recommendations were agreed with the Service Head – Resources and final report was issued to Corporate Director – Development and Renewal.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Performance Management	July 2012	<p>To provide assurance that the performance management system and its accompanying targets and measures adequately support and promote the achievement of the Council's and the Mayor's strategic priorities and pledges.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • There is a Performance Management and Accountability Framework (PMAF) in place which sets out the Council's performance management approach. Appropriate performance standards have been developed and relevant performance information is produced and used to improve performance. • The PMAF is supplemented by more specific guidance on the development process and required content of plans. The PMAF is stored on a shared space accessible to all staff involved in the planning and performance management process. • A Performance Review Group (PRG) has been set up to review performance of the Council and its directorates. Corporate performance information is uploaded on to the Excelsis system (Corporate Performance System) by all directorates. This information is used by the Corporate Performance team to evaluate performance. • The Council has an approved 2011/12 Strategic Plan in place that will be replaced by the plan for 2012/13 once finalised and approved. <p>The main weakness is:</p> <ul style="list-style-type: none"> • According to the PMAF it is not mandatory for directorates to develop a directorate plan. They are however required to develop service/team plans. Whilst the services / teams within directorates link their service plans directly to the Council's overall strategic plan, these plans were not consistently reviewed and approved by a senior level Directorate group. <p>The findings were agreed with the Strategy, Policy and Performance Service Manager and the final report was issued to the Assistant Chief Executive (Legal Services).</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Leavers Follow Up Audit	July 2012	<p>This audit sought to provide assurance to management that the agreed recommendations at the conclusion of the Follow-Up audit in March 2012 had been fully implemented. From our review, we could provide assurance that of the four Priority one recommendations, all had been progressed well. However, the following issues required further consideration:</p> <ul style="list-style-type: none"> • Of the completed leavers forms sampled, we found that in 12 out of 19 cases, the Manager had not completed the section concerning the return of Council owned property. • Where an end of year manual adjustment was required, a confirmation of payroll leaver form was not submitted in a timely manner. The manual adjustment had been processed even though it had not been checked and certified. • The Confirmation of Leaver's form required revision as it stipulated that Managers are required to submit a copy of the annual leave card to HR, although it is the responsibility of the Manager to calculate any outstanding annual leave. <p>All findings and recommendations were agreed with the Service Head, Human Resources and Workforce Development and copy of final report was issued to the Corporate Director, Resources.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Financial Systems (THH)	June 2012	<p>This audit sought to provide assurance that there were sound systems in place for efficient and effective management of some key financial systems.</p> <p>Our review showed that controls were satisfactory for procurement, creditors, treasury management, bank reconciliation, VAT management, cash flow management and payroll reconciliation. However, we established that whilst a THH Financial Accounts Checklist was maintained for each of the months and whilst the checklist had been ticked off to confirm that key working papers had been completed including the bank and payroll reconciliation, there was no actual sign off to confirm that an independent check had been completed by a second officer. In addition, the Checklist was not dated to show the date on which the checks were carried out and signed off.</p> <p>All findings and recommendations were agreed with the Director of Finance and Customer Services and final report was issued to the Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Budgetary Control (THH) Systems Audit	June 2012	<p>The objective of this audit was to provide assurance over the systems for budget setting, monitoring and overall budgetary control within THH.</p> <p>Overall, there were satisfactory systems in place for budget setting, approval and monitoring. We tested a sample of five service budgets and verified the approved budgets to the budgets loaded on the General Ledger. In all five cases a budget holder had been identified and a budget sign off sheet, which incorporated guidance notes covering budgetary control and monitoring mechanisms, had been signed off by the budget holder. A consolidated set of Management Accounts Reports were compiled on a monthly basis which provided an overview of the overall financial position of THH. Review of the December 2011 Management Accounts Report showed that a surplus of £1.0m by year end was expected to be achieved.</p> <p>We made two low priority recommendations. One was to ensure that the cost centre used as a suspense account, be cleared and actively managed. At the time of audit, there was a total of £283,687 coded to this suspense account. The second recommendation was around the management of accounting codes available to THH to ensure that they are kept down to manageable levels.</p> <p>All findings and recommendations were agreed with the Director of Finance and Customer Services and final report was issued to the Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Health and Safety at Work (THH) Follow Up Audit</p>	<p>July 2012</p>	<p>This follow up audit assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit finalised in October 2010. From our testing we were able to confirm that out of four recommendations agreed, one priority 1 recommendation and two priority 2 recommendations had been implemented. One priority 2 recommendation had not been completed to a standard whereby we could give assurance of full compliance. Therefore, our original recommendation made in the final report has been kept within this follow up review for Management to fully address.</p> <p>We reported that THH had reviewed and updated the Health and Safety policy in December 2011. A new structure had been updated to reflect the new shape of the business with clear lines of responsibility within each service area. The Director of Finance & Customer Services had been identified as the Director responsible for Health & Safety for THH. To promote THH commitment to Health & Safety, the signed (by Chief Executive) policy statement was to be displayed in all work places as well as the THH intranet to highlight the importance that the organisation places on health & safety. Risk assessments had been carried out and the responsibility for the delivery of fire risk assessments (FRA) to residential properties was transferred to the Health & Safety Co-ordinating Group. There was a programme of inspections maintained by THH outlining dates when risk assessments were undertaken and the timescales. Health and Safety had now been incorporated into team plans and a training needs analysis has been undertaken for all THH Staff. However, we could not evidence that performance indicators in relation to health and safety training provided was being reported to the THH Board.</p> <p>All findings and recommendations were agreed with the Director of Finance and Customer Services. Final report was issued to the THH Chief Executive.</p>	<p>Extensive</p>	<p>Substantial</p>

Summary of Audits Undertaken

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Decent Homes Programme - Audit Contract (THH)	Aug 2012	<p>This audit examined the systems for monitoring and managing Decent Homes Framework contract to deliver years one and two (2011/12 & 2012/13) of the four year Decent Homes Backlog Funding Programme. Two contractors were selected using the City West Homes Framework procurement - approved by Cabinet on 8/06/11. The contract administration function is provided by an external building consultant, monitored by the THH Head of Property.</p> <p>Our review showed that there were adequate governance arrangements in place both at strategic and operational levels. A tracker system was in place to monitor works progress and cost control. Payments to the contractor were made in accordance with the bill of quantities/schedule of rates. Regular cost reports were provided to THH and the Council. Risks associated with contract over run and overspend can be identified promptly. Client monitoring of the two contractors was adequate. Performance monitoring results were regularly reported on and agreed KPI's were in place and monitored.</p> <p>However, our testing showed that evidence of Due Performance Guarantee Bond was not in place for one contractor. THH have provided assurance to audit that the Bond was subsequently secured and that in future formalisation of financial contract would not take place unless Performance Guarantee Bond along with all other associated documentation has been supplied by the contractor. We were unable to fully verify that the service delivery of the external building consultants was being sufficiently monitored in accordance with terms of reference and agreed KPI's as the minutes of monthly performance meetings were not formalised and did not support formal monitoring. Furthermore, it would appear that matters concerning contractors and external consultants insurance were not routinely flagged up for monitoring purposes at the contract review meetings.</p> <p>All findings and recommendations were agreed with the Head of Property and final report was issued to the Chief Executive.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Occupational Health	July 2012	<p>This audit provided assurance to management as to whether the systems of control over the Occupational Health functions were sound, secure and adequate.</p> <p>The Occupational Health Service provides traded services to 91 schools, Tower Hamlets Homes and four housing associations. All treatments were through management referrals and there was no walk in service. 5,318 elements of the service were delivered in the period 31st March 2011 to – 1st April 2012, with an average delivery of 443 activities a month.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • An Occupational Health Departmental Manual had been developed. • There was a standard referral form in place. • Episodes were created on the OPAS system for each referral to ensure a record of the referral and consultation was available. • Physical access to hard copy files was restricted. • Access to the online system had been restricted to the Occupational Health team. <p>The main weaknesses were:</p> <ul style="list-style-type: none"> • Evidence was not always maintained that referral forms had been through the review and triage process. • Performance targets, documented within the Occupational Health and Wellbeing Department Manual were not currently monitored due to a problem with the OPAS system reporting module. <p>The findings were agreed with the Occupational Health Manager 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
Housing Benefits	July 2012	<p>To provide assurance to management as to whether the systems of control over the Housing and Council Tax Benefits functions are sound, secure and adequate.</p> <p>The main findings are summarised below:</p> <ul style="list-style-type: none"> • Policies and procedures are in place, and transactions and processing accords with these approved guidelines. • Claims are processed accurately and in a timely manner for both council tenants and private tenants. • Verification checks are made to ensure that there is sufficient information to process a HB claim in line with the verification procedures. • The calculation of benefit is consistent with procedures outlining rates and amounts of HB entitlements. • Senior staff carry out sample checks to confirm the accuracy and timeliness of processing. • Discretionary payments are approved by the Appeals team and are only granted where there is adequate justification. • Regular management information is produced and performance is benchmarked with other Authorities. <p>The main weakness is :</p> <ul style="list-style-type: none"> • Balances from the housing benefits system and GL (One World) did not reconcile for six out of seven months (between April 2011 and October 2011). The discrepancies were not significant and related to timing issues. <p>The findings were agreed with the Service Head, Customer Access and ICT; 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
Treasury Management – Systems Audit	June 2012	<p>The objective of this audit was to assure management that the systems for controlling, monitoring and reporting treasury management transactions were sound, secure and adequate.</p> <p>Our review found that legislation and guidance in relation to Treasury Management Strategy, Annual Investment Strategy and the Minimum Revenue Provision was complied with by the Council. Procedures within Treasury Management had been subject to recent revisions and a new Contract for Treasury Management Advisory Service is in place to support the Treasury Management function. Testing of a sample of investments found that investments were made in accordance with the Treasury Management Strategy and the Annual Investment Strategy.</p> <p>Monthly reporting by SECTOR against target, participation in the CIPFA's Management Benchmarking Club and reporting up to and including full Council ensures that there is regular monitoring and reporting of performance.</p> <p>We have, however, highlighted control weaknesses, which Management should agree and implement to mitigate risks to the Council. For example, that a Senior Officer should regularly review payments in respect of investments made. That the new cash flow model used should have a corresponding procedural document and should have the facility to assess the variance between the forecast and actual cash flow position.</p> <p>All findings and recommendations were agreed with the Service Head - Financial Services, Accountability and Risk Management, and final report was issued to the Corporate Director – Resources.</p>	Extensive	Substantial

Summary of Audits Undertaken

APPENDIX 2

Title	Date of f	Comments / Findings	Scale of Service	Assurance Level
Information Security - Paper Based Data Storage and Security - Follow Up Audit	July 2012	<p>This audit followed up recommendations made at the conclusion of the original audit finalised in August 2011.</p> <p>Our follow up testing showed that of the seven priority 1 recommendations, five had been implemented. Two of the seven priority 1 recommendations were no longer required due to other compensatory actions taken by the Head of Legal Services (Community). There is assurance that sufficient progress has been made in implementing the agreed recommendations.</p> <p>However, we raised two other recommendations. The first one was that consideration should be given as to whether the Corporate Information Risk policy is required within the Council's Information Governance Framework. If this is not required, then the reference should be deleted from the IGG Framework and other documents on this subject. The second recommendation was around seeking assurance from each Directorate via the Information Governance Group, regarding the progress made at Directorate level in carrying out risk assessments of their information assets and compliance with the new policies and procedures.</p> <p>All findings and recommendations were agreed with the Head of Legal Services (Community) and final report was issued to the Assistant Chief Executive (Legal Services).</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Highways Works Contract Monitoring – Follow Up Audit	July 2012	<p>This audit assessed the progress in implementing recommendations made at the conclusion of the original audit in February 2011. From our testing we confirmed that the one priority 1 recommendation we made had been implemented. Out of three priority 2 recommendations, two had been fully implemented and one had been partially completed.</p> <p>The Section Head Transportation and Highways had ensured that all staff had completed a declaration of interest form. Officers were required to declare interests on an annual basis. Our review of documentation showed that key risks areas had now been identified and compensatory controls put in place to manage those risks. Processes were to be put in place to ensure that all future contracts or contract extensions included provision for annual declaration to confirm compliance with the security and confidentiality of personal data. Our testing showed that the minutes of contract monitoring meetings needed to clearly record the contractor's achievements against KPI's and performance targets set for them. Any corrective action taken to address any non-performance issues also required to be clearly recorded in these minutes.</p> <p>All findings and recommendations were agreed with the Group Manager – Improvement Works and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bow School of Maths	July 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 confirmed that the school has an established Governing Body and a Finance, Premises and Site Committee responsible for financial planning and control. Controls were adequate in monitoring of school bank accounts; procurement of goods and services; accounting for income and expenditure; budget monitoring; collecting and recording of income; personnel and payroll management; recording of assets; disaster recovery; risk management and insurance.</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Finance, Personnel and Site Development Committee, Standards Committee and the Health and Safety Committee minutes since January 2011 had not been signed off by the Chair of the Committee. • The School Improvement Plan did not include financial / resource requirements for relevant objectives. The Plan had not been formally approved by the Governing Body. • The Pay Policy which should be reviewed annually was last review in December 2010. The Charging Policy had not been reviewed within the last 12 months. • Testing identified that free school meals are being provided to ineligible children. • A full inventory check has not been undertaken within the last 12 months. • The School Fund has not been independently audited since the March 2010 year end. <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

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cubitt Town Infants School	June 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 confirmed that the school has an established Governing Body and a Finance Committee responsible for financial planning and control. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; procurement (including ordering and payment); collecting and recording of income; personnel and payroll management; eligibility of school meals; disaster recovery; risk management and insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Meeting minutes for the Governing Body and Sub-Committees were not clearly defined and ratification of policies and key documents were missed from the minutes. Furthermore the school did not hold signed copies of policies and key documents. • The Governing Body has never been provided with a stock check certificate. • New assets are not always security marked although action to address this had been identified. <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

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cyril Jackson Primary School	June 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 confirmed that the school has an established Governing Body and a Finance, Resource and Premises Committee responsible for financial planning and control. Controls were adequate in monitoring of school bank accounts; accounting for income and expenditure; budget monitoring; collecting and recording of income; personnel and payroll management; recording of assets; eligibility of school meals; disaster recovery; risk management and insurance. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The terms of reference for Finance, Resources, Personnel and Premises Committee does not include details of the number of members required to be present and the frequency of meetings. • Purchase order / requisition forms were not always in place. In addition, signed goods received / delivery notes were not always retained. • Petty cash claims forms are not fully completed and signed by the recipient of the cash. • Documentation to support the costing of school journeys, and the agreement by the School Management Team was not retained. In addition, there was no evidence that the cost of the journey had been presented to the Governing Body. • Checks that loaned equipment had been returned prior to the member of staff leaving were not evidenced. • The school fund is not subject to an annual independent audit. • The results of the annual inventory check have not been presented to the Governing Body. <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

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Independent School Fees Follow Up Audit	July 2012	<p>This follow up audit assessed the progress made in implementing the recommendations agreed at the conclusion of the original audit finalised in September 2011.</p> <p>Our testing showed that all four priority 2 recommendations had been progressed. Schools had been notified requesting information on a breakdown of the fees relating to each child. All these schools had been written to with regards to the possibility of any available discounts that LBTH can take advantage of. Authorisation for payments to be made was documented on a form from the Special Education Needs (SEN) panel. The authorisation document from the SEN Panel was being provided to the Data and Finance Officer confirming the child in question, the school where the child is to be placed and the fee required. However, in many cases, the Head of Special Educational Needs had not signed the document.</p> <p>All findings and recommendations had been agreed by the Head of Special Education Needs and final report was issued to the Corporate Director, Children, Schools and Families.</p>	Moderate	Substantial

Summary of Audits Undertaken

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Apanseth Day Care Provision – Contract Monitoring Follow Up Audit	August 2012	<p>This audit followed up the recommendations made at the conclusion of the original audit in July 2011. The Council currently commissions community based services from Apanseth to provide support to Bangladeshi/Sylheti speaking people in Tower Hamlets with a learning disability.</p> <p>Our review showed that out of 9 priority 2 recommendations we followed up, 3 had been implemented, 4 were in progress/partially implemented and 2 had not been implemented. We understand that recommendations were either not implemented, or in progress of being implemented primarily due to the transformation of the service.</p> <p>A Monitoring Officer has now been identified who is responsible for monitoring the contracts provided by Apanseth. However, the Monitoring guidance still needed to be completed and the respective roles, responsibilities and obligations of the contractor and the Council needed to be clearly identified within the service agreement/formal contract. The service specification needed to incorporate expected performance management standards and appropriate performance indicators. A departmental risk register needed to be developed and the expected performance standards and indicators needed to be within the scope of the monitoring procedures.</p> <p>All findings and recommendations were agreed with the Service Head Commissioning and Strategy and final report was issued to the Corporate Director, Adults, Health and Wellbeing.</p>	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Look Ahead for Aldgate and Campbell Road Hostels – Follow Up Audit</p>	<p>August 2012</p>	<p>This audit assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit in July 2011, which examined the procedures and controls in place for managing the contract relating to Look Ahead, Aldgate and Campbell Road supported Housing. As part of the Commissioning Strategy for Supported Housing for young People, the contract was put in place for short supported housing for young people</p> <p>Our review showed that out of the seven priority 2 recommendations, five had been implemented. The Officer's declaration of interest was recorded and reported to the Service Head. The annual service/team plans were reviewed and updated in order to direct resources for the contract management of each service contract. Monitoring procedures had been updated since the full audit.</p> <p>However, the responsibilities for contract management and monitoring needed to be clearly identified within the department's operational procedures. A risk based monitoring system was being used. This ranked the level of risk (using a RAG rating) of each hostel, and scheduled inspections according to the risk status. It was clear from this report that the higher risk areas were receiving more monitoring visits. However, an action plan needed to be developed to mitigate the identified risks.</p> <p>All findings and recommendations were agreed with the Service Head, Commissioning and Strategy, and final report was issued to the Corporate Director, Adults, Health and Wellbeing</p>	<p>Moderate</p>	<p>Substantial</p>

Follow Up Audits – List of Priority 1 Recommendation still to be Implemented

Audit Subject	Recommendation	Service Head	Officer Name
<p>Probationary Tenancies Tower Hamlets Homes (Full summary was reported to June 2012 Audit Committee)</p>	<p>The Area Housing Managers should ensure that there is commonality in the processes for data storage and scanning, to ensure that all officers are working to the same practices.</p>	<p>David Thompson</p>	<p>Richard Parkin</p>
<p>Probationary Tenancies Tower Hamlets Homes</p>	<p>Management should ensure that all housing officers complete the Welcome to your new home pack when the tenant completes the probationary tenancy form. Random inspections should be carried out to ensure that officers are complying with internal procedures.</p>	<p>David Thompson</p>	<p>Richard Parkin</p>
<p>Probationary Tenancies Tower Hamlets Homes</p>	<p>It should be ensured that all documentation is scanned onto the Comino system to maintain its integrity. Senior management should monitor compliance with this requirement on a regular basis.</p>	<p>David Thompson</p>	<p>Richard Parkin</p>
<p>Probationary Tenancies Tower Hamlets Homes</p>	<p>Management should ensure that a field is entered within the settling in visit form to record if there has been any anti social behaviour. This would require housing officers to verify this information from the anti social behaviour team.</p>	<p>David Thompson</p>	<p>Richard Parkin</p>
<p>Probationary Tenancies Tower Hamlets Homes</p>	<p>The Area Housing Managers should ensure that the data contained within the probationary tenancy spread sheets are randomly checked to ensure the accuracy of the data contained within</p>	<p>David Thompson</p>	<p>Richard Parkin</p>

Follow Up Audits – List of Priority 2 Recommendation still to be Implemented

Audit Subject	Recommendation	Service Head	Officer Name
Health and Safety at Work - THH	The achievement against some key performance indicators (Health & Safety training) should be reported regularly to THH Board.	Les Warren	Bryden Rimmer
Highways Contract Works	It should be ensured that minutes of contract monitoring meetings are written up and published on a regular basis. The contractors achievements against KPI's should be clearly recorded on the minutes and any corrective action taken also recorded clearly.	Jamie Blake	Elise Boon
Apanseth Day Care Provision – Contract Monitoring Follow Up Audit	Departmental guidance on contract monitoring and review should be produced which should reflect contract requirements.	Deborah Cohen	Darren Ingram
Apanseth Day Care Provision – Contract Monitoring Follow Up Audit	A departmental risk register should be developed. The risk register should be reviewed on a quarterly basis to reflect any new emerging risks or closed risks. Evidence of the review should be documented. This could be documented in minutes of meetings where the risk register is reviewed.	Deborah Cohen	Darren Ingram
Look Ahead contracts for Aldgate and Campbell Road Hostels – Follow Up Audit	The departmental procedures for contract monitoring and review should be updated.	Deborah Cohen	Carrie Kilpatrick
Look Ahead contracts for Aldgate and Campbell Road Hostels – Follow Up Audit	Responsibilities for contract management and monitoring should be clearly identified in within the department's operational procedures.	Deborah Cohen	Carrie Kilpatrick

Agenda Item 6.3

Report To:	Date	Classification	Report No.	Agenda Item No.
Audit Committee	25 September 2012	Unrestricted		
REPORT OF: Corporate Director, Resources		Annual Anti -Fraud Report 2011/12		
ORIGINATING OFFICER(S): Tony Qayum Corporate Fraud Manager		WARD(S) AFFECTED: N/A		

1. **Introduction**

- 1.1 This report provides the Audit Committee with an update of reactive and Anti - Fraud work undertaken during 2011/12.
- 1.2 The report captures the work of the Corporate Anti – Fraud team which includes Corporate Investigations, Housing Benefit Fraud Team Investigations, Social Housing Fraud Investigations and anti-fraud work around Parking Services.

2. **Recommendations**

- 2.1 The Audit Committee is asked to note this report.

3. **Background**

- 3.1 This report provides Audit Committee with a summary of work on sensitive and reactive enquiries undertaken during 2011/12. It includes an overview of the results of the investigations carried out by Housing Benefits Investigations, the Parking Service, and the Social Housing Fraud Investigation service.
- 3.2 The following chart shows the resources expressed as full time equivalent (FTE) posts of the key services included within this report.

Service	FTE	Role
Risk Management	2	<ul style="list-style-type: none"> • Corporate Fraud Manager • Senior Fraud Officer
	3	<ul style="list-style-type: none"> • Tenancy Fraud Officers • Temp Tenancy Fraud Officer 2 Months
Housing Benefits Fraud Team	2	<ul style="list-style-type: none"> • Team Leaders
	8	<ul style="list-style-type: none"> • Investigation Officers
	1	<ul style="list-style-type: none"> • Intelligence Officer
	1	<ul style="list-style-type: none"> • Admin Support
Parking Services	1.5	<ul style="list-style-type: none"> • Parking Fraud Investigation Officers

- 3.3 An analysis of the actual and notional savings achieved resulting from the work of the anti fraud and reactive work carried out by the team is attached as Appendix A.

4. Key matters arising from the Service Outturn for 2011-12

- 4.1 There have been five substantial inquiries which have involved close working between the relevant Directorates, the Corporate Anti- Fraud Service, the Police and Legal Services.
- 4.2 The resultant investigations covered an extensive range of systems and processes and required substantial staff resources to finalise all of the issues relating to criminality.
- 4.3 The Corporate Anti – Fraud service has also provided support to Directorates upon request. This included an ongoing review of the National Fraud Initiative, a review of systems and procedures associated with the management of Direct Payments for Adults, an investigation into the probity of financial transactions at a large Secondary School and a sensitive review of the recruitment processes of posts at a partner organisation.
- 4.4 We have also undertaken a multi -agency review of arrangements for the provision of Residential Care for a client who later, it was established, had not disclosed all of his financial assets at the point of assessment for assistance or to the Housing Benefit service or DWP. The outcome of the matter was that the clients son who managed his father’s affairs had under stated the true financial circumstances of his father and following an investigation led by the Corporate Anti-Fraud Manager the Councils Legal Service successfully prosecuted the son and the Council was awarded £116,000 in unpaid Residential charges, HB and DWP liabilities. The son was imprisoned for 13 months.

- 4.5 We have reviewed the adequacy of cheque formats at a school where an attempted fraudulent encashment was suffered and provided guidance to ensure that new cheques meet APACS standards.
- 4.6 We have also undertaken a detailed review of Council Tax refunds to ensure we had not been subject to Money Laundering and supported the Annual Governance Statement by reviewing external assessments of the Council and undertaking detailed reviews of the Complaints system.
- 4.7 We have continued to work closely with the Council's Legal Service on a number of matters including employment law issues and governance matters including Money Laundering, Data Protection and the Parking Service with regard to Blue Badge irregularity and worked corporately where instances of reputational concern and or fraud have been identified.
- 4.8 We have further developed the small team of Housing Tenancy Fraud Investigators to assist the Council in tackling Sub Letting of Tower Hamlets Homes and Registered Social Landlord properties. A separate paper on the progress of this initiative is covered in detail on a separate report elsewhere on the agenda.
- 4.9 We have organised and run several training sessions with staff on Anti Fraud and Corruption matters as part of our proactive initiatives and more are planned for this financial year, together with training exercises with outside organisations including the Chartered Institute of Housing.
- 4.10 We have also developed close working relationships with the Homeless service which has resulted in the recovery of one unit which had been obtain falsely and further developed our working with the Right to Buy team resulting in one unit being stopped before sale.
- 4.11 Appendix A attached is a summary of the results and value of anti fraud work carried out in 2011/12 including the outturn of the findings for the NFI.

5. The National Fraud Initiative (NFI)

- 5.1 The National Fraud Initiative (NFI) data matching exercise has continued to be supported, and our efforts continue to maximise the benefits from its output. The Audit Commission manage this under their powers in the Audit Commission Act 1998.

- 5.2 The NFI is managed and co-ordinated by the Audit Service with joint working and protocols with all the key services including Central Benefits Investigations Team, Payroll, Pensions, Rents and Right-to-Buy services to examine, refine and investigate the data matches.
- 5.3 For this exercise there were also formal joint working arrangements in place between the Central Benefits Team and the local fraud team from the Department of Works and Pensions (DWP) to work on cases which affected both Housing and Council Tax benefits along with the DWP benefits.
- 5.4 The work on the NFI is largely finalised with all reports having been examined and refined. Investigations have also been generally completed although there are still some investigations in progress.
- 5.5 The Corporate Anti- Fraud service has undertaken detailed reviews of all subject areas to ensure the final out turn for the exercise is robust and evidenced based.
- 5.6 The following is a summary of the results of the LBTH outcome from the NFI work -
- § £639,259 has been identified as overpayment/loss and is in the process of recovery. This includes the following break down:-
 - § HB/CTB £338,750.00
 - § Income Support /JSA £94,537.00
 - § Pensions £29,697.00
 - § Payroll £17,206.00
 - § Creditors £111,383.00
 - § Council Tax £47,686.00
- 5.7 In addition to the above the Council, through its own governance arrangements, undertook eighteen summary dismissals of employees, two contract terminations and twelve disciplinary dismissals.

6. Other Audit Activity

- 6.1 The following work areas have been undertaken, during 20011/12 by the Corporate Anti Fraud Team:-

On-going liaison and support to corporate and departmental personnel;
 Proactive joint working with other Local Authorities, the Police, the DWP and other government Agencies; and
 Training and Development via the Public Sector Partnership with the Metropolitan Police.

Monthly Governance reports have continued to be provided by the Corporate Anti Fraud Manager to the Corporate Director of Resources and Assistant Chief Executive (Legal) identifying on team activity and areas of inquiry requiring corporate input.

The Corporate Anti Fraud Manager has continued to meet monthly with the Assistant Chief Executive (Legal) on governance matters.

We have developed a Procurement best practice guide as part of the London Counter Fraud Partnership that has been adopted by both CIPFA and the National Fraud Authority and have played a pivotal role in the creation of a new CIPFA Benchmarking product to measure and compare the effectiveness of anti fraud functions across authorities and organisations. This went live in August 2012.

7. Housing Benefits Investigation Service

7.1 The Housing Benefits Investigation Service is responsible for the reactive and proactive management and investigation of Local Government benefit fraud, including:-

- § Benefits Whistle-blowing hotline;
- § Internal Referrals;
- § External Referrals (Agencies and public);
- § Joint working with Department of Work and Pensions (DWP);and
- § Data matching referrals (NFI and Housing Benefit Matching Service output from DWP);

7.2 During 2011/12 the Service has had the following successes and has been evidenced as one of the most successful of London Boroughs with:-

- § 177 sanctions achieved;
- § 50 convictions at court. This is a significant achievement when set against the previous year's outcome of 26 convictions;
- § 54 cautions (i.e. proven cases of fraud, whereby the amount was small or where there were mitigating circumstances to avoid prosecution);
- § 28 Parking Offence Cautions;
- § 45 Administrative Penalties; and
- § Total Housing and Council Tax overpayments that represent these cases equates to £861,875.50

8. Parking Services

8.1 The Parking Service investigations have resulted in twelve parking fraud cases being presented for prosecution.

8.2 180 Penalty Notices, 76 Removals, 123 Confiscations of disabled badges and 108 Confiscations of visitor scratch cards.

9. Comments of the Chief Financial Officer

9.1 These are contained within the body of this report.

10. Concurrent Report of the Assistant Chief Executive (Legal Services)

10.1 There are no immediate legal implications arising from this report.

11. One Tower Hamlets

11.1 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.

12. Risk Management Implications

12.1 This report highlights fraud risks arising from weaknesses in controls. Effective risk management is an essential part of good governance and management is responsible for putting in place adequate controls to manage the authority's exposure to risks.

13. Sustainable Action for a Greener Environment (SAGE)

13.1 There are no specific SAGE implications.

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 A

	No.	Notional future savings value	Notional future savings value total	Actual Value
<u>NFI 2010/11 (Final 2 year outturn)</u>				
Identified value of overpayment/losses - recovery in the process				639,259
Housing properties recovered.	40	75,000	3,000,000	7,800,000*
1 Staff member left the Councils employment following the NFI probity checks	1	5,000	5,000	
			<u>3,005,000</u>	8,439,259
<u>Value of other anti Fraud work carried out in 2010/11</u>				
Fraudulent under declaration of Capital	1			116,000
Benefits Prosecutions	50	3,200	92,800	
Benefits Cautions	54	1,200	64,800	
Benefits Administrative penalties	45	1,200	54,000	
Housing benefits overpayments under recovery				211,600
Right to Buy Prevention	1	16,000	16,000	
Blue badge recoveries	12	3,000	36,000	
Homeless Unit prevented	1	18,000	18,000	327,600
<u>overall totals</u>			3,231,900	8,766,859

* Figure based on a conservative open value valuation of £200,000 per unit.

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Agenda Item 6.4

Report To:	Date	Classification	Report No.	Agenda Item No.
Audit Committee	25 September 2012	Unrestricted		
REPORT OF: Corporate Director, Resources		Social Housing Fraud Update		
ORIGINATING OFFICER(S): Tony Qayum, Corporate Fraud Manager		WARD(S) AFFECTED: N/A		

1. Introduction

- 1.1 This report provides the Audit Committee with an update on the work of the Social Housing Fraud team and its successes to date in the recovery of unlawfully let public sector dwellings.

2. Recommendations

- 2.1 The Audit Committee is asked to note this report.

3. Background

- 3.1 The Audit Committee has received reports previously on the creation of this team and its funding arrangements. The Audit Commission has continued to highlight the abuse of Social Housing and in its annual "Protecting the Public Purse" publication which is issued in October each year.
- 3.2 In 2010, it reported that through the efforts of some sixty councils in England 1,600 properties with an asset value of £240 million were recovered from unlawful tenants.
- 3.3 The paper stated that fewer than 5% of those evicted from Sublet properties sought assistance from Homeless Services as in most cases they found alternative accommodation in the private rented sector. This is not dissimilar to the experience at Tower Hamlets.
- 3.4 Following on from the Audit Commission paper and a report by the National Fraud Authority on abuse of Social Housing the Government advised that those authorities that had made the most effective use of earlier funding would be further supported by an award of £100,000 to continue the crackdown on tenancy cheats.

4. Current Position

- 4.1 In December 2011 the government assessed the Council's eligibility for further funding and made £100,000 available for the continuation of the function for financial year 2012-13.
- 4.2 We are determined to maximise effectiveness by extending the existing arrangements for a further full financial year and to utilise, wherever possible, the use of technology to risk assess potential cases for follow up. To this end we have acquired and developed a Fraud Case Management system funded from existing resources, and are testing it while under development with the provider.
- 4.3 The Team have continued its joint working arrangements with Tower Hamlets Homes and following agreement to temporary funding a short term post was created to support THH on their recoveries. Following the recruitment of a temporary post holder the number of cases brought to a successful conclusion has increased thus justifying the initiative. In the past six months the Post Holder has recovered 9 properties.
- 4.4 The team has also forged closer working arrangements with the Housing Benefit Fraud team, which now forms part of the enhanced Corporate Anti-Fraud team and this has resulted in the identification of potential abuse of the Homeless Service system where fraudulent applicants use a THH or RP address as their home but upon further examination the tenant confirms that either the applicant has never lived there or that the address was used as a device to acquire permanent accommodation.
- 4.5 This is an area where we feel there is some considerable scope to further develop and we have met with the Homeless Service to develop an authorised procedure for initial applications to be verified against the Housing Benefit system and where there is a concern the case is referred to a Single Point of Contact in the Corporate–Anti Fraud team for further investigation. Since the function was introduced 25 of the 35 referrals received had resulted in a positive anti-fraud outcome.
- 4.6 We have continued to provide training to staff in THH and those RP's that form part of the Common Housing Register and we have also provided advice and presentations to and on behalf of the Chartered Institute of Housing and Tenancy Fraud Forum and London Boroughs Fraud Investigation Group.
- 4.7 The Team has continued to look into inappropriate "right-to-buy" applications or potential unlawful subletting property with live "RTB" applications. These are either from referrals from THH "Right-to-Buy" team or from whistle blows, to avert an in-appropriate disposal

of property and consider prosecution action. It is considered that this risk is likely to increase in light of the enhanced discount made available to tenants following the revisions to the Right to Buy scheme.

- 4.8 The publicity on the whistle blowing hotline and the anti-fraud email together with referrals through the Council and THH have proved effective with over 600 referrals for investigations being received.
- 4.9 The following is a summary of the team's case load, progress and successes to date:-

Open Cases

- 253 current cases
- Of these 131 have Housing Benefit and/or Council Tax Benefit in payment
- 150 of these cases are Tower Hamlets Homes managed properties
- 30 cases are currently in various stages of recovery.

Closed Cases

- 287 closed cases (excluding recovered properties)
- Of these 194 had Housing Benefit and / or Council Tax Benefit in payment.
- 198 were Tower Hamlets Homes managed properties

Recovered Cases

- 91 properties recovered to date
- 38 had Housing Benefit and / or Council Tax Benefit in payment.
- 66 were managed by Tower Hamlets Homes

In addition the team have achieved one court conviction for a fraudulent housing application, one Right to Buy stopped and one set of keys handed back to a property after a false homeless claim was discovered- work undertaken by our Housing Benefit Fraud team in conjunction with Homeless Services.

- 4.10 It is intended to provide regular reports to the Audit Committee on the success of this unit.

5. Comments of the Chief Financial Officer

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

6. Concurrent Report of the Assistant Chief Executive (Legal Services)

6.1 There are no immediate legal implications arising from this report.

7. One Tower Hamlets

7.1 There are no specific one Tower Hamlets considerations.

7.2 There are no specific Anti-Poverty issues arising from this report.

8. Risk Management Implications

8.1 This report highlights risks relating to illegal letting of social housing properties. The report identifies potential risks to the control framework that may be exploited by fraudsters.

9. Sustainable Action for a Greener Environment (SAGE)

9.1 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 :

N/A

Tony Qayum, 0207 364 4773

Agenda Item 6.5

Report To:	Date	Classification	Report No.	Agenda Item No.
Audit Committee	25 September 2012	Unrestricted		
REPORT OF: Corporate Director, Resources		Progress on National Fraud Initiative 2010-11 , and launch of NFI 2012-13		
ORIGINATING OFFICER(S): <i>Tony Qayum, Corporate Fraud Manager</i>		WARD(S) AFFECTED: <i>N/A</i>		

1. Introduction

1.1 This report provides the Audit Committee with the background and evolution of the London Fraud Initiative into the National Fraud Initiative (NFI) and launch of the current NFI 2010-11 which have been managed by the Audit Commission.

2. Recommendations

2.1 The Audit Committee is asked to note this report.

3. Background

3.1 The NFI compares different sets of data, for example payroll and benefit records, against other records held by the same, or another organisation, bringing to light potentially fraudulent claims and payments. Where a match is found, this means there may be an inconsistency that needs investigation.

3.2 The NFI is managed by the Audit Commission and the NFI aims to help prevent and detect fraud and is one of the key ways in which the Audit Commission fulfils its responsibility to promote economy, efficiency and effectiveness in the use of public money.

3.3 The Audit Commission processes the NFI data under its statutory powers, which are set out in Part 2A of the Audit Commission Act (1998). These powers put data matching on a statutory footing for local government and NHS bodies, as well as allowing the Audit Commission to extend the NFI to central government and private sector organisations that wish to take part

- 3.4 The London Borough of Tower Hamlets has been participating in the National Fraud Initiative (previously known as the London Fraud Initiative) since 1994.
- 3.5 The Serious Crime Act 2007 (SCA) gave the Audit Commission new powers to enable the benefits of NFI to be extended to central government and the private sector. The Serious Crime Act 2007 inserted a new Part 2A into the Audit Commission Act 1998 (ACA).
- 3.6 The SCA imposed a new regulatory regime alongside existing fair processing and other compliance requirements of the Data Protection Act 1998. Any person or body conducting or participating in the Commission's data matching exercises must by law, have regard to a statutory Code of Data Matching Practice.
- 3.7 The exercises have evolved over time and the Commission has extended its partners to all Local Authorities in England, Wales, Scotland, and Northern Ireland and pension details from the Health, Police, and Fire Services. To date the National Fraud Initiative has successfully detected fraud and overpayments totalling over £939 million since 1996. A copy of the 2010/11 NFI National report is attached as Appendix A.

4. Statutory Framework and Code of Data Matching Practice 2008

- 4.1 The Commission conducts data matching exercises under its statutory powers in the Audit Commission Act 1998, Part 2A. The Legislation requires the Commission to prepare a code of practice to govern its data matching exercises, and to consult over it before approving and laying it before Parliament. The Code of data matching practice 2008 was finalised, published, and laid before Parliament on 21 July 2008. A copy of the 45 page Code can be found on the Audit Commission website on the following link www.audit-commission.gov.uk/nfi
- 4.2 The Commission may carry out data matching exercises for the purpose of assisting in the prevention and detection of fraud, as part of an audit or otherwise. The Commission requires certain bodies to provide data for data matching exercises. Currently these are all the bodies to which it appoints auditors or which it inspects other than registered social landlords. Other bodies may participate in its data matching exercises on a voluntary basis where the Commission considers it appropriate. Where they do so, the statute states that there is no breach of confidentiality and generally removes other restrictions in providing the data to the Commission. The requirements of the Data Protection Act 1998 continue to apply.
- 4.3 The processing of data by the Commission in a data matching exercise is carried out with statutory authority. It does not require the consent of

the individuals concerned under the Data Protection Act 1998. However the Data Protection Act 1998 normally requires participants to inform individuals that their data will be processed. Unless an exemption applies, for data processing to be fair, the first data protection principle requires data controllers to inform individuals whose data is to be processed of:

- the identity of the data controller;
- the purpose or purposes for which the data may be processed; and
- any further information that is necessary to enable the processing to be fair.

4.4 The Audit Commission's code of practice requires that the Director of Finance or equivalent senior named officer will act as Senior Responsible Officer for NFI purposes. The Director of Finance, or equivalent senior named officer acting as 'senior responsible officer' for NFI, has key responsibilities to ensure the statutory requirements for bodies participating in NFI are met, as follows:

- nominate a key contact
- ensure the key contact has access to the matches (via the secure NFI software) as soon as they become available.
- ensure that the key contact fulfils all data protection requirements

4.5 Key Contact role - The key contact will be responsible for:

- nomination of appropriate users to upload data submissions
- nominating appropriate dataset contacts
- ensuring that the data formats guidance and data specifications are adhered to
- fulfilling data protection requirements. The key contact should be in direct communication with their organisation's data protection officer or person with equivalent responsibility
- nominating appropriate users that will investigate the matches and act as point of contact for other bodies
- coordinating and monitoring the overall exercise
- Ensuring outcomes from investigations are recorded on the web application promptly and accurately

Participants should submit a declaration confirming compliance with the fair processing notification requirements (Fair processing compliance return).

4.6 Data submission - The user responsible for submission of the data should ensure that data:

- meets the specifications
- is in the correct format

- is submitted by the specified method (in other words, the data file upload facility (DFU))
 - is received by the required deadline(s)
- 4.7 A secure Data File Upload (DFU) facility is available within the NFI software.. This enables the data to be uploaded quickly and easily.
- 4.8 The code also requires the external auditor to 'provide reasonable assurance' that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.
- 4.9 Therefore, the code advises, where there is a significant number of over or underpayments identified using a data matching technique may give the auditor reason to believe that there has been a material misstatement of the accounts. This may lead to audit recommendations to improve the systems of internal control.
- 4.10 Data matching in the NFI involves comparing sets of data, such as the payroll or benefits records of a body, against other records held by the same or another body to see how far they match. This allows potentially fraudulent claims and payments to be identified. Where no match is found, the data matching process will have no material impact on those concerned. Where a match is found, it indicates that there is an inconsistency that requires further investigation. In the NFI, participating bodies receive a report of matches that they should follow-up, and investigate where appropriate, to detect instances of fraud, over- or under-payments and other errors, to take remedial action and update their records accordingly.
- 4.11 The purpose of this Code is to help ensure that the Commission and its staff, auditors and all persons and bodies involved in data matching exercises comply with the law, especially the provisions of the Data Protection Act 1998, and to promote good practice in data matching. It includes guidance on the notification process for letting individuals know why their data is matched and by whom, the standards that apply and where to find further information.
- 4.12 Layered notices –
- The Information Commissioner recommends a layered approach to fair processing notices. Usually there are three layers: summary notice, condensed text and full text. Taken together, the three layers comprise the fair processing notice. Participants should decide the content and means of issue of fair processing notices for themselves.

5. National Fraud Initiative 2012/13

5.1 In accordance with the Code of Data matching Practice 2008 the Key Contact has been notified to the Audit Commission. The main functions of this role in addition to those specified in Item 4.5 are -

- To ensure that the data has been obtained fairly so that it can be released for the exercise and submit the certificate of fair processing compliance
- Ensure that the data complies with the required formats and submitted to the Commission on time
- Manage the output data on Audit Commissions web site and act as local administrator to the site to manage enrolment and training of investigators
- Co-ordinate the Authority's results and liaise with the Commission
- Provide advice, training and assistance to investigators

5.2 A time table for the forthcoming NFI 2012/13 has the following deadlines:

- 28th September 12 - Submission of Fair processing Compliance return
- 8th October 12- Data extraction date
- 8th October onwards - Data to be supplied to the Commission
- 29th January 2013 – Output data expected from the Audit Commission

5.3 As previously advised the NFI is a national data matching exercise of data from Authority's key financial systems to identify potential fraud or error. For the NFI 2012/13 all Local Authorities are required to provide the mandatory data :-

- Payroll
- Pensions
- Trade creditors' payment history and Trade creditors' standing data
- Housing
- Housing benefits² **
- Council tax (not required until 2013)
- Electoral register (not required until 2013)
- Students eligible for a loan³ **
- Private supported care home residents
- Transport passes and permits (including residents' parking, blue badges and concessionary travel)
- Insurance claimants
- § Licences - Market trader/operator, Taxi driver and (new) Personal licences to supply alcohol

(NB some data sets ** will be obtained from other sources i.e Benefits Department for Work and Pensions and Students data to be provided by Student Loan Company (SLC).

- 5.4 Whilst participation in the NFI's is mandatory all participants need to ensure that all information to be released for the NFI is fair processing compliant under the Data Protection Act 1998.
- 5.5 Tower Hamlets achieves fair processing compliance in two processes :-
- The fair processing statement is included in all key data collecting applications held by the Authority. All applications advise the applicants that the Authority has a duty to protect the public purse, and that as part of the declaration signed by applicants they understand that the Authority has this duty and that it will take steps to recover or redress abuse and share information with other Authorities or agencies for the prevention and detection of crime. This is consistent with the Authority's Anti Fraud and Corruption Strategy.
 - In addition data subjects are notified of the Authority's participation in the current NFI's by a range of processes..
- 5.6 A layered processing of notifications has been used in the past accordance with the code of Data Matching practice 2008 and this is currently in progress at time of writing the report, with the following :-
- First Layer to advise the data subjects that LBTH is taking part in the next National Fraud Initiative and the name of the officer at LBTH who should be contacted should more details be required.
 - So far we have achieved compliance with fair processing on Council Tax (annual Council Tax Statement in March 2012) and Pensioners via their annual newsletter in April 2012.
 - Employees will be notified (including school governors) in early September after the summer recess.
 - Articles are also to be released in the Members bulletins and Managers Briefing before the deadline.
 - Tenants notifications will be made via local free publication "East End Life" press release this will also include translated articles for other local newsletters
 - Second layer is a summary of what the NFI is about and who to contact at the Authority and provide link of the Audit Commission site for detailed information, this has been achieved by a summary outline of the exercise and who to contact for more information being publicised on the Council's web site on the following link www.towerhamlets.gov.uk/nfi
 - Third layer is the detailed information held on the Audit Commission web site. <http://www.audit-commission.gov.uk/nfi/Pages/default.aspx>

- 5.7 This year a new Flexible Matching Service (FMS) has been introduced by the Commission, which is designed to compliment the two year mandatory batch data matching service.
- 5.8 This new service allows participants to submit new data and also allowing a re performance of the existing NFI matches at a time the authority chooses.
- 5.9 There is also the option for a group of authorities or participating organisations to arrange a match to their chosen risk area, in order to target their specific needs.
- 5.10 There are additional fees for this service, which will depend on the volume of data submitted. Where less than 1,000 records are submitted the results are expected to be available within the hour. The cost is £300.00 per dataset.

6. Comments of the Chief Financial Officer

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

7. Concurrent Report of the Assistant Chief Executive (Legal Services)

- 7.1 There are no immediate legal implications arising from this report.

8. One Tower Hamlets

- 8.1 There are no specific one Tower Hamlets considerations.
- 8.2 There are no specific Anti-Poverty issues arising from this report.

9. Risk Management Implications

- 9.1 This report highlights the use of the National Fraud Initiative to detect and prevent fraud. The report also identifies potential risks to the control framework that may be exploited by fraudsters.

10. Sustainable Action for a Greener Environment (SAGE)

- 10.1 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 :

N/A

Tony Qayum, 0207 364 4773

The National Fraud Initiative

National report

May 2012



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), local police bodies and other local public services in England, and oversees their work. The auditors we currently 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.

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Summary and recommendations

Summary

This report focuses on the outcomes from the National Fraud Initiative (NFI), the Audit Commission's data matching exercise to help prevent and detect fraud, overpayments and errors.



The National Fraud Initiative continues to play a key role in the fight against fraud.

The success of the NFI is founded on well-established partnerships.

- The NFI involves the public audit agencies in other parts of the UK – Audit Scotland, the Auditor General for Wales and the Northern Ireland Audit Office.
- The NFI matches data provided by some 1,300 participating organisations from across the public and private sectors against data provided by other participants, and key data sets provided by government departments and other national agencies.
- The organisations that participate in the NFI are responsible for following up and investigating the matches, and identifying frauds and overpayments.

£229m
of fraud,
overpayments
and errors
identified by the
NFI in England
since May 2010

The NFI continues to play a key role in the fight against fraud.

- Since our last report in May 2010 the NFI in England has identified almost £229 million of fraud, overpayments and errors.ⁱ ⁱⁱ This is made up of £139 million for 2010/11 plus £90 million of outcomes not previously reported from earlier exercises.ⁱⁱⁱ
- The NFI also identified £47 million of fraud, overpayments and error in Scotland, Wales and Northern Ireland, bringing total outcomes since the last report to £275 million.
- Since its launch in 1996, the NFI has enabled the participants to detect fraud, overpayments and errors totalling £939 million. This includes £127 million detected in Scotland, Wales and Northern Ireland.

The main categories of fraud identified by the NFI in England continue to relate to pensions, council tax and housing benefit.

- £98 million of pension fraud and overpayments.
- £50 million of fraudulent or wrongly received, council tax single person discount (SPD) payments.
- £31 million of housing benefit fraud and overpayments.

The exercise also produced other significant results.

- 164 employees were dismissed or asked to resign because they had no right to work in the UK.
- 235 properties were recovered for social housing.
- 321 false applications were removed from housing waiting lists following a pilot with London borough councils.^{iv}
- 731 people were prosecuted.
- 31,937 blue badges and 51,548 concessionary travel passes were cancelled.

Most bodies have sound arrangements in place for managing the NFI and for investigating data matches, but there is still scope to do better.

- The NFI matches are not seen by some participants as a valuable source of intelligence and therefore they are not being given appropriate priority.
- Not all participants are making use of the tools within the web application to help them identify high-priority matches linked to local risks.

- ⁱ The figures used throughout this report for fraud detections, overpayments and recoveries include both already delivered and estimated outcomes. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without NFI data matching. A more detailed explanation is included in Appendix 1.
- ⁱⁱ Where applicable, amounts included in this report have been rounded to an integer, 0.5 and above were rounded up and under 0.5 rounded down.
- ⁱⁱⁱ For national reporting purposes, outcomes are collated at two yearly intervals as at 31 March. Outcomes submitted by participants after this date are included in subsequent reports.
- ^{iv} We are looking into the potential to roll this out in future to all social landlords.

- The more effectively participants follow up their NFI matches, the more benefits they can realise.
- Some participants are using alternative matching services from commercial providers before they have followed up their NFI matches.

Despite the government’s strong focus on tackling fraud, central government is still not sharing in the benefits of the NFI.

- Although the Audit Commission’s audited bodies are required to participate in the NFI, central government bodies can choose whether or not to do so.
- The Department for Communities and Local Government (DCLG) and the Highways Agency were the only central government bodies that took part in the NFI 2010/11 on this basis.

Only a few housing associations are using the NFI to tackle the problem of tenancy fraud.

- Despite clear evidence that the NFI is a powerful tool for detecting tenancy fraud and the increased focus on housing tenancy fraud over the last two years, fewer than 6 per cent of registered housing associations currently elect to take part in the NFI.

The NFI could secure even better outcomes if it were extended to cover non-fraud purposes.

- There is scope to increase the effectiveness of the NFI by extending it to cover purposes other than the detection and prevention of fraud – for example, the recovery of debt and arrears owing to public bodies, as provided for in Section 32H of the Audit Commission Act 1998.

The Commission will continue to develop the NFI to address emerging fraud risks, with an increasing focus on fraud prevention.

- DCLG has confirmed the government intends to continue the NFI after the Audit Commission’s abolition. The Commission will continue to run the NFI until its data matching powers are transferred to a new organisation.
- The NFI launched a real-time service in September 2011, marking an important shift from fraud detection to fraud prevention.
- The Commission has consulted audited bodies on how the real-time service should be expanded to help them target fraud prevention – for example, to identify the anomalies that may signal fraud before an application is approved.

Recommendations

All audited bodies should ensure they maximise the benefits of their participation in the NFI.ⁱ

In particular, they should:

- use the tools within the web application to help them identify high priority matches linked to local risks;
- use the tips for working smarter in Table 4; and
- follow up the NFI matches before using alternative matching services from other providers.

Local authorities should take steps to retain the capability to follow up matches not related to housing benefit, after the proposed Single Fraud Investigation Service (SFIS) is introduced.

The government should:

- require all central government departments and their arm's length bodies to take part in the NFI; and
- bring forward Orders to extend the Commission's data matching powers to non-fraud purposes.

DCLG and the Homes and Communities Agency should encourage all housing associations to take part in the NFI.

What the Audit Commission will do

The Audit Commission will:

- continue to develop the NFI to include a flexible range of data matching services to tackle emerging fraud threats and meet the needs of participants;
- work with the National Fraud Authority (NFA) to deploy the NFI to support the implementation of the *Fighting Fraud Locally* strategy for local government;
- work with other organisations such as the Cabinet Office and the Department for Work and Pensions (DWP) to extend the benefits of the NFI more widely; and
- work with the new owner of the NFI to ensure a smooth transfer of this function.

ⁱ Councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public bodies in England specified in Schedule 2 of the Audit Commission Act 1998.

Chapter 1: Introduction

This chapter explains what we mean by fraud and the role the Audit Commission plays helping local public bodies to counter it.

1 Fraud is a crime – and not a victimless crime. In the public sector every pound lost through fraud is a pound taken from taxpayers and potentially deprives the users of essential services.

2 The NFA estimates that fraud costs the UK £73 billion each year (Ref. 1). Losses from public sector expenditure fraud are estimated to cost £20.3 billion a year. This amounts to £390 for every adult living in the UK.



Organisations need effective counter-fraud policies that stress the unacceptability of fraud.

3 Organisations need strong anti-fraud cultures and effective counter-fraud policies and procedures that stress the unacceptability of fraud and its serious consequences. They need to check regularly the effectiveness of their arrangements for preventing and detecting fraud.

4 By working together to fight fraud, public bodies can ensure that the time and money saved is available to spend on providing services and benefits to those in society that most need it.

5 The Audit Commission plays an important role in protecting the public purse against fraud. Since 1996, we have run the NFI data matching exercise every two years to help detect and prevent fraud.

6 Each year, our auditors review the fraud prevention and detection arrangements put in place by audited bodies such as councils, NHS trusts, local police bodies, and fire and rescue authorities. Nationally, we publish the results of our annual survey of detected fraud in local government in *Protecting the Public Purse: Local Government Fighting Fraud* (PPP 2011), which also includes guidance on best practice in tackling current fraud threats (Ref. 2).

7 This report is intended for elected members, non-executives and senior officers at our audited bodies. Government departments, other national organisations and the private sector will also find it of interest. Alongside this report we are also publishing a checklist for local authority elected members, as well as case studies of successful outcomes. More information is on our website at www.audit-commission.gov.uk/nfi

Chapter 2: The NFI

This chapter describes the NFI and shows how it helps protect the public purse.

8 The key strength of the NFI is that it brings together a wide range of different organisations, working together in partnership to tackle fraud. Fraudsters often target different organisations at the same time, using the same fraudulent identities. The NFI combats this threat by comparing information held by different organisations to identify potentially fraudulent claims and overpayments.

9 We provide organisations that take part in the NFI with secure access to their matches, which they investigate. For example, when data matching identifies a person as being listed as dead but still in receipt of a pension, the relevant body will investigate and, if appropriate, stop pension payments.

10 Payroll matches can identify employees who have no right to work in the UK. They may also identify employees who may be committing benefit fraud against other participants. Table 1 shows more examples of the data matches that we undertake and why.

11 A match does not automatically mean fraud. Often, there is a straightforward explanation for a data match that prompts bodies to update their records and to improve their systems.

12 Data matching showing little or no fraud and error assures bodies about the effectiveness of their control arrangements. It also strengthens the evidence for the body's Annual Governance Statement.

The key strength of the NFI is bringing together a wide range of organisations, in partnership to tackle fraud

Table 1: **Examples of the data matches the NFI have undertaken**

Data match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Payroll records to records of failed asylum seekers and records of expired visas.	Obtaining employment while not entitled to work in the UK.
Blue badges records to records of deceased people.	A blue badge being used by someone who is not the badge holder.
Housing benefit payments to records of housing tenancy.	Claiming housing benefit despite having a housing tenancy elsewhere.
Council tax records to electoral register.	A council taxpayer gets SPD because the person is living with other countable adults, which means the council taxpayer does not qualify for a discount.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

Source: *Audit Commission*

13 The NFI works within a strong legal framework, including the Data Protection Act 1998, which protects individuals' personal data.

14 Data matching exercises are carried out under statutory powers in Part IIA of the Audit Commission Act 1998 (Ref. 3), which contains important safeguards on the use and disclosure of data, including the requirement for a statutory *Code of Data Matching Practice* (Ref. 4).ⁱ

15 The Code helps ensure that all those involved in the NFI exercises comply with the law, especially the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards that the Commission has always considered essential to the effectiveness of the NFI. It also promotes good practice.

16 The NFI's data matching systems and processes comply with all relevant government information security standards.

The NFI works within a strong legal framework, which protects individuals' personal data

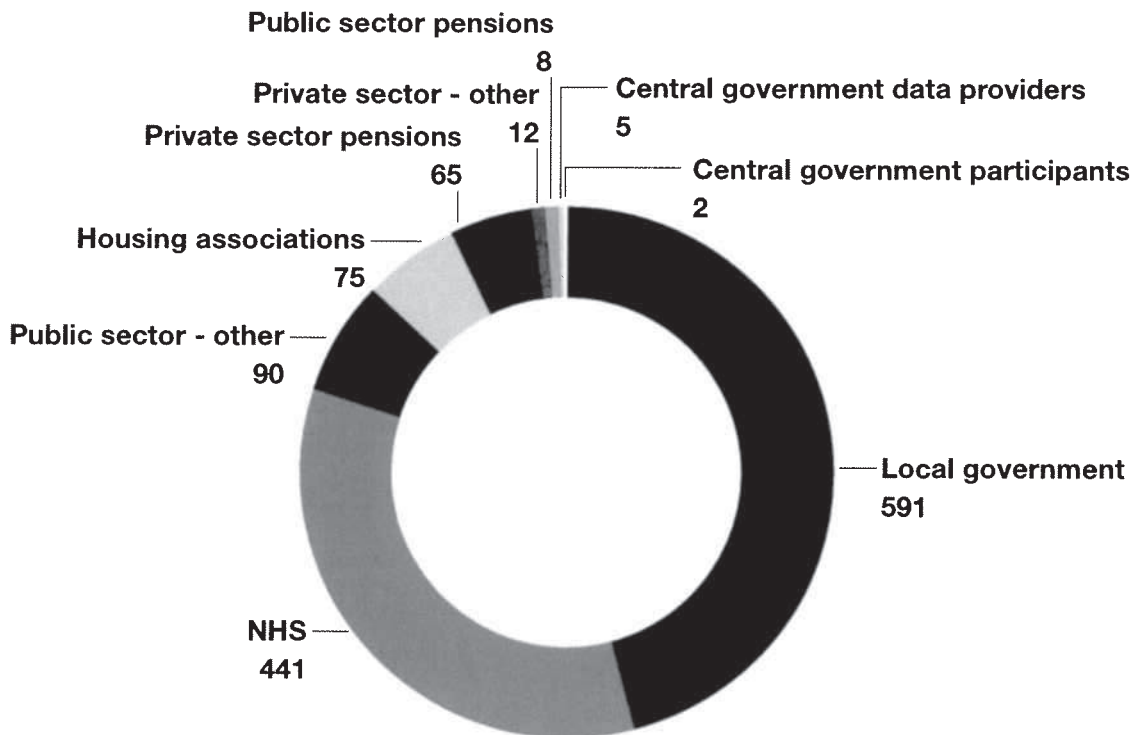
ⁱ The first such Code was laid before Parliament in July 2008, after extensive consultation, including with the Information Commissioner. The Code is available at www.audit-commission.gov.uk/datamatchingcode

17 The latest NFI exercise started in October 2010 and processed nearly 8,000 data sets from some 1,300 organisations, including 77 from the private sector (Figure 1). For the first time, all the firms providing audit services to the Commission included their employee data in the NFI exercise.

The latest NFI data matching exercise processed nearly 8,000 data sets from some 1,300 organisations

18 The participation of the private sector not only helps to detect illegal activity in the wider economy, but the data provided also helps to identify additional fraud against public bodies. For example, by matching private sector payroll records to housing benefit records, we may identify cases where benefit is being claimed fraudulently, because the claimant is working and not declaring their income. This wider information matching also helps detect fraudsters working across different sectors, sometimes using the same fraudulent identities.

Figure 1: **Types of organisation taking part in the NFI**



Source: Audit Commission

19 The NFI 2010/11 produced 4.6 million data matches – an average of 3,586 for each organisation. We rated 18 per cent of matches in need of urgent action, because they showed a high risk of fraud. Matches were investigated during 2011 and early 2012.

20 The success of the NFI depends on organisations investigating the matches. To help organisations with their investigations, we provide:

- a secure application that is easy to use and provides a full case management system for investigators;
- online training on the functionality available to assist investigators;
- prioritised reports highlighting the data matches that show a high chance of fraud;
- guidance, briefings and help desk support; and
- good practice examples of successful follow-up approaches – for example, a step-by-step guide to investigating council tax SPD matches, including proforma letters to send to those appearing in a match.

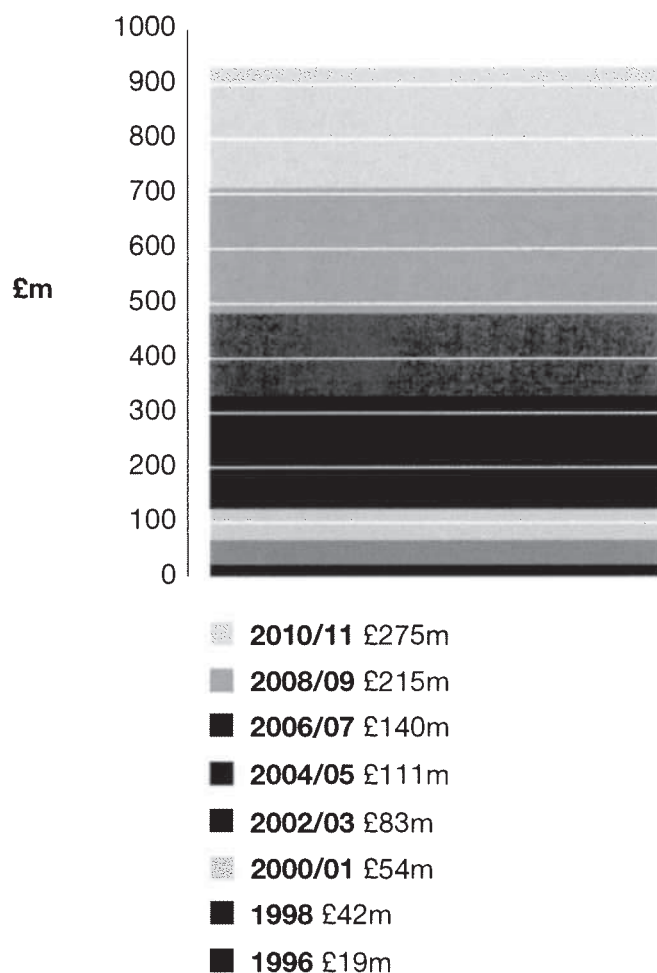
21 The NFI delivers good value for money for each participant, using economies of scale to secure maximum benefits at least cost. The total direct cost of running the 2010/11 exercise was £2.6 million, which we recover by charging fees to those who take part. For example, a London borough pays £4,150 and a mid-sized district council pays £2,200. The financial benefits resulting from the NFI are 106 times greater than the direct cost.

The financial benefits resulting from the NFI are 106 times greater than the direct cost

Chapter 3: The NFI across the UK

22 The Commission runs the NFI in partnership with the public audit agencies in other parts of the UK – Audit Scotland, the Auditor General for Wales and the Northern Ireland Audit Office. The NFI also involves other national bodies and government departments. The involvement of the public audit agencies and other national bodies is a key factor in the success of the NFI and serves the public interest in the fight against fraud.

Figure 2: **Outcomes identified by the NFI across the UK as reported to the Audit Commission by participants**



Source: Audit Commission

23 Each agency carries out data matching under its own powers, but uses the Audit Commission's existing systems, processes, and expertise. This delivers economies of scale, reduces the cost for organisations taking part and allows cross-border matching.

24 The total fraud, overpayments and errors detected across the UK since the NFI began amounts to £939 million (Figure 2).

25 In Scotland, investigation of data matches found fraud and overpayments of £20 million. In Wales, detected frauds and overpayments amounted to £6 million. In Northern Ireland frauds and overpayments totalled nearly £21 million. The figure for Northern Ireland includes £12 million outcomes not previously reported from work on the NFI 2008/09 unpaid domestic rates matches.ⁱ Aggregate outcomes for bodies in Scotland, Wales and Northern Ireland since they first started to run the NFI are £127 million (Figure 3).

26 Each national audit agency reports on the NFI separately for their geographical areas.ⁱⁱ The rest of this report focuses on the outcomes for the NFI in England.

£939m
of fraud,
overpayments
and errors
detected in the
UK since the
start of the NFI

ⁱ Domestic rates are a property tax based on the valuation of a home. It is used to fund both local and regional services in Northern Ireland.

ⁱⁱ The NFI results in Scotland will be available at www.audit-scotland.gov.uk in Wales, at www.wao.gov.uk and in Northern Ireland, at www.niauditoffice.gov.uk

Figure 3: Cumulative total over period of NFI (1996-2012) £939 million



Source: Audit Commission

Chapter 4: Results of the NFI in England

This chapter sets out the results of the NFI in England since we reported in May 2010. It highlights the successes in tackling key risks (Table 2) and shows why organisations should take part in the NFI.

27 Since we last reported in May 2010, the NFI has identified fraud, overpayments and errors in England totalling almost £229 million. This represents a 25 per cent increase on the total for the previous reporting period (£183 million).ⁱ

28 The total comprises outcomes already delivered of £91 million and estimated outcomes of £138 million (Appendix 1). These estimated outcomes represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

25%
**more fraud,
overpayments
and errors
were identified
by the NFI
since the May
2010 report**

ⁱ For national reporting purposes outcomes are collated at two yearly intervals as at 31 March. Outcomes submitted by participants after this date are included in subsequent reports.

Table 2: **A comparison of cumulative outcomes by risk area**

Activity area	2008/09 £million	2010/11 £million	Percentage increase/ decrease
Pensioners – public sector	65	91	+40
Council tax SPD	56	50	-11
Housing benefit ⁱ	24	31	+29
Housing (including right to buy and recovered properties)	7	18	+157
Blue badges	8	16	+100
Payroll (including salary payments to illegal workers)	6	8	+33
Pensioners – private sector	13	7	-47
Trade creditors duplicate payments	3	5	+67
Private residential care homes	1	3	+200
Total	183	229	+25

Source: Audit Commission

29 Table 3 summarises the key results in England. As well as significant financial success, other results included:

- 235 properties were recovered for social housing;
- 246 members of staff were dismissed or resigned;
- 731 prosecutions; 564 administrative penalties; and 689 official cautions; and
- 31,937 blue badges and 51,548 concessionary travel passes were cancelled.

30 The rest of this chapter reports the results from some of the specific areas of the NFI data matching.

ⁱ The 2008/09 figures include an estimate for the value of sanctions applied. This estimate is not included in the 2010/11 figure.

Table 3: **Key results in England**

	England only	
Housing benefit fraud, error, overpayments	2008/09	2010/11
Local Government employees	938	1,513
Students	1,183	1,400
NHS employees	315	611
Immigration	49	36
Local Government pensioners	1,721	1,467
Housing benefit sanctions		
Successful prosecutions	269	636
Official cautions	441	689
Administrative penalties	308	564
Housing		
Properties recovered	97	235
Right to Buy wrongly awarded	16	7
Council Tax SPD incorrectly awarded	53,926	39,015
Mortality screening		
Pensioners	2,163	2,910
Residents in private care homes	52	389
Blue badges cancelled	16,535	31,937
Concessionary travel passes cancelled	21,534	51,548
Other		
Duplicate creditor payments	638	1,815
Total employees dismissed or resigned	256	246

Source: Audit Commission

Findings

Immigration fraud

31 The NFI matches data from the UK Border Agency (UKBA) about refused and expired visas; visas where there is no right to work; and failed asylum seeker applications, against data on housing benefit claims, payroll records and housing tenancy.

32 Employers have a statutory duty to satisfy themselves that a potential employee is entitled to work in the UK. Employers are liable for a penalty of up to £10,000 if they employ an illegal worker (Ref. 5).

33 We worked closely with UKBA to identify ways we could improve NFI 2010/11. In particular, we automated the way a body taking part in the NFI gets an immigration update, fully integrating it into the web application. This means organisations can access the most up to date information before action is taken.

34 Matching UKBA data led to:

- the dismissal or resignation of 164 employees from 74 organisations, including local authorities, NHS hospitals, primary care trusts and housing associations;
- councils identifying 36 housing benefit overpayments amounting to £0.37 million;
- the recovery of one property for use as social housing;
- one tenant awaiting deportation; and
- employers identifying £3 million of salary payments to illegal workers.

Matching UKBA data led to the dismissal or resignation of 164 employees from 74 organisations

35 Case study 1 provides an example of immigration fraud discovered because of NFI matches.

Case study 1

Moorfields Eye Hospital NHS Foundation Trust

A match between the trust's payroll records and UK visa data highlighted a hospital porter who had worked for the trust for six years, despite having had no right to work or stay in the UK since 2004.

The investigation revealed that the passport presented for pre-employment checks had included a forged stamp indicating he had indefinite leave to remain in the country. The porter was arrested at work in January 2011 and immediately suspended. He was dismissed the following month.

He pleaded guilty at court and was given a 15-month prison sentence. He will be deported after serving his sentence.

Source: Audit Commission

Housing benefits

36 The NFI matches housing benefit records against data sources that councils do not readily have access to, including NHS payroll, central government pensions, student loans and housing tenancy.



Matches may identify where a person is claiming a benefit that they are not entitled to.

37 Matches may identify where a person is claiming a benefit that they are not entitled to. For example, matches can identify employed people who are claiming they have no income. Case study 2 provides an example of a fraud case identified.

Case study 2

London Borough of Ealing

As a result of the investigation of a match between housing benefit and student loans records, a student was found to have committed housing benefit fraud for the second time. His failure to declare income from his student loan meant he was overpaid nearly £6,000 of housing benefit.

He was successfully prosecuted and given a six-month suspended prison sentence and ordered to carry out 200 hours of unpaid community work.

Source: Audit Commission

38 In July 2011, DWP reported that, in 2010/11, councils across England, Scotland and Wales paid out over £26.6 billion of housing and council tax benefit. The equivalent fraud losses are about £350 million each year (Ref. 6). Housing benefit and council tax benefit frauds were detected by councils more frequently than any other types of fraud.

39 Housing benefit continues to account for a significant proportion of the total fraud identified through the NFI.

40 Since our report in 2010, the NFI has helped to uncover additional benefit frauds and overpayments worth £31 million. Councils are taking action to recover about 69 per cent of the overpayments, including:

- £9 million where pensioners from the civil service, armed forces, teaching and the NHS claimed benefits without fully declaring their pension income; and
- almost 6,200 housing benefit cases, of which 25 per cent were proven fraud cases.ⁱ

41 Action taken against benefit fraudsters included 636 prosecutions, 564 administrative penalties and 689 cautions.

Housing benefit continues to account for a significant proportion of the total fraud identified through the NFI

ⁱ The other 75 per cent were classified as either suspected fraud, claimant or administrative error.

Pensions

42 The NFI matches pension information to data about deceased people, which is provided by DWP and the Disclosure of Death Registration Information from the General Registrar's Office. This is known as 'mortality screening'.

43 Frauds and overpayments of pension often occur when pensioners die, but relatives fail to tell the authorities of the death and continue to receive the payments.

44 Although we run mortality screening as part of every NFI, we continue to identify consistently high levels of fraud cases, indicating that new pension frauds are starting regularly.

45 Since our report in 2010, the NFI has identified an extra 2,910 cases where pensioners had died, but payments were continuing. Of these, 282 cases were identified by private sector pension schemes. Actual and estimated overpayments, totalling £98 million, were detected and prevented (Appendix 1).

46 The NFI also enables pension schemes to identify pensioners who have returned to work and may have wrongfully avoided pension decreases by not telling the pension scheme administrators. There were 116 such cases, involving overpayments of £0.73 million.

47 Pension data also enables councils to identify housing benefit fraud where a pension is not declared on a benefits claim. Case study 3 provides an example of a fraud case identified in this way.

£98m
of actual and
estimated
overpayments
of pensions
have been
identified
since 2010

Case study 3

Tamworth Borough Council

A match between housing benefit and pensions records led to a joint investigation by Tamworth Borough Council and DWP into a housing benefit claimant who had failed to declare his NHS pension, to either the council or DWP, since 2002. The resulting overpayments totalled £54,000.

He was successfully prosecuted and sentenced to six months' imprisonment, suspended for nine months, and ordered to repay the £54,000.

Source: Audit Commission

Injury pensions

48 Retired police officers and firefighters can receive incapacity benefit or industrial injury and disablement benefit when they are injured at work. They may also be entitled to an enhanced occupational pension because of work-related injuries. Reductions in payment may be required when incapacity benefit, industrial injury, disablement benefit and enhanced occupational pension are received for the same injury.

49 In our May 2010 report, we set out details of a new data match designed to target the emerging risk that such pensioners were not declaring relevant state benefits and, as a result, injury pensions were being overpaid. Because of the success of the pilot match, it was included as a core mandatory data set for the NFI 2010/11 exercise.

50 Since we reported in 2010, 312 cases have been identified with overpayments totalling £4.48 million.

51 These outcomes could have been higher but many police and fire authorities had difficulties securing information from DWP that is needed to investigate these matches. We will work with DWP to agree a protocol on exchange of information, to help all bodies taking part in the NFI to identify more overpayments in this area.

Blue badges

52 Councils are responsible for awarding blue badges, which provide a range of parking concessions for people with severe mobility problems who have difficulty using public transport. About 1.7 million blue badges are used in England (Ref. 7). In London, this concession extends to the congestion charge.

53 Fraudsters are exploiting the scheme by forging badges and stealing badges from cars. Abuse also occurs when badges remain in use, or are renewed by people after the death of badge holders. In *PPP 2011* (Ref. 2) we reported that there is a black market for badges, which can change hands for as much as £500.

54 The NFI matches blue badge information to data about deceased people. Data matches have enabled councils to cancel a further 31,937 badges since we last reported. Case study 4 provides an example of a fraud case identified.

55 On 1 January 2012, the new Blue Badge Improvement Scheme procured by the Department of Transport as part of the Blue Badge Reform Programme was made available to local authorities (Ref. 8). The scheme, which is being phased in over the next three years, is designed to help to prevent fraud and enable more effective monitoring of cancelled, lost or stolen badges.

56 We support these new arrangements and will continue to undertake the deceased data matching to assist in identifying potential abuse of the badge scheme.

Case study 4

City of London Corporation

The investigation of a match between blue badge and deceased people records identified an individual who had fraudulently obtained disabled parking permits from the Corporation. He had completed renewal application forms under his mother's name, even though she had died almost a year before.

He admitted two charges of fraud by false representation. He was given a two year conditional discharge, and ordered to contribute £300 towards prosecution costs.

Source: Audit Commission

Payments to private residential care homes

57 The NFI matches information about private residential care home payments to data about the deceased, to identify where payments may be continuing for people who have died.ⁱ

58 In general, councils have good systems in place and are already aware of the deaths when they receive the NFI matches. But a significant number are not, and this highlights the value of the match.

59 Councils identified 389 cases where payments had continued to private residential care homes after a resident's death. Overpayments amounted to £3 million and in 95 per cent of cases the overpayment has been, or is being, recovered.

Social housing

60 Pressure on social housing is increasing and tenancy fraud has become a major problem. In its *Laying the Foundations Strategy* DCLG stated that there were 4.5 million individuals, or 1.8 million households, waiting for social housing (Ref. 9). *PPP 2011* (Ref. 2) estimated that registered social housing providers may have lost control of the allocation of at least 50,000 social housing properties in England, because of housing tenancy fraud.

ⁱ Where councils agree that a resident needs to move into a residential care home, they may pay part or all of the care home's fees.

61 Tenancy fraud should therefore be a key priority for councils and housing associations. The NFI helps fight this fraud by undertaking data matching to identify false housing applications and properties that are sublet unlawfully.

62 Since our report in 2010, social landlords were able to recover 235 properties from those in unlawful occupation, and reallocate the properties to genuine tenants. This brings a significant financial benefit because it avoids placing prospective tenants in expensive temporary accommodation.

63 This outcome is in part the result of an extra data matching exercise run in December 2009, supported by DCLG, specifically to address the problem of unlawful subletting. DCLG provided funding for all housing associations with over 1,000 properties to take part in this exercise.

64 Although the outcomes were positive, it was disappointing that only 92 of the 400 housing associations invited chose to take part.

65 Case study 5 provides an example of housing tenancy frauds identified through NFI data matching.

Case study 5

Affinity Sutton Housing Association

As part of a new strategic approach to targeting tenancy fraud, national affordable housing provider Affinity Sutton introduced a new neighbourhood auditor team in 2010. As a result of work undertaken by this team on the NFI matches they recovered a total of 12 properties. These homes, which are spread across the country, have been reallocated to families in genuine housing need.

In one case, the investigation of a match between tenancy and housing benefit records led to the recovery of a two-bedroom house in only two weeks. When a visit to the property by the auditor team confirmed that someone other than the tenant was in occupation, the neighbourhood auditor team contacted the tenant at the housing benefit address and recovered the keys.

Source: Audit Commission

Right to Buy

66 The NFI matches tenancy records against applications from tenants to buy their council property, at a discount, as part of the Right to Buy scheme. Matches may identify cases of false information on the application.

67 Seven cases were identified where Right to Buy applications had been wrongly awarded. In addition, councils stopped ten applications that were in progress. Outcomes were, in part, affected by the poor quality of the data provided by some organisations that led to some false matches being generated. These false matches made it more difficult to identify the genuine data matches that did highlight potential fraud.

68 In response to the consultation on the *Laying the Foundations Strategy* (Ref. 10) the Right to Buy discount cap in England was increased to £75,000 with effect from 2 April 2012. These changes are likely to make the Right to Buy scheme more attractive to fraudsters. It will be even more important that all social landlords invest resources in following up the Right to Buy matches provided by the NFI to identify potential abuse of the scheme.

69 We will work with councils and other social landlords to ensure that they maximise the benefits of following up these matches. We will provide more training on the purpose of the matches and we will advise those organisations that provided lower quality data for the NFI 2010/11 how the data can be improved for future exercises.

Payroll

70 There is always a risk that staff will commit fraud. However, in *PPP 2011* (Ref. 2), we reported that the number of frauds perpetrated by councils' own staff is low. In 2010/11 across the UK, there were 1,581 cases (1.3 per cent of total cases). The total value of these frauds was £19.5 million, which represents 10 per cent of the total value of frauds detected by councils.

71 The NFI matches payroll data provided by participants to help identify employee fraud. Matches may show that someone is working for one employer while on long-term sick leave from another.

72 Investigations following data matches have enabled employers to dismiss or seek resignation from 82 employees. Employers have recovered, or are recovering, over £0.34 million of overpayments. Six of the cases were so serious that they led to criminal prosecutions.

73 Our payroll to creditor payments matching was strengthened in 2010/11 to include bank account and address matches. Outcomes now total £123,000. Case study 6 gives an example of a typical outcome.

Payroll to creditor payments (employee fraud)

Matching an organisation's payroll records to its creditor payments records can identify employees with interests in companies trading with their employer. The investigation of such a match at an organisation in the North East of England revealed that a former senior accountant had set up a fictitious company and authorised two payments totalling more than £45,000 to the company over a period of six months.

The former employee has admitted to committing a number of offences and a prosecution case is being prepared.

Source: Audit Commission

Creditor payments

74 The NFI checks creditors' data to identify duplicate payments and wrongly calculated VAT. Apart from the financial benefits, these data matches also help to identify system improvements and weak internal controls.

75 Following a suggestion from the London Borough of Bromley we introduced additional matching rules for the 2010/11 exercise. The new match rules helped to identify duplicate payments where the creditor reference number was different. As a result the number of matches increased by 10 per cent and identified overpayments increased by 56 per cent.

76 Better quality matches helped identify overpayments of £4.7 million compared with £2.8 million in 2008/09. Seventy-eight per cent of the overpayments have been, or are being, recovered.

Council tax SPD

77 A third of households receive SPD and nationally this costs about £2 billion a year (Ref. 11). The NFI matches council tax records to the electoral register to identify individuals receiving the 25 per cent discount on the basis that they live alone, despite the electoral register suggesting that they live with other countable adults.ⁱ

ⁱ In certain circumstances, the discount may apply where another adult who meets specified conditions lives in a property. For example, where another adult living at a property is either severely mentally impaired, a student, an apprentice, a student nurse or a youth training trainee, they can be disregarded when counting the number of adults in the household and the SPD may still apply. Discounts awarded on this basis are excluded from the NFI matching.

78 Since our report in 2010, local authorities have identified an additional £50 million SPD awarded incorrectly. Most of these outcomes have been generated from the matches released in March 2010. Recovery action is being taken in 69 per cent of cases. The cumulative total since we started doing this match is £114 million and councils have stopped discounts in over 99,000 cases.

79 Access to matches from the NFI 2012 SPD exercise was given to councils on 20 February 2012. Outcomes from these matches will be included in our next report.

Pilot matching

Housing waiting lists

80 A pilot exercise on housing waiting lists at London borough councils was undertaken as part of the NFI 2008/09 exercise. The NFI matched housing waiting list data to identify people who were not entitled to social housing. This could have been, for example, because they had another social housing tenancy or they were not eligible for council housing because of their immigration status.

81 Since we reported in 2010, an extra 321 applicants have been removed from housing waiting lists. Following this success we plan to undertake an extended pilot in NFI 2012/13. This pilot will include a greater number, and a wider geographic range, of participants.

Operation Amberhill

82 The Metropolitan Police created the Amberhill database to record data seized in operations against organised groups that were mass producing false identity data. The false identity can be made up or stolen from real people. So far tens of thousands of items of false identity data have been seized.

83 With fraudsters operating across government departments and the public and private sectors, sharing intelligence on known frauds and fraudsters is critical to the fight against fraud.

84 In September 2011, we used the Amberhill database in a pilot that generated matches for over 200 participants. We issued clear guidance to ensure that participants recognised that the NFI match may link to the genuine individual whose identity had been stolen.

85 Following up these matches has identified a wide range of frauds against organisations taking part in the NFI where false documentation had been presented. These include :

- an employee in a position of trust who had worked for over five years with a false identity;
- an individual who fraudulently claimed housing benefit and council tax benefit in excess of £30,000 over a two-year period;
- an individual who had used multiple identities to claim housing benefit at multiple councils;
- tenancies that had been awarded on the basis of fraudulent applications, with investigations also revealing corruption in a housing tenancy team;
- the arrest and prosecution of a licensed Hackney Carriage taxi driver who used a counterfeit driver's licence; and
- an individual who had used a false identity to secure a concessionary travel pass and claim housing benefit.

86 In addition the pilot identified a number of individuals who were unaware that they had been the victim of identity theft. These included an elderly care home resident, a doctor and a local councillor.

87 Because of this success we plan to integrate this match, after taking into account the learning from the pilot, into future NFI exercises on a mandatory basis.

Serious Organised Crime Agency virtual office address

88 A virtual office address is a business, correspondence or administrative address provided as a business service to clients. Virtual offices are generally used to reduce traditional office costs while maintaining business professionalism, but may also be used by an individual to hide their genuine address.

89 In October 2011, we cross-matched the Serious Organised Crime Agency virtual office address data to NFI data sets where the individual would be expected to use a residential address – for example, housing benefit claims. Investigations are still ongoing, but the pilot has already identified:

- a sheltered housing address being used by an absconder from justice to forward correspondence to an address in Thailand; and
- individuals holding concessionary travel passes issued by authorities other than those in whose area they live – to gain travel benefits they're not entitled to.



Modern virtual offices are used to reduce the traditional costs of running a business, but they can also be used for criminal activity.

90 Following completion of the pilot we will undertake a full evaluation to determine whether, and if applicable how, to integrate this match into future NFI exercises.

Blue badges

91 Under the Department for Transport's blue badge scheme, only one blue badge should be issued per person, for personal use. However, councils contacted us expressing their concerns that people had obtained a blue badge from more than one council.

92 We therefore undertook a pilot data match. This included nearly 146 authorities in England and identified people with multiple badges. It has resulted in the cancellation of 76 badges. We are investigating the potential to integrate this match into future NFI exercises on a mandatory basis.

Chapter 5: How can organisations make better use of the NFI?

This chapter looks at how organisations can make better use of the NFI. It considers how the NFI is used at an operational level.

93 The total of £229 million fraud, overpayments and error is a good outcome but there are still a few areas where results could be even better. The NFI's full potential is only realised if the organisations that take part supply all the required data on time and undertake appropriate follow-up investigations of the matches promptly and thoroughly. For each exercise we consider how effectively organisations use the NFI.

Investigating matches promptly and thoroughly is essential to the success of the NFI

94 In this chapter, we:

- comment on the challenges currently facing the organisations taking part in the NFI;
- report how well public bodies perform operationally in supplying data for matching and investigating data matches; and
- look at specific areas where improvements could be made.

Current environment

95 The Audit Commission and Local Government Association report *Work in Progress: Meeting Local Needs with Lower Workforce Costs* (Ref. 12) sets the scene for some of the issues our participants are facing in terms of reductions in workforce budgets and *Tough Times: Councils' Responses to a Challenging Financial Climate* (Ref. 13) looks at the impact cuts in central government funding and reductions in other income are having on service spending.

96 In these circumstances it is important to recognise that organisations can make significant savings by reducing fraud. This can help protect both frontline jobs and services.

97 However, in the course of its regular visits to participating bodies, our NFI team has already noticed that counter fraud and benefit fraud investigation budgets and staffing numbers are being reduced. A number of the NFI key contacts at audited bodies have raised concerns that these reductions will, and in some cases have already, started to impact on the effectiveness of the follow-up arrangements for the NFI matches.

Welfare Reform Act

98 The government is proposing major welfare reforms as part of the *Welfare Reform Bill*.ⁱ The Bill is passing through Parliament at the time of writing. These changes include the transition to *Universal Credit* and the introduction of a *Single Fraud Investigation Service (SFIS)*. The changes will have a significant impact on councils' benefit services.

99 Universal Credit is likely to replace many existing means-tested benefits and tax credits for people of working age including housing benefit. The NFI will continue to match housing benefit data until Universal Credit replaces it fully. We want to match Universal Credit to all NFI data sets in future and will work with DWP to secure this.

100 The SFIS is planned to start in 2013. Local authority investigators will still be employed by their local authority, but they will work to SFIS policies and procedures. This interim arrangement will be reviewed in 2015 once longer-term decisions have been made about how Universal Credit will be managed. The Commission is committed to working with DWP to ensure SFIS gives appropriate priority to investigating existing and future NFI housing benefit matches.

101 Some councils also use housing benefit investigators to investigate other frauds. There is a risk that the introduction of SFIS may impact on the ability of these staff to investigate non-housing benefit fraud. It is important that this risk is addressed and that councils take steps to retain sufficient capability to investigate the NFI matches not related to housing benefit.

Operational issues

102 We asked the external auditors of mandatory NFI participants to assess the arrangements in place for taking part in the NFI and for following up data matches.

103 Auditors were satisfied that most bodies have sound arrangements in place for managing the NFI and for investigating data matches. However, they identified significant weaknesses at a few bodies. These included failing to:

- open all or many of the NFI reports;
- investigate data matches flagged as high risk;
- supply the required data sets for matching;
- follow up issues promptly; and
- meet deadlines.

104 Our NFI team followed up the auditors' assessments and gave support to organisations where that was necessary. Many of these bodies have now taken action to address these weaknesses.

ⁱ Subject to successful passage of the Welfare Reform Bill 2011 through Parliament.

105 Against this background, it is disappointing that Mendip District Council failed to provide data sets relating to residents' parking permits and market traders'.

106 Over the course of the NFI 2010/11 our NFI team monitored participants' progress and carried out a programme of visits to individual bodies. There were three key messages from these visits.

- Participants are not making use of the tools within the web application to help them identify high priority matches linked to local risks. This is an important step particularly if the number of staff working on investigations is limited.
- The NFI matches are not seen by some participants as a valuable source of intelligence and they are not given appropriate priority.
- Some councils are not maximising the benefit of the NFI before procuring similar data matching services from private sector providers.

Specific opportunities to improve

107 Some local public bodies are complying with the basic requirements of the NFI but could, and should, do more.

108 Many organisations have found ways to maximise the benefits of the NFI matches and work more efficiently (Table 4). This enables them to focus their limited resources effectively.

Table 4: **Maximising the benefits of the NFI**

Ways to maximise the benefits and work more efficiently

Ensure all users of the NFI web application watch the online training modules and read the guidance notes so they are aware of the latest time-saving enhancements. The NFI software is continuously being developed and many participants are missing these changes.

Schedule staff resources so time-critical matches such as students can be dealt with as soon as they are received.

Coordinate investigations across departments – SPD matches involving housing benefit, for example – to avoid duplication of effort and ensure all overpayments are identified.

Use the tools within the web application, such as the filter and sort options, to identify the matches that are the highest risk. Do not review every match in every report.

Employ data analysis software such as IDEA® to prioritise matches and use mail merge techniques to aid investigations.

Enter a report comment and report high-level outcomes where available, rather than entering this information against every match. This will save time and free up staff for the investigations.

Respond promptly to enquires from other organisations that take part in the NFI so investigations can be progressed quickly.

Use NFI outcomes and successful prosecutions as a deterrent measure by publicising them locally.

Look at the quality of the data supplied for the NFI before the next exercise. Better data quality will improve the quality of resulting matches.

Source: Audit Commission

Chapter 6: Looking to the future

This chapter looks at our plans to develop and enhance the NFI over the next two years, and the challenges that lie ahead.

109 Following the announcement, in August 2010, of its intention to abolish the Audit Commission, the government has confirmed it intends to continue the NFI. This was reaffirmed in January 2012, in the *Government Response to the Future of Local Audit Consultation (Ref. 14)*.

The government has confirmed it intends to continue the NFI

110 The Commission will work closely with DCLG and other stakeholders to secure the most appropriate home for the NFI. While the Commission retains oversight of the NFI, we will continue to run and develop it, to meet the needs of participants. Once the new organisation responsible for delivering the NFI is identified, we will work with them to ensure a smooth transfer.

111 The NFI aims to serve the public interest by:

- safeguarding public money against losses from fraud or misappropriation; and
- contributing effectively to the fight against fraud.

112 NFI 2012/13, which we will launch in June 2012, will meet these aims by:

- continuing with successful batch data matches and developing the service to offer more flexibility and meet new risks;
- putting more emphasis on fraud prevention through the development of real-time data matching services; and
- extending data matching for fraud purposes to a broader range of organisations and sectors.

113 At the same time, we will continue to seek to extend the remit of the NFI to allow data matching for purposes other than the detection and prevention of fraud for example, to help participants trace individuals who have outstanding debts or arrears.

Developing batch data matching to offer more flexibility and meet new risks

114 We will continue to run data matches every two years but, in addition, we will offer more frequent flexible data matching.

115 In 2011, we ran our pension mortality screening matching again on a voluntary basis. Pension funds welcomed this extra service. We will build on this by offering a service that gives a pension scheme the flexibility to determine when, and how often, this is undertaken.

116 We are also expanding this flexible approach to other areas of the NFI. In response to feedback from participants, the NFI will now allow participants, either individually or as part of a group, to elect to submit batch data for matching at any time. The data submitted, and the frequency of the matching, will be determined by the participants.

117 These flexible services could be used by councils to deliver many of the recommendations made by the NFA in its *Fighting Fraud Locally: the Local Government Fraud Strategy* (Ref. 15). We will be working closely with the NFA and other key stakeholders to deploy the NFI to support the implementation of the strategy across local government.

118 Alongside these new services, we continue to develop the NFI to meet new fraud risks. We will listen to the concerns raised by organisations about emerging challenges facing them. For example, in their responses to the Audit Commission's annual survey of detected fraud in local government, councils have reported significant new fraud risks from the move to personal budgets in social services (Ref. 2). In response, we are looking to develop a pilot data match in this area as part of the NFI 2012/13.

Alongside these new services, we continue to develop the NFI to meet new fraud risks

Increased emphasis on fraud prevention

119 In September 2011, the Commission launched the first NFI real-time data matching service. The launch of this service marks an important shift from fraud detection to fraud prevention. By matching data at the point of application, the NFI can help participants both in the private and public sector to prevent fraudulent applications from being successful.

120 Following consultationⁱ, we are expanding the NFI real-time data matching to cover audited bodies, private sector and other public sector participants.

ⁱ The consultation and summary of responses can be accessed on the Commission's [NFI consultation webpage](#)

121 There will be a menu of data matching options, each of which is recognised by the Commission as assisting in preventing and detecting fraud, and each participant will decide which options it wishes to use to target the actual fraud risks it faces. Mandatory participants will be given delegated authority to determine which data is submitted for matching. They will simply be required to record the basis of their decisions on the NFI web application for the NFI team to review prior to matching the data. Private sector and other public sector participants will, as now, be able to participate on a voluntary basis.

122 The proposed approach could help participants identify potential fraud in a wide range of areas. These include:

- housing waiting list – by submitting details of an individual near or at the top of the list for matching against the NFI datasets to confirm the individual is not ineligible for social housing before offering a tenancy;
- housing benefit – by submitting benefit claimant details for matching against Amberhill information on known stolen/false identities before awarding benefit; and
- blue badges – by submitting applications for matching against deceased person records before issuing the badge.

Extending the coverage of the NFI

Central government

123 We welcome the support that some government departments give to the NFI by providing data about claimants, deceased people and immigration status. We also welcomed the decision by DCLG to become the first central government department to take part in the NFI by submitting its payroll data for matching.

DCLG was the first central government department to take part in the NFI

124 The Cabinet Office Fraud, Error and Debt Taskforce recognises the opportunity the NFI offers. Its interim report published in June 2011 recommended that the NFI should be deployed ‘more widely as a near real-time tool to enable data matching between departments and between central and local government’. (Ref. 16)

125 The Commission has made extensive efforts over the years to encourage departments to participate voluntarily in the NFI. However, we have been unable to get them to do so.

126 It makes good business sense for government departments to take advantage of the benefits of participation in the NFI, particularly in the current economic climate. Even if a body considers their arrangements for preventing and detecting fraud to be sound, taking part in the NFI is still important as it can:

- provide assurances to the accounting officer about the effectiveness of their department's control arrangements, and therefore strengthen the evidence for the Annual Governance Statement;
- identify fraud, and therefore fraud risks, that the department may otherwise be unaware of; and
- help identify fraud against other NFI participants in the wider public sector and the private sector.

127 We will again invite all government departments to take part in the NFI 2012/13 exercise and to access our new range of real-time and flexible batch data matching services. However, we think the government should now take a stronger lead by requiring all government departments and their arm's length bodies to take part in the NFI.

Housing associations

128 Housing associations are not mandatory participants in the NFI. Despite clear evidence that the NFI is a powerful tool for detecting tenancy fraud and the increased focus on housing tenancy fraud over the last two years, fewer than 6 per cent of the 1,632 housing associations registered on 31 December 2010 (Ref. 17) currently elect to take part.

129 Taking part in the NFI will help address tenancy fraud against all housing associations and councils. In *PPP 2011* (Ref. 2) we recognised that current funding arrangements mean there are few, if any, financial incentives for housing associations to tackle tenancy fraud. Although some housing associations are working successfully with councils to tackle tenancy fraud, this is not yet widespread. However, to reduce the current pressures on social housing it is important that everyone plays their part. We believe that all housing associations should show their commitment to tackling tenancy fraud by taking part in future NFI exercises.

130 We will continue to encourage housing associations to take part in the NFI voluntarily. We will also urge the Homes and Communities Agency and DCLG to identify a way to promote the benefits of the NFI to the sector and ensure more housing associations take part in the NFI 2012/13. As the necessary legislative changes are made to transfer the Commission's data matching powers to another body, we hope the opportunity is taken to make housing associations mandatory participants in the NFI.

Government should now take a stronger lead by requiring all government departments and their arm's length bodies to take part in the NFI

The private sector

131 Both the NFI batch and real-time data matching services offer real benefits for companies. They can, for example, provide mortality screening services or identify employees whose immigration status means they have no right to work in the UK. We will continue to work with our existing private sector participants and encourage others to take part.

Widening the NFI for other purposes

132 Section 32H of the Audit Commission Act 2007 gave powers to any Secretary of State to extend the Commission's data matching powers for purposes other than the detection and prevention of fraud. The Act defines these other purposes as being to assist in the:

- prevention and detection of crime other than fraud;
- apprehension and prosecution of offenders; and
- recovery of debt owing to public bodies.

133 In our discussions on the future of the NFI with DCLG and other stakeholders, we will argue the case for extending our data matching powers to cover the additional purposes outlined above. We hope the proposed legislation to transfer the Commission's data matching powers to a new owner will provide the opportunity to do this. We have also suggested a further extension to allow data matching for the prevention and detection of error and maladministration.

134 There is also potential for the NFI to help deliver wider government initiatives, subject to development of a strategy that fits within the general law on sharing of data. This could provide scope for the NFI to assist:

- the NFA and the Cabinet Office in their development of an Intelligence Sharing Roadmap (Ref. 18) – by sharing the details of fraudsters identified through NFI with the proposed counter-fraud checking service; and
- the Cabinet Office's Identify Assurance Programme (Ref. 19) – by using the NFI databases to validate the information provided by an individual.

Appendix 1: Report calculations

An explanation of how we calculate the figures for frauds, overpayments and outcomes used in the report is shown in the following table.

Table 5: **Report calculations**

Data Match	Already delivered (£million)	Estimated (£million)	Total (£million)	Basis of calculation of estimated outcomes
Housing benefit	18.34	13.00	31.34	Weekly benefit reduction multiplied by 13.
Local government pensions	9.67	52.12	61.79	Cabinet Office formula: annual pension multiplied by the number of years until the pensioner would have reached the age of 90.
Other public sector pensions	2.13	27.24	29.37	Same as local government pensions above.
Blue badges	0	16.01	16.01	Number of badges confirmed as deceased multiplied by £500 to reflect lost parking and congestion charge revenue.
Private residential care homes	0.83	1.95	2.78	£5000 per case based on average weekly cost of residential care multiplied by 13.
Tenancy fraud	0	17.63	17.63	£75,000 per property recovered based on average three year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; relet cost; and rent foregone during the void period between tenancies.
Right to buy	0.06	0.26	0.32	£26,000 per application withdrawn to reflect average value of discount.

>>>

Data Match	Already delivered (£million)	Estimated (£million)	Total (£million)	Basis of calculation of estimated outcomes
Payroll	4.50	3.24	7.74	£5,000 per case (£10,000 for immigration cases).
Trade creditors	4.70	0.02	4.72	
Private sector pensions	0.37	6.25	6.62	Same as local government pensions above.
Council tax SPD	50.37	0	50.37	
Total ⁱ	90.97	137.72	228.69	

Source: Audit Commission

ⁱ The amounts included in this table relate to England results only and are subject to rounding.

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- 7 Department for Transport, www.dft.gov.uk/statistics/tables/
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- 11 Department for Communities and Local Government, *Statistical Release Local Authority Council Taxbase – 2011, England*, Department for Communities and Local Government, November 2011.
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- 15** National Fraud Authority, *Fighting Fraud Locally: the Local Government Fraud Strategy*, National Fraud Authority, April 2012.
- 16** Cabinet Office, *Eliminating Public Sector Fraud: The Counter Fraud Taskforce interim report*, Cabinet Office, June 2011.
- 17** The Office for Tenants and Social Landlords, *Annual Report and Accounts 2010-11*, The Office for Tenants and Social Landlords, July 2011.
- 18** Cabinet Office, www.cabinetoffice.gov.uk/resource-library/tackling-fraud-and-error-government-report-fraud-error-and-debt-taskforce
- 19** Cabinet Office, digital.cabinetoffice.gov.uk/category/id-assurance

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk

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Timetable for NFI 2012-13

Activity	Who	How	Timing
Issue the data specifications for each data set	NFI Team (AC)	The data specifications are now permanently available on the NFI web page. An email link will also be sent to all Key Contacts as a reminder.	By Friday, 30 March 2012
Confirm contact details for the 2012/13 exercise	Director of Finance / Key Contact	New participants: The Director of Finance (or Senior responsible Officer) for your organisation should nominate an appropriate Key Contact by email to nfiqueries@audit-commission.gov.uk . Existing participants: Director of Finance (or Senior responsible Officer) will be required to confirm Key Contacts. Key Contacts will be required to confirm users.	From 18 June 2012 onwards
Force a password reset for the 2012/13 web application	NFI Team (AC)	The first time users log on to 2012/13 web application they will be forced to change their password.	From 18 June 2012 onwards
Issue the instructions to bodies participating in NFI 2012/13	NFI Team (AC)	The instructions and final data specifications are now permanently available on the NFI web page. An email link will also be sent to Directors of Finance and 2012/13 Key Contacts as a reminder.	By Friday, 29 June 2012
Check the list of expected data sets	NFI Key Contact	Log in to the 2012/2013 web application and check the list of expected datasets is accurate for your particular organisation (select 'DFU' from the Home page). Submit any changes to the list by Friday 3 August 2012.	By 3 August 2012
Confirm who the web application users will be	NFI Key Contact	Key Contacts should ensure the person(s) responsible for uploading data has a user account on the web application. Users responsible for reviewing matches can also access the training modules in preparation for the 28 January 2013 release.	By 3 September 2012 and when changes occur
The fair processing compliance returns are submitted	Key contact	Submissions are made via the NFI website (external site) . Submission guidance can be found within the help menu labelled 'Form 3 - Fair processing compliance return'.	By 28 September 2012
The data is extracted from the participant systems in accordance with the data specifications	Key contact / User (data upload)	There is a separate data specification for each data set collected. These specifications can be accessed from the detailed data specifications .	Monday, 8 October 2012
The live data is uploaded to the NFI web application	Key contact / User (data upload)	The data is uploaded within the web application via the 'Data file upload' function.	From Monday 8 October 2012*
The 2012/13 exercise matches are available	NFI Team (AC)	An email link will also be sent to Directors of Finance and 2012/13 Key Contacts as a reminder informing them that the matches are available.	From Tuesday, 29 January 2013

* A series of reminders will be issued from 15 October 2012.

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Agenda Item 6.6

Report To: Audit Committee	Date 25 September 2012	Classification Unrestricted	Report No.	Agenda Item No.
REPORT OF: Corporate Director, Resources		2011-12 Treasury Management Outturn Report		
ORIGINATING OFFICER(S): Alan Finch, Service Head, Financial Services, Risk & Accountability Oladapo Shonola, Chief Financial Strategy Officer		WARD(S) AFFECTED: N/A		

Lead Member	Cllr Alibor Choudhury – Resources
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report advises the Committee of treasury management activity for the financial year ended 31 March 2012 as required by the Local Government Act 2003.
- 1.2 The report details the treasury management outturn position based on the credit criteria adopted by the Corporate Director of Resources, the investment strategy for the financial year as approved by Council and the investment returns.
- 1.3 The Council complied with its legislative and regulatory requirements. The key actual prudential and treasury management indicators detailing the impact of capital expenditure activities during the year, with comparators are also addressed in this report.
- 1.4 The Corporate Director, Resources confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.
- 1.5 The Local Government Act 2003 also requires that a sub-committee scrutinises the investment strategy, mid-year and outturn treasury management reports before they are reported to the full Council. As well as the above reports being reported to either Cabinet or the Audit Committee, updates on treasury management activities were also reported to the Audit Committee on 4 separate occasions.

2. DECISIONS REQUIRED

- 2.1 Members are recommended to note the contents of this report.

3 REASONS FOR DECISIONS

- 3.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2011/12. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 3.2
- 3.3 During 2011/12 the minimum reporting requirements were that Full Council should receive the following reports:
- an annual treasury strategy in advance of the year (22 February 2011)
 - a mid-year (minimum) treasury update report (Council 29 November 2011)
 - an annual report following the year describing the activity compared to the strategy (this report)
 -
- 3.3 In addition, the Audit Committee received regulatory treasury management activity update reports on 28 June 2011, 20 September 2011, 12 December 2011 and 20 March 2012.
- 3.4 The regulatory environment places much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.
- 3.5 The annual report of treasury management should assist in ensuring that Members are able to scrutinise officer decisions and check that investment strategy was implemented 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 should receive an annual report 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 should receive an annual report on treasury management activities.

5.2 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Debt activity;
- Summary of interest rate movements in the year;
- Investment activity; and
- Capital expenditure and financing 2011-12

6. **CAPITAL EXPENDITURE AND FINANCING 2011-12**

6.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

6.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£'000	2010/11	2011/12	2011/12
	Actual	Estimate	Actual
Non-HRA capital expenditure	111,348	138,300	130,717
HRA capital expenditure	37,227	37,351	31,615
Total Capital Expenditure	148,575	175,651	162,332
Resources			
Capital Grants	97,119	123,951	106,007
Direct Revenue Financing	7,003	2,596	4,861
Major Repairs Allowance	7,641	12,500	11,382
Developers Contributions	5,328	5,180	12,715
Capital Receipts	5,792	11,240	7,462
Capital Expenditure (Financed from borrowing)	(25,692)	(20,184)	(19,906)

6.3 Actual capital expenditure was less than the estimated figure of £175.651m by £13.3m. The slippage was in the main due to the housing element of the capital programme and High Street 2012 programme.

7 **OVERALL BORROWING NEED**

- 7.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2011/12 unfinanced capital expenditure as set out in the above table, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 7.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies such as the Public Works Loan Board (PWLb) or the money markets, or utilising temporary cash resources within the Council.
- 7.3 The Council's non-Housing Revenue Accounts (HRA) underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR).
- 7.4 The Council's 2011/12 MRP Policy was approved as part of the Treasury Management Strategy Report for 2011/12 on 22 February 2011.
- 7.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR £'000	31-Mar-11	31-Mar-12	31-Mar-12
	Actual	Original Indicator	Actual
Opening balance	437,731	456,421	456,421
Add unfinanced capital expenditure	25,693	20,184	19,906
Add PFI adjustment	41,205	41,090	41,090
Less MRP	(7,003)	(6,955)	(8,392)
Less HRA Settlement	-	(234,000)	(236,200)
Less PFI Adjustment	(41,205)	(41,090)	(41,090)
Closing balance	456,421	235,650	231,735

- 7.6 **Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/12 plus the expected changes to the CFR over 2012/13 and 2013/14. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12.

7.7 The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator. The implementation of housing finance reform from 1 April 2012 abolished the housing subsidy system financed by central government. As a result of the introduction of the new system of self-financing, the Government paid off £236.2m of HRA debt, leading to an equivalent reduction in HRA CFR. A summary of opening and closing CFR balances are set out in below table.

	31-Mar-11	31-Mar-12	31-Mar-12
£'000	Actual	Original	Actual
Non HRA CFR	163,046	163,317	162,060
HRA CFR	293,375	72,333	69,675
CFR (Total)	456,421	235,650	231,735

7.8 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2011/12 the Council has maintained gross borrowing within its authorised limit.

7.9 **Maximum gross borrowing** – the maximum outstanding debt owed by the Council at any time during the financial year.

7.10 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

7.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

£'000	2011/12
Authorised limit	496,079
Maximum gross borrowing position	353,474
Operational boundary	476,079
Financing costs as a proportion of net revenue stream (Non-HRA)	2.12%
Financing costs as a proportion of net revenue stream (HRA)	17.90%

8 **TREASURY POSITION as at 31 March 2012**

8.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2011/12 the Council's treasury position was as follows:

Debt	31 March 2011 Principal	Rate/ Return	31 March 2012 Principal	Rate/ Return
Fixed Rate Funding:				
-PWLB	275,974	7.71%	13,852	7.63%
-Market	13,000	4.37%	13,000	4.37%
Total Fixed Rate Funding	288,974	7.56%	26,852	6.05%
Variable Rate Funding:				
-PWLB	0	0.00%	0	0
-Market	64,500	1.23%	64,500	1.66%
Total Variable Rate Funding	64,500	1.23%	64,500	1.66%
Total debt	353,474	6.40%	91,352	2.95%
CFR	456,421		231,735	
Over/ (under) borrowing	(102,943)		(140,383)	

Investments:	31 March 2011 Principal	Rate/ Return	31 March 2012 Principal	Rate/ Return
In house				
External managers	0	0.00%	0	0.00%
Total investments	201,136	1.20%	207,600	1.52%

- 8.2 Overall debt has reduced significantly as a result of the introduction of the HRA self-financing regime which came into effect on 01 April 2012. As part of the implementation of the HRA reform which brought an end to the subsidy system, the Council received £236.2m from the Government towards redeeming a proportion of HRA PWLB debt to ensure that the HRA is able to support itself going forward.
- 8.3 The under-borrowed amount represents the element of the programme that is currently being funded from internally held resources. Although this reduces the need to borrow from external sources, it does not allow for additional borrowing over and above the CFR. The Council also repaid £25.9m of maturing loans, thereby reducing the overall debt outstanding from £353.4m to £91.4m as at 31 March 2012.
- 8.4 The maturity structure of the debt portfolio was as follows:

£'000	31 March 2011 Actual	2011/12 Original Limits	31 March 2012 Actual	31 March 2012 Actual %
Under 12 months	25,740	10%	932	1.0%
12 months and within 24 months	16,688	30%	13,851	15.2%
24 months and within 5 years	47,102	40%	3,632	4.0%
5 years and within 10 years	113,610	80%	6,064	6.6%
10 years and above	150,334	100%	66,873	73.2%

8.5 The maturity structure for the investment portfolio was as follows:

£'000	31 March 2011 Actual	2011/12 Original Limits	31 March 2012 Actual
Under 1 year	201,136	100%	192,600
More than 1 year	-	25,000	15,000
Total	201,136		207,600

9 THE STRATEGY

9.1 The expectation for interest rates within the strategy for 2011/12 anticipated low but rising Bank of England base rate, starting in quarter 4 of 2011, with similar gradual rises in medium and longer term fixed borrowing rates over 2011/12. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. The Council has continued with its conservative approach of prioritising security and liquidity over yield, Investments would therefore continue to be dominated by low counterparty risk considerations, though this results in a high cost of carry as investment returns are relatively low compared to borrowing rates.

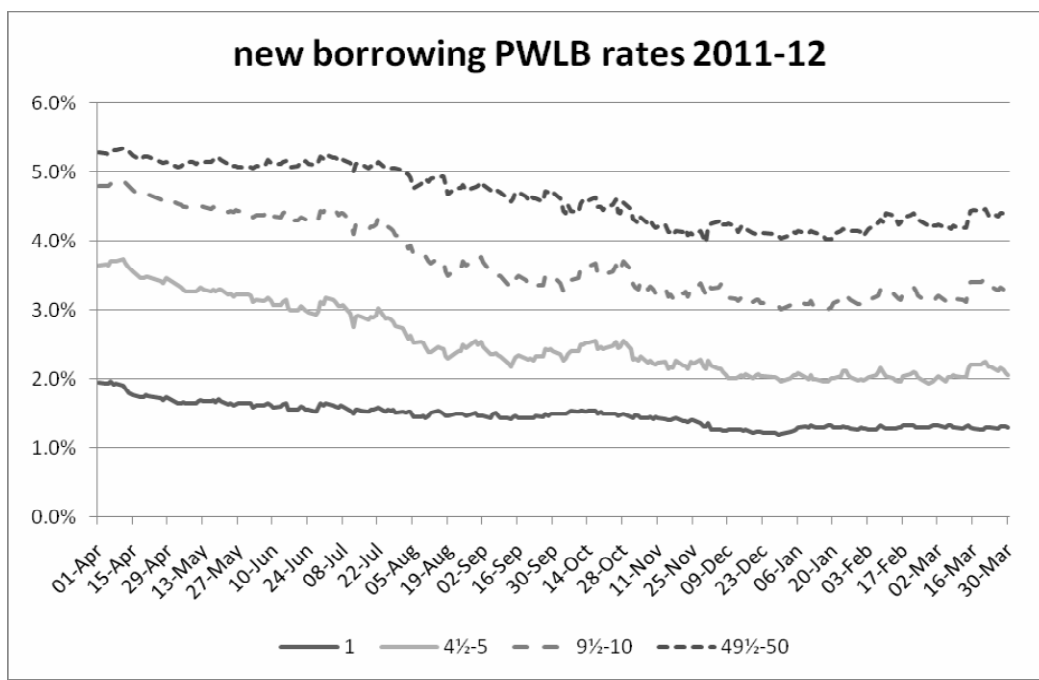
9.2 A revised Treasury Management Strategy was approved by Full Council at its January meeting to incorporate the following changes:

- Allow investment in overseas counterparties from countries that have AAA sovereign rating;
- Increase the individual/group limit for investment in institutions that are wholly or partly owned by the UK government from £30m to £45m;
- Allow up to £25m (previously £12m) of available cash balances to be invested for periods over 364 days up to a maximum of 3 years with a limit of £15m for investments between 2 to 3 years maturity.

9.3 The revised investment strategy for the year end 2011/12 is set out in the table below.

Institution	Minimum High Credit Criteria	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-	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
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
Money Market Funds	AAA rated	In-house	£10m

9.4 Gilt yields fell for much of the year, until February 2012, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts, together with the two UK packages of quantitative easing during the year, combined to depress PWLB rates to historically low levels as illustrated in the chart below.

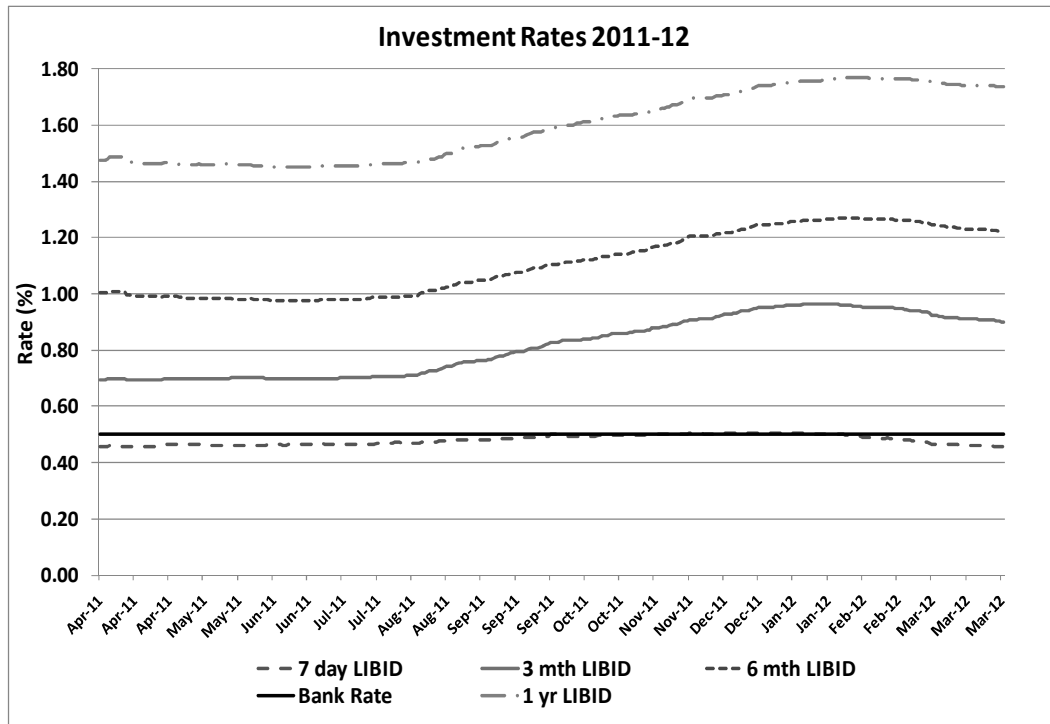


9.5 Risk premiums were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions, meant that the Council remained cautious of longer-term investments and only invest in institutions with high individual credit quality and in countries with AAA sovereign rating.

10 INVESTMENT RATES

10.1 The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. Base rate remained at its historic low of 0.5% throughout the year while market expectations of the start of monetary tightening were gradually pushed further and further back during the year to the second half of 2013 at the earliest.

10.2 The investment rates in 2011/12 are as detailed in the below chart.



11 INVESTMENT OUTTURN

- 11.1 The Council's investment policy is governed by CLG guidance, which was being implemented in line with the annual investment strategy approved by Full Council on 22 February 2011 and the revised investment strategy approved by Full Council on 25 January 2012. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented with additional market data (such as rating outlooks, credit default swaps, bank share prices etc.)
- 11.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 11.3 The Council maintained an average balance of £207.1m of internally managed funds which earned an average rate of return of 1.52%. This compared favourably against the 7-day LIBID of 0.48%.

13. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 13.1. The comments of the Corporate Director Resources have been incorporated into the report of which he is the author.

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

- 14.1 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.
- 14.2 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.
- 14.3 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.

15. ONE TOWER HAMLETS CONSIDERATIONS

- 15.1 Interest on the Council's cash flow has historically contributed significantly towards the budget. This Council's ability to deliver its various functions, to meet its Community Plan targets and to do so in accordance with its obligations under the Equality Act 2010 may thus be enhanced by sound treasury management.

16. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 16.1 There are no Sustainable Actions for A Greener Environment implications.

17. RISK MANAGEMENT IMPLICATIONS

- 17.1 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.

18. CRIME AND DISORDER REDUCTION IMPLICATION

- 18.1 There are no crime and disorder reduction implications arising from this report.

21. EFFICIENCY STATEMENT

21.1 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"

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

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Prudential and Treasury Indicators

Prudential indicators	2010/11	2011/12	2011/12
	Actual	Original	Actual
	£'000	£'000	£'000
Capital Expenditure			
Non – HRA	111,348	138,300	130,717
HRA	37,227	37,351	31,615
TOTAL	148,575	175,651	162,332
Ratio of financing costs to net revenue stream			
Non – HRA	2.20%	2.51%	2.12%
HRA	18.7%	19.39%	17.90%
Net borrowing requirement			
brought forward 1 April	353,474	255,285	255,285
carried forward 31 March	255,285	60,150	24,135
in year borrowing requirement	(98,645)	(195,135)	(231,150)
In year Capital Financing Requirement			
Non - HRA	1,796	271	(986)
HRA	16,895	12,958	12,500
TOTAL	18,691	13,229	11,514
Capital Financing Requirement as at 31 March			
Non - HRA	163,046	163,317	162,060
HRA	293,375	72,333	69,675
TOTAL	456,421	235,650	231,735
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in Council Tax (band D) per annum	5.31	3.80	3.58
Increase in average housing rent per week	2.07	2.06	1.78

Treasury management indicators	2010/11	2011/12	2011/12
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	481,421	496,079	496,079
Headroom	20,000	20,000	20,000
other long term liabilities	-	-	-
TOTAL	501,421	496,079	496,079
Operational Boundary for external debt -			
borrowing	481,421	476,079	476,079
Other long term liabilities	-	-	-
TOTAL	481,421	476,079	476,079
Actual external debt	353,475	93,551	91,352
Upper limit for fixed interest rate exposure	100%	100%	100%
expressed as either:-			
Net principal re fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable rate exposure			
expressed as either:-			
Net principal re variable rate borrowing / investments	20%	20%	20%
Upper limit for total principal sums invested for over 364 days	0	£25m	£15m
(per maturity date)			

TABLE 5: Maturity structure of borrowing during 2011/12	Upper Limit	Lower Limit
under 12 months	10%	0%
12 months and within 24 months*	30%	0%
24 months and within 5 years*	40%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

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	Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good credit quality. 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	Fair credit quality. 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 Ratings

Rating	Current Definition (August 2003)
AAA	Highest credit quality. '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.
AA	Very high credit quality. '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.
A	High credit quality. '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.
BBB	Good credit quality. '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	
A	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
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
C	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.
D	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.
E	A bank with very serious problems, which either requires or is likely to require external support.

Agenda Item 6.7

Report To: Audit Committee	Date 25 September 2012	Classification Unrestricted	Report No.	Agenda Item No.
REPORT OF: Corporate Director, Resources		Treasury Management Activity for Period Ending 31 August 2012		
ORIGINATING OFFICER(S): Alan Finch, Service Head, Finance, Risk & Accountability Oladapo Shonola, Chief Financial Strategy Officer		WARD(S) AFFECTED: N/A		

Lead Member	Cllr Alibor Choudhury – Resources
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report advises the Committee of treasury management activity for the current financial year up to 31 August 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 1.40%, 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 August 2012; and
 - refer to Council amendments to the Investment Strategy attached at Appendix 3.

3. REASONS FOR DECISIONS

- 3.1 Legislation requires 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.
- 4.3 Within reason the Council can vary its treasury management strategy having regard to its own views about its appetite for risk in relation to the financial returns required.

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 August 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 August 2012.

8 MARKET UPDATE

- 8.1 The economic outlook remains gloomy with Europe the central influence on the markets. European peripheral economies remain central to problems in the Eurozone and the persistent nature of these problems is starting to impact on the core economies in the zone, including Germany. The European Central Bank has announced that it is to re-commence purchasing the sovereign debt of troubled economies in order to reduce the cost of borrowing for these countries - Markets have reacted positively to this news.
- 8.2 The Chinese economy has continued to slow which adds to global worries, but it is envisaged that the Chinese authorities will push through policies to stem the decline and significantly reverse the trend of declining growth.
- 8.3 The US economy continues to create new jobs, albeit it at a slower rate than is anticipated by the markets and that would significantly reduce unemployment, but the Federal Reserve Bank has so far resisted more stimulus funding. The presidential election and the closeness of the race is creating uncertainty for investors and consequently compounding underlying causes of slow growth.
- 8.4 In the UK, the economy recovery is slow and is failing to inspire any level of confidence in the markets. Following disappointing figures in Q1 which showed that the UK was technically in double dip recession, the country has not yet seen any boost from the Olympics that had been anticipated, although Q3 is expected to deliver some growth in GDP.
- 8.5 The impact of all of this speculation and uncertainty has been to put downward pressure on market rates with the expectation that interest rates will remain suppressed for an even longer period. This expectation is reflected in the rates that the Council is able to secure on its investments so that returns on the portfolio are expected to remain at these low levels in the short to medium term.

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
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
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 The outlook for interest rates indicates a growing belief that central banks are keen to keep rates low for a prolonged period, to encourage global growth. Forecasters are moving the date of the first projected interest rate increase in the UK back, potentially into 2015. If and when rates do start to rise, the authority will wish to be in a position to take advantage by not having too much money invested in longer term investments.
- 10.4 The current balance of £225.8m is £75.8m higher than the projected average cash balance of £150m. This is mainly attributable to slippage on the capital programme. It is envisaged that cash balances will reduce in the medium term as expenditure on the capital programme picks up through the remainder of the financial year.

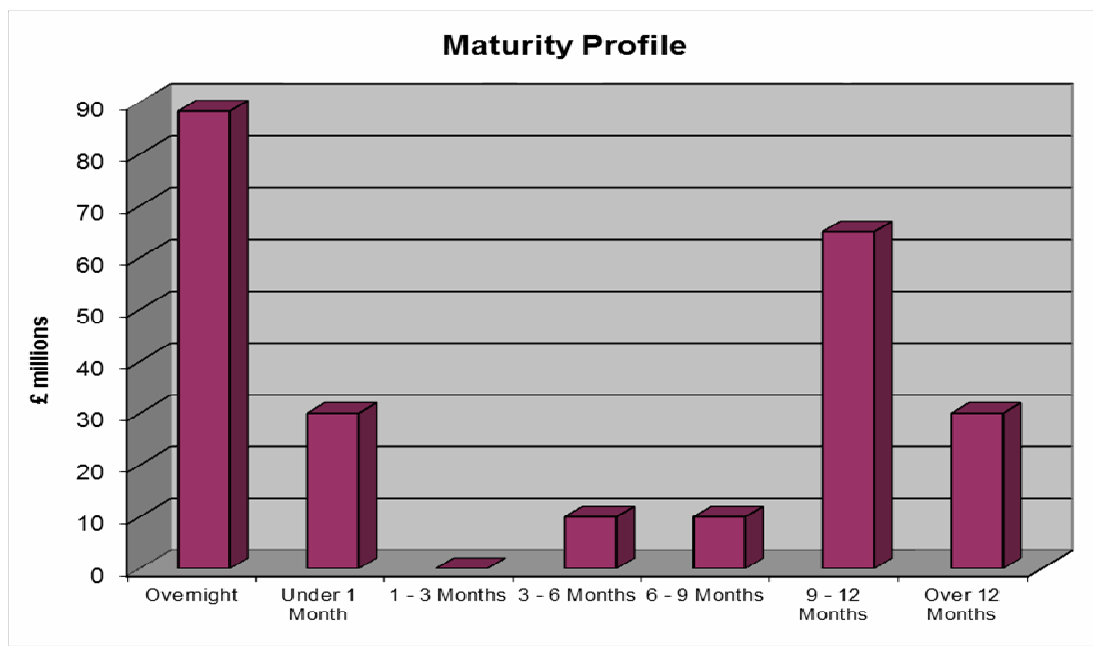
10.5 The current investment portfolio is as set out below.

Investment Portfolio at 31 August 2012

Projection	Actual Deal			
Term	Counterparty	Maturity	Amount £M	Rate
Overnight	Goldman Sachs	MMF	15.000	0.64%
Overnight	Ignis Liquidity Funds	MMF	15.000	0.82%
Overnight	Insight	MMF	15.000	0.77%
Overnight	Deutsche Managed Sterling	MMF	15.000	0.70%
Overnight	SWIP Global Liquidity Sterling	MMF	15.000	0.70%
Overnight	DMO	Overnight	15.800	0.25%
	SUB TOTAL		90.800	
3 Months	OCBC	18-Sep-12	5.000	0.50%
	OCBC	18-Sep-12	25.000	0.50%
6 Months	National Bank of Australia	14-Dec-12	10.000	0.77%
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	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%
	Bank of Scotland	11-Apr-13	10.000	3.00%
	Bank of Scotland	11-Apr-13	10.000	3.00%
	Royal Bank of Scotland	11-Apr-13	10.000	0.85%
	Royal Bank of Scotland	12-Jun-13	5.000	1.69%
	Bank of Scotland	07-Jul-13	10.000	3.00%
	Royal Bank of Scotland	11-Oct-13	5.000	2.00%
	Royal Bank of Scotland	12-Dec-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%
	SUB TOTAL		135.000	
	TOTAL		225.800	

10.6 The Council's exposure to any one counterparty/Group is represented by the chart below including exposure as a percentage of total assets invested as at 31 August 2012.

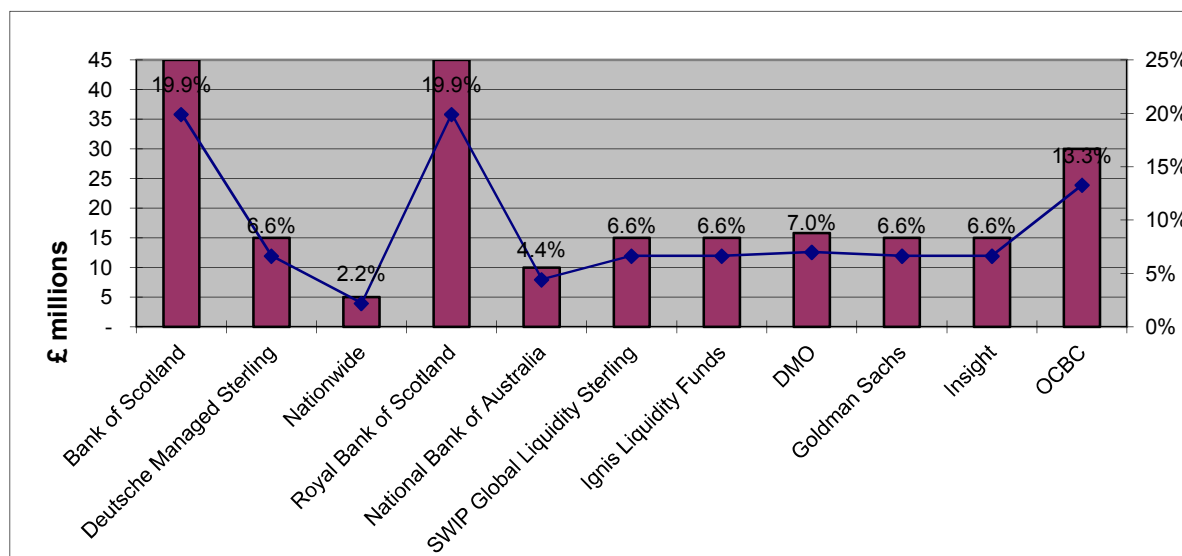
Maturity of Investment Portfolio as at 31 August 2012



10.7 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 £90.8m 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.

10.8 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 August 2012.

Counterparty Exposure as at 31 August 2012



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 1.40%.
- 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 Notwithstanding the challenge of an ever decreasing list of counterparties that the Council can invest with, 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 0.40%. 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.
- 11.4 The budgeted investment return in 2012/13 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.
- 11.5 Below is a table that details performance of investments. The table shows that performance has consistently outperformed LIBID.

Performance Against Benchmark

Period	LBTH Performance	7 Day LIBID	(Under)/Over Performance
Full Year 2011/12	1.52%	0.48%	1.04%
Return for June 2012	1.39%	0.44%	0.95%
Return for July 2012	1.35%	0.42%	0.93%
Return for August 2012	1.26%	0.40%	0.86%
Average to date – 2012/13	1.40%	0.43%	0.97%

12 DEBT PORTFOLIO

12.1 The table below sets out the Council's debt as at the beginning of the year and 31 August 2012.

	31 March 2012 Principal	31 August 2012 Principal
£'000		
Fixed Rate Funding:		
-PWLB	13,852	13,683
-Market	13,000	13,000
Total Fixed Rate Funding	26,852	26,683
Variable Rate Funding:		
-PWLB	-	-
-Market	64,500	64,500
Total Variable Rate Funding	64,500	64,500
Total debt	91,352	91,183
CFR	231,735	231,735
Over/ (under) borrowing	(140,383)	(140,552)

12.2 No borrowing has been undertaken to date in this financial year but the Council repaid £0.169m of PWLB loans. Total debt outstanding now stands at £91.183m, resulting in an under-borrowing of £140.55m against a CFR of £231.74m.

13. INVESTMENT STRATEGY UPDATE

13.1 Full Council approved the Investment Strategy on 22 February 2012. Following further review of the Strategy, there is a need to clarify the credit criteria for the UK.

13.2 Officers continue to look for ways to maximise returns on cash balances within the constraints of the Investment Strategy. The Investment Strategy was developed based on an improving outlook in the money markets. However, the on-going sovereign debt crisis has kept interest rates suppressed for longer and led to more downgrades of sovereign and individual counterparties' credit ratings. This has further restricted an already limited counterparty list.

13.3 The effect of these issues is that the only available counterparty that the Council is able to invest with is the Government, namely the Debt Management Office (DMO). Officers do not see prolonged periods of investment with the DMO as efficient investment strategy. Therefore a proposal will be put before Full Council to approve a revised strategy that will allow the Council to continue to invest in a way that maximises returns whilst maintaining a risk profile similar to the existing portfolio.

13.4 Wholly or partly owned government banks offer significantly higher rates than the DMO, but have similar levels of security based on government guarantee of their credit quality. The Council already relies on this guarantee and invests with these banks, but it is proposed that the strategy is revised to increase the individual limit for this group of banks to 40% of cash balance or £70m, whichever is the greater. This should ensure that the Council continues to receive good returns on its cash balances and that the investment strategy is optimised to support the Council's efficiency programme.

14. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 14.1. The comments of the Corporate Director Resources have been incorporated into the report of which he is the author

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

- 15.1. 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.
- 15.2. 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.
- 15.3. 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.

16. ONE TOWER HAMLETS CONSIDERATIONS

- 16.1 Interest on the Council's cash flow has historically contributed significantly towards the budget.

17. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 17.1 There are no Sustainable Actions for A Greener Environment implications.

18. RISK MANAGEMENT IMPLICATIONS

- 18.1 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.

19 CRIME AND DISORDER REDUCTION IMPLICATIONS

- 19.1 There are no crime and disorder reduction implications arising from this report.

20 **EFFICIENCY STATEMENT**

- 20.1 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

<i>Brief description of "background papers"</i>	<i>Name and telephone number of holder And address where open to inspection</i>
<i>August 2012 Investment Portfolio Analysis Report</i>	<i>Oladapo Shonola Ext. 4733 Mulberry Place, 4th Floor.</i>

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	Highest short-term credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good short-term credit quality. 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	Fair short-term credit quality. 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)
AAA	Highest credit quality. '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.
AA	Very high credit quality. '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.
A	High credit quality. '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.
BBB	Good credit quality. '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	
A	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
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
C	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.
D	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.
E	A bank with very serious problems, which either requires or is likely to require external support.

CREDIT RATINGS

Country / Financial Institution	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	-
Australia and New Zealand Banking Group Ltd	SB	AA-	F1+	aa-	1	SB	Aa2	P-1	B-	SB	AA-	A-1+
Commonwealth Bank of Australia	SB	AA-	F1+	aa-	1	SB	Aa2	P-1	B-	SB	AA-	A-1+
National Australia Bank Ltd	SB	AA-	F1+	aa-	1	SB	Aa2	P-1	B-	SB	AA-	A-1+
Westpac Banking Corporation	SB	AA-	F1+	aa-	1	SB	Aa2	P-1	B-	SB	AA-	A-1+
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	NO	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+	NO	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	-	-	-	NO	Aaa	-	-	SB	AAA	-
Landwirtschaftliche Rentenbank	SB	AAA	F1+	-	1	NO	Aaa	P-1	-	SB	AAA	A-1+
Luxembourg	SB	AAA	-	-	-	NO	Aaa	-	-	NO	AAA	-
Netherlands	SB	AAA	-	-	-	NO	Aaa	-	-	NO	AAA	-
BankNederlandse Gemeenten	SB	AAA	F1+	-	1	NO	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	NO	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	SB	Aa1	P-1	B	NO	AA-	A-1+
Northern Trust Company	SB	AA-	F1+	aa-	5	SB	Aa3	P-1	B	SB	AA-	A-1+
Wells Fargo Bank NA	SB	AA-	F1+	aa-	1	SB	Aa3	P-1	C+	NO	AA-	A-1+
AAA Rated	-	-	-	-	-	-	-	-	-	-	-	-
Collateralised IA Deposit*	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
Debt Management Office	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
Supranationals	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
UK Gils	-	AAA	-	-	-	-	Aaa	-	-	-	AAA	-
Libys Banking Group plc	SB	A	F1	bbb	1	NO	A3	-	-	SB	A-	A-2
Bank of Scotland Plc	SB	A	F1	-	1	NO	A2	P-1	D+	SB	A	A-1
Libys TSB Bank Plc	SB	A	F1	bbb	1	NO	A2	P-1	C-	SB	A	A-1
Royal Bank of Scotland Group plc	SB	A	F1	bbb	1	NO	Baa1	P-2	-	SB	A-	A-2
National Westminster Bank Plc	SB	A	F1	-	1	NO	A3	P-2	D+	SB	A	A-1
The Royal Bank of Scotland Plc	SB	A	F1	bbb	1	NO	A3	P-2	D+	SB	A	A-1

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1 ANNUAL INVESTMENT STRATEGY

1.1 It is proposed that the Investment Strategy for 2012-13 remains as agreed by Council in March 2011 together with the small amendments approved recently in January 2012. However, on-going uncertainty in the financial markets allied to further downgrades in the Fitch ratings for erstwhile established financial institutions (following changes in the ratings methodology used by Fitch) have underlined the need for the Council to keep its investment strategy under constant review.

1.2 The changes approved in January were:

- the individual/group limit for investment in an institution or group that is wholly/partly owned by the UK government is increased to £45m (currently £30m).
- up to £25m (previously £12m) of available cash balances may be invested for periods over one year and up to 3 years. Although, only £15m can be invested between 2 to 3 years maturity; and
- the Strategy allows investment in structured products within current limits/restrictions to facilitate lock in to premium rates from day one of an investment being made.

The detailed credit criteria are set out in tables 3 and 4 below.

1.3 Officers will continue to work to maintain and strengthen the Council's investment policy and will refer back to Council with any modification thought to be beneficial to the efficient and effective management of the Council's funds.

1.4 The Council's Investment Policy remains unchanged and states that the Council will have regard to the Department of Communities and Local Government's (DCLG) Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code"). The Council's investment priorities are:

- The security of capital;
- The liquidity of investments to ensure that the Council has cash available to discharge its liabilities as necessary; and that;
- Within these priorities, the Council will also aim to achieve the optimum return on its investments commensurate with appropriate levels of security and liquidity; and
- All investments will be in Sterling.

1.5 To achieve these objectives, the Council classifies investment products as either "specified" or "non-specified" as defined within the Guidance.

1.6 Specified investments comprise investment instruments which the Council considers offer high security and liquidity. These instruments can be used with minimal procedural formalities. The Guidance considers that specified investments have the following characteristics: -

- denominated in Sterling and have a term of less than one year;
- have "high" credit ratings as determined by the Council itself.

- 1.7 All other investments are termed non-specified investments. These involve a relatively higher element of risk, and consequently the Council is required to set a limit on the maximum proportion of their funds which will be invested in these instruments. The Strategy should also specify the guidelines for making decisions and the circumstances in which professional advice is obtained.
- 1.8 Investment instruments identified for use in the financial year are listed in tables 3 and 4 below under the 'Specified' and 'Non-Specified' Investments categories with the associated counterparty limits as set through the Council's Treasury Management Practices – Schedules.

Specified Investments:

- 1.9 It is recommended that the Council should make specified investment as detailed below in Table 3.
- 1.10 All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high credit' quality criteria where applicable. The council will continue its policy of lending surplus cash to counterparties that have high credit ratings, defining 'high credit rating' as being F1+ Fitch short-term and AA-long-term credit rating.

Table 3

Institution	Minimum High Credit Criteria	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	£70m or 40% of Portfolio***
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
Money Market Funds	AAA rated	In-house	£15m

Definitions of credit ratings (which now incorporate Fitch's viability ratings) are attached at [Appendix 1](#).

* 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.

*** The group/individual limit will be set at the time of investing at the greater of £70m or 40% of portfolio.

Non-Specified Investments:

- 1.11 It is recommended that the Council should make non-specified investment as outlined in Table 4.

Table 4

Institution	Minimum Credit Criteria	High	Use	Limit
Term deposits – Banks and Building Societies	Sovereign rating AAA Short-term F1+, Long-term AA-		In-house	£25m
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Sovereign rating AAA Short-term rating F1+ Long-term rating AA-		In-house	£25m
UK Government Gilts	Long Term AAA		In-house	£25m

- 1.12 The Council uses Fitch ratings (or equivalent from other agencies if Fitch does not provide a rating) to derive its counterparty criteria, but will take into consideration ratings from all three main credit ratings providers when compiling its counterparty list. The Council will take an overall view on its counterparties so that an organisation could be removed from the list if the predominant view of the organisation is pessimistic. Where the overall view of the three main ratings agency is pessimistic, the Council is likely to adopt the most pessimistic of the available ratings.
- 1.13 *The Council will always lend to the UK financial institutions that meets the Council's credit criteria and the UK Government, but will only lend to overseas countries that have AAA sovereign rating.* The minimum credit rating required for an institution to be included in the Council's counterparty list is as follows:

Table 5

Agency	Long-Term	Short-Term	Individual	Support
Fitch	AA-	F1	C	1
Moodys	Aa3	P-1	N/A	C
Standard & Poors	AA-	A-1	N/A	N/A

Sovereign Rating	AAA
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Money Market Fund	AAA
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- 1.14 The Council will lend to the UK and its Government, and into overseas countries which have a AAA sovereign rating from Fitch and other credit reference agencies.. The following countries are currently rated AAA by Fitch:
- Australia
 - Canada
 - Denmark
 - Finland
 - Germany
 - Luxembourg
 - Netherlands
 - Norway
 - Singapore
 - Sweden
 - Switzerland
 - United Kingdom
- 1.15 All credit ratings will be monitored on a proactive basis and the Council's counterparty list will be updated to take account of alerts to changes in ratings through its use of the Sector creditworthiness service.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria as outlined in 1.5, its further use as a new investment will be withdrawn immediately.
 - If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the of the minimum acceptable rating for placing investments with that body as outlined in 1.5, then no further investments will be made with that body.
- 1.16 The credibility of credit ratings providers had been called into question because they failed to identify the potential problems with Icelandic Banks prior to the Icelandic Banking Crisis. In order to further improve the security of council funds and in line with CIPFA guidance, the Council as well as using credit rating agencies will now also use financial press, market data, information on government support for banks and the credit ratings of that government support when compiling its counterparties list.
- 1.17 Institutions with which the Council can place funds are as follows:
- Bank of England Debt management Office (DMO).
 - The institutions that were included in the UK Government's permanent capital investment and short-term liquidity support programme.
 - Other UK institutions meeting our minimum credit rating criteria
 - UK AAA rated Money Market Funds
 - Other local authorities
 - Overseas institutions (falling within the Council's minimum credit criteria) from countries with sovereign ratings of AAA from all rating agencies

- 1.18 The Council anticipates its fund balances in 2012/13 to average approximately £165m. Although the actual amount available for investment at any one time will fluctuate as a result of timing of significant items such as:
- Expenditure on capital projects
 - Council tax, business rates, council house rent income
 - Receipt of government grants
 - Capital receipts in respect of major asset sales
- 1.19 It is proposed that the Council adopts a prudential indicator limit of £25m for 2012-13 for term deposits over one year (but no more than 3 years) although only £15m can be invested between 2 to 3 years maturity.

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