Meeting of the

AUDIT COMMITTEE

Thursday, 26 September 2013 at 7.00 p.m.

A G E N D A

VENUE
TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

Members:	**Deputies (if any):**
Chair: Councillor Mizan Chaudhury **Vice Chair: Councillor Carlo Gibbs**	
Councillor Craig Aston **Councillor Stephanie Eaton** **Councillor Judith Gardiner** **Councillor Shafiqul Haque,** **Councillor M. A. Mukit MBE**	Councillor David Snowdon, (Designated Deputy for Councillor Craig Aston) Councillor Denise Jones (Designated Deputy for Labour Councillors) Councillor Zenith Rahman(Designated Deputy for Labour Councillors) Councillor Tim Archer (Designated Deputy for Councillor Craig Aston)
[Note: The quorum for this body is 3 Members].	

Committee Services Contact:
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Web: www.towerhamlets.gov.uk/committee

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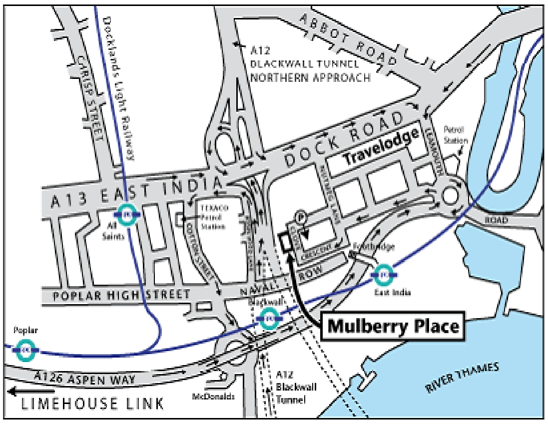

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LONDON BOROUGH OF TOWER HAMLETS

AUDIT COMMITTEE

Thursday, 26 September 2013

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 interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Monitoring Officer.

		PAGE NUMBER	WARD(S) AFFECTED
3.	**UNRESTRICTED MINUTES**	**5 - 16**	
	To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Audit Committee held on 25 June 2013.		
4.	**UNRESTRICTED KPMG REPORTS FOR CONSIDERATION**		
4 .1	**London Borough of Tower Hamlets - Report to those Charged with Governance (ISA 260) 2012/13**	**17 - 44**	
	To receive the report of KPMG, the Council's Auditors		
4 .2	**London Borough of Tower Hamlets Pension Fund - Report to those Charged with Governance (ISA 260) 2012/13**	**45 - 56**	
	To receive the report of KPMG, Auditors of London Borough of Tower Hamlets Pension Fund.		
5.	**UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION**		

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

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:-

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

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.02 P.M. ON TUESDAY, 25 JUNE 2013

TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

Members Present:

Councillor Mizan Chaudhury (Chair)
Councillor Stephanie Eaton
Councillor Judith Gardiner
Councillor Carlo Gibbs
Councillor M. A. Mukit MBE

Officers Present:

Chris Holme	–	(Acting Corporate Director - Resources)
Kevin Miles	–	(Chief Accountant, Resources)
Paul Thorogood	–	(Interim Service Head Finance and HR Development, Resources)
Minesh Jani	–	(Head of Audit and Risk Management , Resources)
Andy Bamber	–	(Service Head Safer Communities, Crime Reduction Services, Communities, Localities and Culture)
John McCrohan	–	(Trading Standards & Licensing Manager)
John Rutherford	–	Interim Service Head, Adult Social Care, Education Social Care and Wellbeing
Owen Whalley	–	(Service Head Planning and Building Control, Development & Renewal)
Claire Symonds	–	(Service Head, Customer Access and ICT)
Antonella Burgio	–	(Democratic Services)

Others In Attendance

Daniel Hellary	–	Deloitte Touch
Andrew Sayers	–	Audit Partner KPMG
Jamie Carswell	–	(Director of Investment, Tower Hamlets Homes)

1. APPOINTMENT OF VICE-CHAIR

Nominations were received for Councillor Judith Gardiner and Councillor Carlo Gibbs. In the absence of a seconder, Councillor Gardiner agreed to withdraw from the election and the nomination that Councillor Gibbs be appointed Vice-Chair of the Audit Committee for the duration of the municipal year was seconded. There being no other nominations, it was

RESOLVED

That Councillor Carlo Gibbs be appointed Vice-Chair of Audit Committee for the duration of the municipal year.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Shafiqul Haque.

3. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interest were made.

4. UNRESTRICTED MINUTES

The unrestricted minutes of the Audit Committee held on 26 March 2013 were presented for approval.

RESOLVED

That the minutes of the Audit Committee held on 26 March 2013 be approved as a correct record of proceedings.

5. AUDIT COMMITTEE TERMS OF REFERENCE, MEMBERSHIP, QUORUM AND DATES OF MEETINGS

The clerk presented the annual report which asked Members to note its Terms of Reference, Membership, Quorum and Dates of future meetings.

RESOLVED

That, Terms of Reference, Membership, Quorum and Dates of future meetings of Audit Committee for the municipal year 2013-14 as set out in Appendices 1, 2 and 3 to the report be noted.

6. UNRESTRICTED TOWER HAMLETS REPORTS FOR CONSIDERATION

6.1 The Annual Financial Report 2012/13

The Acting Corporate Director - Resources presented the draft Annual Financial Report for 2012/13. He apologised that, owing to statutory deadlines and the time required to prepare the accounts for external audit, it had been necessary to circulate the Annual Financial Report as a supplementary agenda. He advised that, as the external audit of the accounts had yet to be undertaken the Committee was required only to note the information presented at this time. The main elements of the report were summarised. These were:

- that Council finances were healthy
- that expenditure 2012/13 in all directorates except benefits was within budget

- that the Council had been able to set aside £5 million into general reserves. These funds would be used to mitigate further savings that were anticipated from the forthcoming Government spending review which was to be announced on 26 June 2013

Noting that timescales around the circulation of the report may have afforded Members reduced access to the documents, the Acting Corporate Director - Resources offered to meet with Councillors individually to discuss in detail any issues which may have arisen from the report. The Committee was also asked to note:

- That that some preliminary audit work had already been undertaken.
- That some minor changes might become necessary as a result of the audit process but these were not expected to have any material impact on the Council's overall financial position.
- It was planned that the external audit would be concluded in late August and the results reported to the Committee at its meeting on 24th September 2013.

In response to a Member question, the Committee was informed that the report had not been available in the normal agenda publication timescales because of other statutory deadlines. He advised that this issue occurred annually and there had been no exceptional circumstances associated with the task this year.

RESOLVED:

1. That the annual financial report for the year ending 31 March 2013, comprising the explanatory forward and the draft statement of accounts which is subject to audit, be noted

2. That the Acting Corporate Director - Resources invitation to meet individually with Committee Members to discuss in detail any issues arising from the draft statement of accounts be noted.

6.2 Internal Audit Annual Report 2012/13

The Head of Risk Management and Audit presented the report at agenda item 6.2 which summarised all of the work carried out by Council's auditors during 2012/13. The Committee was advised that the report contained the following five elements:

A the annual internal audit opinion in accordance with the CIPFA code of practice
B summary of audits not previously reported
C resources used in providing internal audits
D the number of audits completed but not previously presented and
E a guide on how Tower Hamlets compares as part of the CIPFA benchmarking club

Internal Audit Opinion - The Head of Risk Management and Audit summarised the professional opinion provided in the report. He advised that, in his opinion, systems of control were adequate and noted 108 system audits had been undertaken 75% of which achieved full or substantial assurance. And 18% returned limited assurance. The remaining 7% were audits where assurances had yet to be returned or where assurance was not applicable. He advised that these results had been achieved not only by audits procedures but also by offering assistance and support to departments that, having been audited, wished to improve their controls and implemented actions to this end. He noted that two of the planned audits had not been completed within the annual timescale and advised that work on these had now begun.

Audits not previously reported. - The Head of Risk Management and Audit reported on management of audit recommendations, advising the Committee that a 6-month post-audit review of the implementation of all agreed recommendations had returned that, as a whole, 84% of priority one recommendations had been implemented and 82% of priority two recommendations had been implemented. He acknowledged that this could be a concern and agreed to follow up limited and nil assurance reports so that a satisfactory level of assurance can be obtained. .

Concerning the summary of audit assurance published in the table at paragraph 8.3 of the report, Councillor Gibbs enquired why significantly more substantial assurances had been assigned to extensive audits than to non-extensive audits. The Head of Risk Management and Audit advised that this was because the risks around extensive systems were greater therefore the Council needed to ensure that arrangements were robust. He advised that most moderate systems were in fact schools and referred to past issues that had been raised around the number of poor assurances that had been returned from their audits.

Concerning audit performance data given in the table at paragraph 9.1 of the report, Councillor Gibbs noted that percentage of priority one and two recommendations implemented at the six-month post audit review were both 84% and considered this figure to be low. The Head of Risk Management and Audit acknowledged that there was presently no system to monitor whether or not recommendations had been implemented after the six-monthly review. However this was an area that he was looking to develop.

Resources used - The Head of Risk Management and Audit advised that in 2012/13 costs were £174,900, a saving of £4000 against planned costs. He advised that, in the period, Deloitte had undertaken a larger number of audits than had been planned as a member of the internal audit team had been assigned to the anti-fraud project. This work had now been completed and therefore this officer time could now be allocated back to normal audits that were planned for the forthcoming year. Additionally it was intended that, during this time, some further data matching work would be undertaken.

Councillor Eaton noted that the costs of audits carried out by Deloitte and a council auditor were comparable and queried whether the work undertaken by

Deloitte should be retained in the forthcoming year to release the council's auditor to undertake other projects due to HR issues.

Audits completed but not previously presented - The Head of Risk Management and Audit advised that 32 audits had been undertaken and the key findings were presented at appendix 2 of the report. He noted that some limited assurances had been returned and advised that these would be discussed with Members. A number of Service Heads were in attendance to respond to Members questions arising from the audit results and the Head of Risk Management and Audit invited each of them to respond to Members questions.

Safeguarding vulnerable adults systems audit – The Head of Risk Management and Audit advised that the audit revealed the following:

- Not all staff had a current CRB check at the time of audit. This was a key issue at the time however it had been subsequently resolved
- Not all staff had received regular training as frequently as had been expected
- Policies and procedures were dated 2011 but some policies were outdated
- A sample check of procedures showed that 10% of reviews had not been carried out

The Interim Service Head, Adult Social Care, Education Social Care and Wellbeing provided the following responses to Members' questions:

- Concerning why the delay in updating CRB statuses had occurred, the Committee was advised that the time of the audit had coincided with his appointment and, at this time, he had not been involved in the oversight of this process. However this had now been addressed. He advised that, on an operational level, practice was good but processes to evidence this were poor. Since April new processes had been brought in which delivered a better audit trail.
- Concerning whether applicants were required to have a CRB check before starting work, he advised that in most cases this would be required. However he was empowered, under certain circumstances, to authorise an applicant to start work on the condition that no unauthorised access would be given to vulnerable adults until the CRB process had been completed.
- Concerning who would be accountable for any incident, he advised that any applicant who possessed a criminal record would not necessarily be barred from employment. However he would scrutinise any such applications and decide whether the nature of the conviction / criminal record would cause a risk. Furthermore all such applications would be scrutinised and assessed individually.

Software licensing audit – The Head of Risk Management and Audit noted that the purpose of the audit was to ensure that there were effective systems around software licensing. The audit revealed the following:

- That there was a good system for the purchase of licences however no inventory of licenses purchased was kept

- The current VDI environment was resilient but an auditor had recorded a non-standard download and therefore this resulted in returning a limited assurance
- There was training around software licensing but no inclusion of the implications or consequences of using not licensed software.

The Service Head, Customer Access and ICT provided the following responses to Members' questions:

- Concerning whether there was a policy on downloading unauthorised software, she advised that there was a policy in place which clearly stated the criteria and sanctions. She advised that since the implementation of VDI it was no longer possible for departments to purchase smaller licences; these were now all centrally held.
- Concerning the risks around duplicate software purchasing, she advised that a corporate standard for software packages had been devised which incorporated a list of every package used and enabled staff to identify where these could be used throughout the organisation.

Planning and building control fees audit - The Head of Risk Management and Audit advised that the audit had revealed:

- That fees and charges payments were mostly made by cheque and that the Council was trying to expand its methods of receiving payments
- A limited assurance had been returned because there was no clear process for the collection and prompt banking of fees and charges
- There was no evidence of robust reconciliation to give assurance that all of the fees and charges due had been banked.

The Service Head Planning and Building Control, Development & Renewal provided the following responses to Members' questions:

- Concerning cost incurred in terms of interest lost due to late banking of cheques and fees, Members were advised that auditors did not feel this was a great risk because the time delay between receipt and banking was small; additionally interest rates were presently low. He noted that a greater risk was that of cheques lost before banking.
- Concerning progress of staff training on financial payment processes, Members were advised that a proactive training programme was being undertaken and would be completed in the next few weeks.
- Concerning reasons for the delay in delivering the required the financial training, Mr Whalley advised that training had coincided with the reorganisation of the services from three teams into one. While the service had been divided across three areas, each had been focused on its own priorities and therefore training had taken longer to deliver. However, a unified system was now in operation.
- Concerning the methodology for training, Members were advised that there was on-going professional, technical and payment process training. Mr Whalley noted that since the reorganisation there had been a culture change in the way that processes were operated.

- Concerning reasons why cheque payments were preferred over other payment methods, Members were advised that while cash payments could not be accepted, portal payments and cheques were acceptable. Mr Whalley noted that in relation to the different types of payments used, applicants often preferred to make cheque payments, especially in relation to payments for section 106 matters although the Council's systems were able to accept electronic payments. However, where applications were initially refused and then later approved, payments would then often be made by credit card for speed.
- Concerning additional costs in terms of officer time for the additional controls instigated, Mr Jani advised that auditors tried to design controls to deliver higher levels of control for the lowest possible cost. He noted that the value of the extra costs incurred was in the controls and assurances that the new processes created.
- Concerning whether there would be additional costs incurred from operating electronic payments, Mr Jani advised that the costs would be no greater than normal.
- Concerning whether the Council would be able to promote electronic payments, over other forms, Mr Thorogood advised that the Council was presently reviewing the costs of different payment methods.
- Concerning whether the Council could require payments to be made electronically, Members were advised that to refuse certain types of payment methods would run the risk of increasing the Council's debt.

Water systems audit - The Head of Risk Management and Audit noted:

- That the audit investigated the Council's arrangements for checking water installations to ensure that there was robust systems to minimise the risk of water-borne infections.

The Director of Investment, Tower Hamlets Homes provided the following responses to Members' questions:

- The water systems in question comprised of cold water tanks and communal hot water systems throughout the THH housing stock.
- Concerning the key risks that were revealed through the audit, Members were advised that the nature of the risk was a public health one through the potential for waterborne infections. Three tests for each water system were carried out per year and the audit revealed a weakness in the recording of the test outcomes. Since the audit, a more systematic approach to tracking the tests had been taken and an application (Keystone) purchased which would provide at-a-glance management information to track and monitor actions. This system was due to go live in September 2013.
- Concerning why monitoring processes, in terms of reporting and follow-up, had not been agreed at the outset of the water testing contract, the Committee was advised that contractors had met their obligations but recording processes were not sufficient to enable tracking and planning of maintenance.
- Concerning lessons learned in terms of monitoring, Members were advised that THH would be using Keystone application to ensure that information was uploaded earlier and could be tracked more easily.

Additionally it would be possible to determine where servicing inspections had not been completed. It was expected that the system would be extended to all planned maintenance activity.

- Concerning why contract review meetings had been omitted and how THH would ensure records would be held properly in future, the Committee was advised that the audit report had identified lapses by members of staff; however the Keystone application would ensure that this did not occur in future. Additionally the results of the audit would be reported to the Tower Hamlets Homes Board. He advised also that since the audit a full backward review of processes had been carried out to ensure that all inspections had been acted upon.

Trading standards storage of goods audit - The Head of Risk Management and Audit noted:

- That the audit had been undertaken to establish a system for cataloguing storing and tracking confiscated goods.
- A limited assurance had been returned around management of the stores.

The Service Head Safer Communities, Crime Reduction Services, Communities, Localities and Culture provided the following responses to Members' questions:

- Concerning whether there was evidence of goods lost or of materials contamination that might compromise a court prosecution, the Committee was advised that there were none as service had been restructured and potential risks had been quantified. The audit had enabled systems to be realigned and a robust solution put in place.
- Concerning security of the stores and whether goods could have been stolen before the audit, the Committee was advised that theft was not possible but the audit had revealed that the process for tracking confiscated goods was insufficient and the procedure for exhibit handling was not adequate; these might affect the continuity of evidence used in prosecutions. Despite the limited assurance in these areas, it was found that these factors had not caused any issues.
- Concerning whether the services would implement Crimson software, the Committee was informed that APP was in use which was a corporate system and was adequate for its purpose. Although Crimson application was better, it was not a good use of money to upgrade as APP was sufficient even though the process took longer.

Schools audits - The Head of Risk Management and Audit advised that reports on this matter would be deferred until the Audit Committee in September.

Oyster cards - The Head of Risk Management and Audit noted:

- This was a small system audit but nonetheless it was undertaken to address a reported misuse
- The aim of the audit was to ascertain whether there were weaknesses in the system and were they occurred

- A limited assurance had been returned because methods of authorising and recording Oyster card journeys were inconsistent which raised a risk of abuse of card use
- The financial risk was small but the reputational risk was much higher
- The audit had and revealed that journeys were not being correctly coded in the departmental financial systems

The Head of Risk Management and Audit provided the following responses to Members' questions:

- Oyster cards were used for small journeys where out of Borough travel was necessary. This authorised method of travel saved operational and time costs involved with formal petty cash applications and journey reimbursements. It was noted however, that the use of Oyster cards for this purpose needed to be regularised.
- Season tickets issued to staff through the Council's season ticket loan scheme could also be used for work journeys where applicable.

Benchmarking club – Concerning the benchmarking club results at appendix 7, it was noted:

- That the costs were higher. Members were advised that this was due to the use of external providers. However it had been found that the provision was a better model and therefore this provision was intended to continue.
- That the audit team presently comprised four officers at PO4 grade and other benchmarking club structures may engage lower graded staff. However it was noted that higher graded staff provided better value as they were able to design systems as well as execute them. Notwithstanding this, to address cost issues, the Head of Risk Management and Audit intended to explore ways of filling the vacancy current vacancy at a lower grade.

RESOVLED:

That:

1. the content of the annual audit report be noted
2. the summary of audits undertaken which have not been previously reported be noted
3. the Head of Audit opinion be noted

6.3 Annual Governance Statement 2012/13

The Head of Audit and Risk Management presented the report containing the draft statement that set out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements in line with regulation 4(2) of the Accounts and Audit Regulations 2003 which was required to be produced to review the Council's governance arrangements. He advised the Committee that the review must be satisfied that the Council's governance arrangements were adequate and, should any non-compliance be found, the Council must identify a remedy. The appendices to the report gave details of the elements that the review required to be checked. After the review some areas for improvement were noted were identified and these were detailed in Appendix 3 (the draft governance statement) together with details of what structures were in place.

He advised that a similar report would be presented to the Standards Advisory Committee with a focus on governance arrangements.

In response to Members' questions the following information was provided:

- The annual government statement 2011/12 returned a number of queries relating to creditors and the year end cut-off procedures. These had been resolved and the actions implemented were provided in the table at paragraph 7.2 of the report.

- Concerning whether governance arrangements around the Elected Mayor model of governance presented any risks for the Council, the Committee was advised that each model of governance worked differently however it was the Council's responsibility to ensure that any governance systems in place were robust.

RESOLVED:

That

1. The Audit Committee note the process and findings set out in paragraphs 4.1 – 7.4; and

2. Agree the Draft Annual Governance Statement for the financial year 2012/13 at Appendix 3.

6.4 Anti-Fraud and Corruption Strategy and Pro-active Anti-Fraud Plan 2013-14

The Head of Audit and Risk Management reported the following matters to Committee:

- There had been no significant changes since the last report presented to Committee
- The plan for anti-fraud work 2013/14 was set out at Appendix 2 of the report
- The East London Anti-fraud Hub had expanded, enabling future data to be shared amongst all London boroughs. This meant that data now could be checked against all London authorities to ascertain if there was benefit fraud. Data matching could now be carried out across London. He noted that this was a big piece of work liaising with other local authorities and costing out. (??)

In response to Members' questions, the following information was provided:

- Concerning how the Council was linking its anti-fraud work with RSA's, the Committee was advised that the Corporate Anti-fraud Manager fostered involvement by attending joint RSA board meetings. Additionally these organisations supported data matching.

- Concerning what risks, might occur through joint working, in terms of local protection of data, the Committee was advised that the applications that were used included a data usage statement advising how data would be used; this ensured that activity complied with the Data Protection Act. Should there be insufficient data for a proper data match, a standard procedure existed where by notices could be issued in employee pay-slips advising how data would be used for fraud prevention.
- Concerning whether there was a public communication strategy and whether this could serve as a deterrent, the Committee was advised that housing benefit fraud was a criminal offence and that this message was communicated in all Council publications including East End Life. Responding to a Committee request, the Head of Audit and Risk Management agreed also to promulgate this message at management levels.

RESOLVED:

That the anti-fraud and corruption strategy and Pro-active Anti-Fraud Plan 2013/14 be noted.

6.5 Treasury Management Activity for Period Ending 30 April 2013

The Interim Service Head Finance and HR Development, Resources presented the quarter one treasury management report 2013/14. The Committee was asked to note the following:

- The market update at section 8 of the report
- The reformatted investment table at section 10 of the report
- The composition of the investment portfolio as at 30th April 2013 printed at section 10.4 of the report
- That monies held with Lloyds Banking Group were in line with the Council's investment strategy.
- Should the Chancellor propose to sell Lloyds shares, the Council would disinvest.
- The performance year-to-date was lower because of the levels of economic performance
- Information provided at paragraph 13 of the report concerning the downgrade of the Co-operative Bank. The Committee was advised that the Council did not use the Bank for investment banking but for its day-to-day bank balances. To lower the risk of any loss of funds the Council sought to ensure that balances were cleared to zero daily. Additionally he advised that the Council’s level of investment was minimal and that, despite the circumstances, the Bank’s service was good
- Senior finance officers were constantly monitoring the situation to keep abreast of developments in the matter of the Co-operative Bank

The Acting Corporate Director – Resources further advised that most local authorities banked with the Co-operative Bank and that the Co-op, as an organisation, had significant other assets. Therefore the risk of loss of capital was mitigated.

In response to Members' questions the following information was provided:

- Concerning whether the Council should operate a second account in the event that the Co-operative Bank should default, the Committee was advised that risks were being minimised in the following ways:
  - all anticipated deposits were invested on the day of deposit to enable balances to be cleared within the day
  - transactions were carried out at 8:00 a.m. when banking activity was safer

  The Committee was asked to consider the track record and status of the Co-op Bank; given these, senior management was of the view that the Government would not allow the Bank to become insolvent. None-the-less senior officers were monitoring the situation constantly and keeping a daily review of developments in the Council's relationship with the Bank.

RESOLVED:

That:

1. The contents of the treasury management activity report for period ending 30 April 2013 be noted and

2. The recent downgrade of the Co-operative Bank be noted.

7. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 8.45 p.m.

Chair, Councillor Mizan Chaudhury
Audit Committee

Agenda Item 4.1

KPMG

cutting through complexity™

Report to those charged with governance (ISA 260) 2012/13

London Borough of Tower Hamlets

26 September 2013

Contents

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Report sections

Appendices

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Introduction

This report summarises:

- **the key issues identified during our audit of the London Borough of Tower Hamlet's (the Authority's) financial statements for the year ended 31 March 2013; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

Financial statements

Our *External Audit Plan 2012/13* presented to you in March 2013 set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during March 2013 (interim audit) and July and August 2013 (year end audit). We carried out the following work:

Control Evaluation

- Evaluate and test selected controls over key financial systems
- Review internal audit function
- Review accounts production process
- Review progress on critical accounting matters

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2012/13 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has identified a total of two audit adjustments with a total value of £4.6 million to date. These adjustments: ▪ Reduce the surplus on provision of services balance as at 31 March 2013 by £1.184 million; ▪ Reduced the net worth of the Authority as at 31 March 2013 by £1.184 million; but ▪ Have no impact on the general fund account balance as at 31 March 2013. We have included the significant audit adjustments at Appendix 3. All of these were adjusted by the Authority and there is no impact on the resources available to the Council.
Critical accounting matters	We have worked with Officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.
Accounts production and audit process	We have noted some issues in the quality of the draft accounts that have resulted in a number of disclosure adjustments. Whilst we do not consider any of the adjustments to be significant individually, we have raised a recommendation about this in Appendix 1, to help the Authority ensure these matters are addressed as part of the Authority's closedown processes in 2013/14. The quality of supporting working papers submitted for audit have been of a high standard and the finance staff have been responsive to audit requests that have allowed the audit to progress to time.
Control environment	The Authority's organisation and IT control environment is effective overall, and controls over the key financial systems are sound. However we did note a number of low level weaknesses in relation to the timeliness of reconciliations, explaining budget variations and school bank account processes. We have raised three recommendations about this in Appendix 1. Our risk based approach was primarily focussed on completing substantive testing over balances included in the financial statements rather than testing the controls in place at the Authority. As a result we have not placed reliance on internal audit's work, instead we use internal audit to inform us about the areas of the Authority's operations that were relevant to our work.

Headlines (continued)

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ▪ *Agreement of the audit adjustments being processed correctly through the financial statements; and* ▪ *Agreement of the final pension fund audited figures.* In addition before we can issue our opinion we require a signed management representation letter and will need to complete our post balance sheet events review up until the point the accounts are signed. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have noted one area that we wish to bring to the attention of members relating to the importance of completing the corporate governance review and ensuring that any issues identified are addressed promptly to ensure that the Authority's structures and personnel are fit for purpose to meet the future financial challenges facing the Authority. We have explained this issue further in Section four, however do not consider it to be a significant issue for 2012/13. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013.
Certificate	We have received a number of enquiries from Local Government Electors during 2012 and 2013 relating to Councillors' expenses; virements; potential sale of a heritage asset; a television advert; and a letter from the Mayor about Council Tax benefit changes. At the date of this report we have not yet completed our consideration of these matters, although we have made two recommendations based on our work to date (see Appendix 1 for details). The time taken by the Authority to respond to our information requests and queries in relation to these have been longer than we would normally expect. In addition, as at the date of this report we have not completed the procedures specified by the National Audit Office on your Whole of Government Accounts return. We expect to complete our work and report our findings to management by 4 October 2012. We cannot formally conclude the audit and issue an audit certificate until we have completed the work outlined above. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Proposed opinion and audit differences

Our audit has identified a total of two audit adjustments to date.

The impact of these adjustments is:

- **to reduced the surplus on provision of services for the year by £1.184 million; and**
- **to reduce the net worth of the Authority as at 31 March 2013 by £1.184 million; but**
- **there is no impact on the general fund account as at 31 March 2013.**

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2013.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements. Our audit identified two significant audit differences, which we set out in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2013.

The decrease in net worth is the result the exclusion of a provision in relation to MMI for £1.184 million. This was initially held within an insurance reserve within usable reserves.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code')*. We understand that the Authority will be addressing these where appropriate.

Movements on the General Fund 2012/13

£'000	Pre-audit	Movement	Post-audit
Surplus on the provision of services	59,894	(1,184)	58,710
Adjustments between accounting basis & funding basis under Regulations	(35,592)	0	(35,592)
Transfers to earmarked reserves	(12,622)	1,184	(11,438)
Increase in General Fund	**11,680**	**0**	**11,680**

Balance Sheet as at 31 March 2013

£'000	Pre-audit	Movement	Post-audit
Property, plant and equipment	1,753,825	0	1,753,825
Other long term assets	5,482	0	5,482
Current assets	356,620	0	356,620
Current liabilities	(153,425)	(1,184)	(154,609)
Long term liabilities	(728,440)	0	(728,440)
Net worth	**1,234,062**	**(1,184)**	**1,232,867**
General Fund	(38,060)	0	(38,060)
Other usable reserves	(241,097)	1,184	(239,913)
Unusable reserves	(954,905)	0	(954,905)
Total reserves	**(1,234,062)**	**1,184**	**(1,232,867)**

Proposed opinion and audit differences (continued)

The wording of your Annual Governance Statement accords with our understanding.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Critical accounting matters

We have worked with Officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our *External Audit Plan 2012/13* presented to you in March 2013, we identified the key risks affecting the Authority's 2012/13 financial statements.

We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
Property Plant and Equipment	As at 31 March 2012 the valuation of the Authority's Estate was £1.8 billion split over Authority Dwellings, Operational Land and Buildings and Infrastructure Assets. The Authority employs a valuer to determine the fair value of these assets. However, there is a risk due to the size and assorted nature of the Authority's estate, that this value will be materially misstated.	We have assessed the instructions provided to the valuer by the Authority and found that they were comprehensive and provide the Authority with the information they require to be compliant with International Financial Reporting Standards (IFRS). We have noted that the Authority does not explicitly consider revaluations in the period between formal valuations. We have raised a recommendation about this in Appendix 1. We have assessed the qualifications and experience of the valuer and determined that we could place reliance on their work. We have performed substantive procedures over a sample of valuations and their associated depreciation calculations and have gained assurance that the accounting treatment has been applied correctly.

Critical accounting matters (continued)

Key audit risk	Issue	Findings
Actuarial Present Value of Retirement Benefits	The Authority is required to provide the value of the pension fund asset/liability as at the reporting date, taking into account numerous and complex assumptions. This creates a risk that the financial statements may be materially misstated. Small changes to these assumptions can have a large effect on the reported value and the Authority should ensure that the information provided to the actuary is up to date and complete to ensure the values reported in the accounts take into account all requisite information.	We have reviewed the instructions provided to the actuary and the information supplied to the actuary to come to their conclusions. We have also undertake tests of detail on the accounting entries performed as a result of the information returned from the actuary and ensure they are compliant with IAS 19. No issues have been identified.
Accounts receivable and accounts payable	Your previous auditors identified a potential £12 million uncertainty in your accounts relating to the treatment of accounts receivable and accounts payable in 2011/12. They also noted that the Authority was unable to separately identify its year end accrual balance. If the Authority does not address these issues there is a risk that the 2012/13 accounts could be materially misstated.	We have reviewed the work completed by the Authority to address this issue. This involved the Authority reviewing all of its debtor and creditor codes and identifying any historic balances and codes that should be closed. We have reviewed the work completed by the Authority and tested a sample of 25 codes to confirm whether it was reasonable for the code to have been closed. We have undertake detailed substantive testing over the accounts receivables, accounts payable and accruals balances. No issues have been identified.

Accounts production and audit process

Officers dealt efficiently with audit queries and working papers were of a good standard which enabled the audit process to be completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	We have some issues with the quality of accounts this year. In particular the draft accounts did not appear to have been thoroughly proof read or checked against the Code. The Authority needs to strengthen its financial reporting processes through ensuring that the accounts are fully quality checked prior to being submitted for audit.
Completeness of draft accounts	We received a complete set of draft accounts on 20 June 2013. This was ahead of the audit starting.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 2 March 2013 and discussed with the Authority, set out our working paper requirements for the audit. The quality of working papers provided was good and met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. In some cases, however, we experienced delays, specifically where requests were from directorates rather than directly with the corporate finance team.

Element	Commentary
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by KPMG on the financial statements of Tower Hamlets Homes. There are no specific matters to report pertaining to the group audit.

As a result of the above we have raised a recommendation in respect of the quality of the accounts submitted for audit. This is included in Appendix 1.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the London Borough of Tower Hamlets for the year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and the London Borough of Tower Hamlets, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Authority, a draft of which is reproduced in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

We are seeking a specific representation over amounts paid to Senior Officers.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc)

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2012/13 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

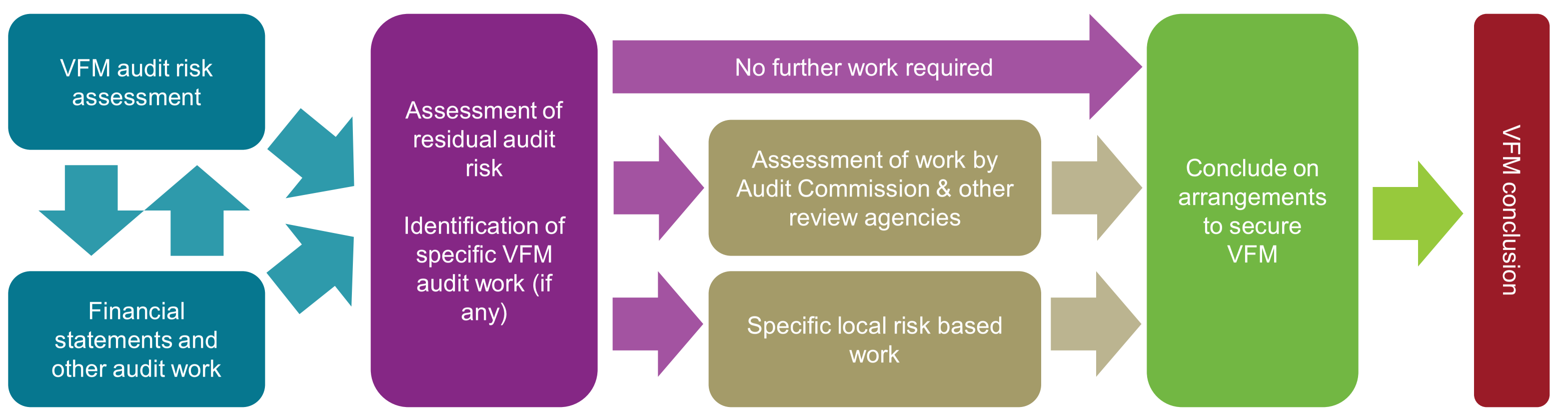
The key elements of the VFM audit approach are summarised in the diagram below.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following page includes further details of our VFM risk assessment



Specific VFM risks

We have identified one specific VFM risk.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our Audit Plan we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for this risk as there was sufficient relevant work that had completed by the Authority, the Audit Commission, other inspectorates and review agencies in relation to this risk area.

Key findings

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Savings plans	As at December 2012, the Authority forecast that it will deliver its 2012/13 budget in overall terms. This included a savings programme totalling £23.656 million. The Authority currently estimates that another £26.029 million in savings will need to be achieved during 2013/14 and £21.260 million in 2015/16 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.	In conjunction with our VFM work we have critically assessed the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We have also reviewed how the Authority is planning and managing its savings plans. We have not identified any significant issues with these plans and note that the Authority continues to focus on its 2014/15 savings targets. We have reviewed the Authority's provisions including the methodology behind them to ensure that they are made on robust assumptions and are reasonable.

Key findings

We have concluded that the Authority's arrangements for securing financial resilience and economy, efficiency and effectiveness are adequate.

The table below, summarises the scope of our work along with our key findings. The results of this work has been reflected in our VFM conclusion.

Criteria and scope of our work	Key findings from our work
Securing financial resilience We considered the Authority's arrangements for ensuring robust financial governance, planning and control. As a result, we focused on whether the Authority has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	Our review of the Authority's arrangement to achieve financial resilience found that the Authority has adequate arrangements in place as at 31 March 2013. Whilst the Authority's financial planning and governance arrangements are sound, significant further financial pressures are forecast in the short to medium term. The Authority should continue to review and update its financial plans in response to changes in funding and demand for services. The Authority achieved a revenue under spend of £5 million in 2012/13 against a background where it had to achieve overall budget savings of £23 million. The Authority has set a balanced budget for 2013/14 and 2014/15 which includes a further £7 million of savings and using £13 million of reserves. The Authority anticipates more cuts in resources amounting to £20 million in 2015/16. There is a considerable budget gap after 2015/16 needing to be filled on an on-going basis. The Authority is working hard to ensure that it has a robust medium term balanced position, but realises this represents a significant challenge.
Securing economy, efficiency and effectiveness We considered the Authority's arrangements for prioritising resources and achieving efficiency and productivity. We also considered the Authority's performance in the year. As a result, we focused on how the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	Our review of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources found that that its arrangements are sound. The Authority has consulted widely on its savings proposals and has started similar processes looking at the future challenges faced by the Authority (see financial resilience commentary above). Making use of information from a range of sources the Authority has a good understanding of its costs and performance against targets. The key targets are derived from the Authority's Strategic Plan. Their delivery is monitored regularly at a range of levels within the Authority. The "forensic systems" in place to monitor/ ensure delivery of the Authority's savings plans include the Change and Efficiency Board, Directorate Management Teams, and Corporate Transformation Delivery Group. The Authority is also undertaking a corporate governance review in conjunction with the Local Government Association. The results of this review will be important to ensure the Authority's structures are fit for purpose to face the future financial challenges. This is particularly important given the potentially increased level of organisational risk as a result of the comparatively high number of senior officer changes (and interim staff/post holders being in place) over the last 12 months – including the Chief Executive Officer; Chief Financial Officer; and Monitoring Officer.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Formal review of draft accounts against the code** We have identified a number of disclosure errors in the 2012/13 accounts. Most of these could have been avoided if a comprehensive review of the accounts had been completed ahead of the accounts being submitted for audit. Whilst we appreciate the preparation time for accounts is time pressured, we recommend that the Authority complete a full proof read and sense check of the accounts ahead of submitting them for audit. This should include a comparison against the Code to ensure all disclosures are correct and complete.	Officers will ensure the draft accounts are reviewed as much as possible prior to submission to auditors. K Miles June 2014
2	❷	**Completion of corporate governance review** The Authority should complete the planned corporate governance review and ensure that any issues identified are addressed promptly to ensure that the Authority's structures and personnel are fit for purpose to meet the future financial challenges facing the Authority.	Officers will keep the auditors briefed as the governance review continues. C Holme March 2014

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3	2	**Reimbursement of member taxi expenses** Following a number of enquires in regard to taxi expenses we completed a review of the process in place as part of our interim audit. As a result of this work we have raised the following recommendations: ▪ There needs to be a clear, published Authority policy for taxi usage in place; and ▪ All journeys need to include sufficient justification for why the journey is required and be authorised appropriately.	The current arrangements around the use of taxis by Members will be reviewed. John S Williams March 2014
4	2	**Evidence to support decisions relating to the Publicity Code** There was no comprehensive contemporaneous written evidence setting out what considerations were taken into account before the decisions were taken on two enquiries we received. One was about commissioning an advert for broadcast on several local television stations and the other related to producing and distributing a letter to everyone on the Council Tax database. The Council needs to ensure that it maintains appropriate written evidence to support significant decisions relating to the Code of Recommended Practice on Local Authority Publicity.	A new code guiding local authority publicity to which all local authorities have to have regard when making decisions on publicity was approved by government on March 30th 2011. It was incorporated into local practice in an LBTH Cabinet report in July 2011 - at the same time as the commissioning of the adverts for local broadcast. The new code was therefore not yet fully implemented. However the code has since been implemented in full, and pending final agreement, an additional communications protocol has been developed to provide specific guidance on the steps to be taken before significant communications activity is commissioned. T Sulaiman November 2013

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
5	2	**Annual review of Property Plant and Equipment (PPE) for revaluation** The Code requires that PPE assets are valued sufficiently frequently to ensure that they are materially correct. Therefore whilst the Code allows for assets to be valued on a five year rolling basis, in the intervening period assets should be reviewed to ensure they are materially correct. One mechanism that can be used to do this is to apply relevant indices to the asset class annually and determine if they result in a material change. The Authority currently only considers impairments not valuation gains on an annual basis. We therefore recommend that the Authority, in conjunction with their valuer, identify relevant indices that can be considered annually to assesses if there has been a material change in asset values.	Council officers will work with the auditors to agree an approach to assessing material variations to Council assets. K Miles/ Council valuers March 2014
6	3	**Budget Variances** As part of our interim audit we reviewed the processes and controls in place over budget monitoring. We identified that not all variances over the prescribed £250,000 variance level were being adequately explained. The Authority should consider if a standard £250,000 threshold is appropriate across all directorates or if a more tailored approach would be more appropriate. The Authority must then ensure that it complies with these thresholds.	Officers will ensure suitable budget variance comments are included within the regular budget monitoring reports. K Miles September 2013

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
7	3	**Timeliness of reconciliations** We noted that for the monthly cash and debtor reconciliations were not always completed in a timely manner, in excess of two weeks after month end, and that they were not always signed off as reviewed. We recommend that all monthly control account reconciliations are completed within two weeks of month end and are formally signed off to evidence review.	Once Agresso is fully operational, there is a priority to ensure timely reconciliations are built into the system. P Thorogood December 2013
8	3	**School cash reconciliations** We reviewed a sample of ten school bank reconciliations and noted that the supporting documentation did not always agree to the figures recorded on the reconciliation, reconciling items were not always adequately explained and in one case there was a negative cash balance. Whilst these issues do not have a material impact on the accounts we recommend that the Authority work with the schools to ensure that cash reconciliations are completed fully and agree to supporting documentation.	Finance officers from the school's support team will follow up these bank reconciliation discrepancies with schools during the year. S Patel March 2014

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations raised by the Audit Commission in the 2011/12 ISA 260 report

This appendix summarises the progress made to implement the recommendations identified in the Audit Commissions *ISA 260 Report 2011/12* and details the progress made against the high rated risks below.

Number of recommendations that were:	
Included in original report	9
Implemented in year	8
Superseded	1

Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2013
1	Evidence the operation of controls more consistently to strengthen the internal control environment.	Officers will review processes for the reconciliation of rent and service charge systems and treasury to ensure undertaken. Reconciliations will be incorporated into the new financial system during the implementation process. Internal Audit will carry out a review to provide assurance that reconciliations have been carried out for the first six months of 2012/13 and evidenced. December 2012	**Implemented** We have not identified any significant weaknesses within the control environment. We have raised a low priority recommendation in relation to the timeliness of some reconciliations.
1	Implement controls to prevent the pre-receipting of goods and services in the accounts payable system.	Officers will conduct a review during the year to ensure material pre-receipting has not been performed on R2P. New system guidance will remind officers that pre-receipting (where payment in advance is not required) is contrary to financial regulations. December 2012	**Implemented** Our testing has not identified any instances of pre-receipting of goods.
1	As part of the work to migrate the accounts payable data to the new system, undertake a thorough review of all creditor balances to ensure the data held is robust.	Debtor and creditor balances will be reviewed as part of the data migration to the new finance system. March 2013	**Implemented** We have reviewed the process undertaken by the Authority to clear old balances. No issues identified.

Appendix 2: Follow up of prior year recommendations

Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2013
1	Continue to review and update the Authority's financial plans in response to changes in funding and demand for services.	As part of the budget process, officers will continue to monitor Government announcements and pressures on services to ensure risk is adequately understood and referenced to plans. Ongoing	**Implemented** We have reviewed the Authority's financial plans as part of our work on VFM. We have not identified any issues.
1	Maintain a watching brief on the adequacy of the Authority's governance arrangements.	The CFO and Monitoring Officer will maintain an oversight of governance arrangements through appropriate use of internal controls. Ongoing	**Superseded** We are aware that the Authority is in the process of starting a corporate governance review and have raised a recommendation to ensure the results are acted upon.

Appendix 3: Audit differences

This appendix sets out the significant audit differences. It is our understanding that all of these will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Authority's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of the London Borough of Tower Hamlet's financial statements for the year ended 31 March 2013. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

	Impact (£000)				
No.	**Income and Expenditure Statement**	**Adjustments btw. accounting basis & statute**	**Liabilities**	**Reserves**	**Basis of audit difference**
1			Dr provisions for accumulated absences £3,369		Per the code the Authority is required to account for employee annual leave that is not taken at the financial year end. This should be shown as an accrual rather than a provision.
			Cr Short-term creditors £3,369		
2	Cr Non-distributed costs expenditure £1,184	Dr General fund £1,184	Cr Provisions £1,184	Dr Earmarked reserves £1,184	Municipal Mutual Insurance Ltd (MMI) entered into administration on 13 November 2012. The administrators wrote to all members advising that a levy of 15% would be placed on all members. As a result a provision should be made for this amount. The Authority holds an insurance reserve that covers the full MMI insurance fund however for 2012/13, 15% is required to be disclosed as a provision.
	Cr £1,184	**Dr £1,184**	**Dr £1,184**	**Cr £1,184**	**Total impact of adjustments**

Appendix 3: Audit differences (continued)

In addition to the audit adjustments to the core financial statements listed above our audit also identified several adjustments to the notes and general presentational amendments . We have detailed the key adjustments in the table below

Note	Key changes
1 and 2	A number of changes were made in relation to accounting policies in particular updating the critical accounting policies to include schools and valuation and changes in accounting policy.
15	The financial instruments note required some minor wording adjustment to bring it in line with the Code.
31 and 35	Multiple presentational changes to ensure notes are code compliant, including: • Updating the Health Act; and • Correction of the audit fee note to reflect non-audit fees and expected fees relating to enquiries received.
33	Multiple presentation changes to ensure the note was code compliant, including: • The inclusion of a payment made to a senior manager not previously disclosed; • The inclusion of the salary of the Adults, health and Wellbeing interim director into the detailed table; and • updating the number of staff earning over £50,000 .
39 and 40	Updating the lease and PFI disclosures to reflect the requirements of the code. This includes more information in relation to the type of leases held and the details of the PFI scheme.
41	Minor adjustments made to the pensions note to update for the change in rate of return on assets.
43	A number of adjustments were made to the Heritage asset note to bring it in line with the code.
Throughout	We also required a number of presentational adjustments to be made throughout the accounts these mainly related to: • correction of grammatical errors; and • ensuring formatting was consistent throughout the accounts .

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Non-audit work

Our IT advisory team completed an IT systems implementation review during 2012/13, in addition our tax team have provided advice throughout 2012/13. We have considered the scope of the work in the context of the Auditing Practices Board's (APB) Ethical Standards and Audit Commission requirements and concluded it does not impair our independence.

Auditor declaration

In relation to the audit of the financial statements of the London Borough of Tower Hamlets for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and the London Borough of Tower Hamlets, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

We have requested a specific representation over amounts paid to Senior Officers.

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Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Tower Hamlets ("the Authority") for the year ended 31 March 2013, for the purpose of expressing an opinion:

- as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2013 and of the Authority's and the Group's expenditure and income for the year then ended;
- whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2013 and of the Authority's and the Group's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

The financial statements have been prepared on a going concern basis.

Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 requires adjustment or disclosure have been adjusted or disclosed.

Information provided

The Authority has provided you with:

- access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- additional information that you have requested from the Authority for the purpose of the audit; and

Appendix 5: Draft management representation letter

- unrestricted access to persons within the Authority and Group from whom you determined it necessary to obtain audit evidence.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

The Authority has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
   - management;
   - employees who have significant roles in internal control; or
   - others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

The Authority has disclosed to you and has appropriately accounted for and/or disclosed all payments made to Senior Officers in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that:

are statutory, contractual or implicit in the employer's actions;

- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,
- have been identified and properly accounted for; and

b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 26 September 2013.

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Report to those charged with governance (ISA 260) 2012/13

London Borough of Tower Hamlets Pension Fund

12 September 2013

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Introduction

This report summarises the key issues identified during our audit of the London Borough of Tower Hamlet's Pension Fund's (the Fund's) financial statements for the year ended 31 March 2013.

Scope of this report

The Audit Commission's *Code of Audit Practice* requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and report to those charged with governance (in this case the Audit Committee). We are also required to comply with International Standard on Auditing ('ISA') 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2013.

Some of our responsibilities under ISA 260 relate to the London Borough of Tower Hamlets ('the Authority') as administering authority as a whole and are discharged through our reporting to the Authority's Audit Committee. This includes:

- Declaring our independence and objectivity;
- Obtaining management representations; and
- Reporting matters of governance interest, including our audit fees.

Audit of the pension fund

As with the main audit of the Authority, our audit of the Fund follows a four stage audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our main on site work took place in July and August 2013.

We carried out the following work:

Control Evaluation

- Evaluate and test selected controls over key financial systems
- Review accounts production process
- Review progress on critical accounting matters

Substantive Procedures

- Plan and perform substantive audit procedures
- Conclude on critical accounting matters
- Identify audit adjustments

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the findings from our audit work on the Fund's accounts in more detail.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained in the Authority's Statement of Accounts by 30 September 2013. At the date of this report our audit of the Fund's financial statements is substantially complete. The only significant area of work outstanding is our detailed review of the Pension Fund Annual Report. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.
Audit adjustments	We are pleased to report that our audit of the Fund's financial statements did not identify any significant amendments or audit differences. However, we identified a number of disclosures required by the CIPFA Disclosure Checklist that were not included in the initial draft accounts submitted for audit. The Fund has agreed that all of these will be adjusted. We have raised a recommendation on this matter (see Appendix 1 for details).
Accounts production and audit process	The Fund has reasonable processes in place for the production of the Fund's financial statements and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Fund addressed the issues discussed appropriately.
Control environment	Controls over the Fund's key financial systems are generally sound. However, we are concerned that there is insufficient separation between the operation of the Authority and Fund bank accounts. Regulations require payments and receipts relating to a pension fund to be processed through the pension fund's separate bank account. We have made a recommendation on this issue and further details are set out in Appendix 1.

Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2013.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 26 September 2013.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any audit differences, however, we requested a number of presentational adjustments which are required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code')*. We understand that the Fund will be addressing these where significant.

Completion

At the date of this report, our audit of the Fund's financial statements is substantially complete. The areas outstanding are:

- Review of the Pension Fund Annual Report;
- Agreement of revised and additional disclosures being presented correctly in the revised financial statements; and
- Final reviews and closedown procedures.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Authority's representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements. A full declaration of our independence is set out in the main *ISA 260 Report* for the Authority.

Annual Report

The Pension Fund Annual Report has not been prepared yet We are required to confirm that:

- it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and
- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We expect to receive the draft Annual Report in early September and it is due to be approved by the Pensions Committee on the 19 September. We therefore anticipate issuing our opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

Accounts production and audit process

The Fund has reasonable processes in place for the production of the Fund's financial statements and good quality supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

We have raised two recommendations which are similar to recommendations made by the Audit Commission in their 2011/12 ISA260 Report for the Fund.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the accounting practices and financial reporting relating to the Fund. We also assessed the Authority's process for preparing the Fund's financial statements and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Fund has reasonable financial reporting arrangements over the Fund's financial statements in place. There is scope to improve this further by conducting an annual review of any changes to the Code requirements to ensure all necessary disclosures have been made. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 20 June 2013 ahead of the 30 June deadline.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on and discussed with the Finance Officer and Chief Financial Strategy Officer, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our *Accounts Audit Protocol*.
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.

Element	Commentary
Response to audit queries	Officers resolved audit queries in a reasonable time and were helpful and accessible throughout the audit.

Prior year recommendations

As part of our audit we have followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

From our audit work, we believe only one of the three recommendations made by the Audit Commission in their ISA260 Report 2011/12 for the Fund has been implemented. Work still needs to be undertaken to fully implement the other two recommendations. See Appendices 1 and 2 for further details.

Organisational and control environment

Controls over the Fund's key financial systems are sound.

However, we have raised a concern about the separation between the operation of the Authority and Fund bank accounts. Regulations require payments and receipts relating to the pension fund to be processed through the fund's separate bank account.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We therefore obtain an understanding of the Fund's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

We also review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy. This has also been complemented by our own testing on selected systems.

Key findings

We consider that the Fund's organisational controls are effective overall.

We did not note any weaknesses in respect of individual financial systems that impacted on our audit.

We are concerned that there is insufficient separation between the operation of the Authority and Fund bank accounts. Regulations require payments and receipts relating to the pension fund to be processed through the fund's separate bank account. We have made a recommendation on this issue and further details are set out in Appendix 1.

Appendix 1: Key issues and recommendations

We have identified one recommendation in relation to our work on the Fund's 2012/13 financial statements

We have given each recommendation a risk rating and agreed what action management will need to take.

The Fund should closely monitor progress in addressing specific risks and implementing our recommendations.

Priority rating for recommendations		
1 *Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2 *Priority two*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3 *Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	1	During our audit we observed that all of the payments in March 2013 were to the Authority's bank account and no payments were made in April 2013 (because of the change in financial systems from JD Edwards to Agresso). We are satisfied that there is an effective system for working out the value of payments made from the General Fund on behalf of the Pension Fund on a monthly basis and we have been able to verify the transactions taking place and their allocation to the Pension Fund. However, the Authority should continue working towards ensuring all payments and receipts relating to the pension fund are processed through the Fund's separate bank account, in accordance with the Regulations.	The Council is committed to putting in place systems and processes that ensure that all receipts and payments relating to the pension fund are directly credited/debited to the Fund bank account. One of the work-streams that has been established as part of the Agresso implementation plan, and is already underway, should facilitate this process and ensure that all transactions relating to the Pension Fund go through the Fund account by the end of the year. O Shonola March 2014
2	2	A number of disclosures required by the CIPFA Disclosure Checklist were not included in the initial draft accounts submitted to audit. There is therefore a risk that the Fund's accounts will not comply with Regulations and the Code. The draft accounts should be reviewed for compliance against the latest guidance applicable to the financial year to ensure all necessary disclosures have been made.	The Council works to fulfil the requirements of the Code when preparing the statement of accounts. The CIPFA Disclosure Checklist is a useful tool that assists with this process and officers will work to ensure that all the tasks in the checklist have been carried out or any reasons for departures from the check-list explained. O Shonola June 2014

Appendix 2: Follow up of prior year recommendations

The Authority has only implemented one of the three recommendations raised by the Audit Commission in the 2011/12 ISA 260 report

This appendix summarises the progress made to implement the recommendations identified in the Audit Commissions *ISA 260 Report 2011/12* and details the progress made against the high rated risks below.

Number of recommendations that were:	
Included in original report	3
Implemented in year	1
Superseded	0

Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2013
2	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.	Officers will review processes for the reconciliation of rent and service charge systems and treasury to ensure undertaken. Reconciliations will be incorporated into the new financial system during the implementation process. Internal Audit will carry out a review to provide assurance that reconciliations have been carried out for the first six months of 2012/13 and evidenced. June 2013	**Not implemented** We have identified a similar issue in the compilation of this year's financial statements and made a similar recommendation in Appendix 1.
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.	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. March 2013	**Not implemented** We have identified a similar issue in the compilation of this year's financial statements and made a similar recommendation in Appendix 1.
1	Evidence the operation of controls more consistently to strengthen the internal control environment.	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. March 2013	**Implemented** No issues identified from our review of pension payroll numbers.

Appendix 3: Audit differences

We have not identified any significant audit differences during our audit.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Fund's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

We have not identified any significant audit differences during our audit of the London Borough of Tower Hamlets Pension Fund's financial statements for the year ended 31 March 2013.

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REPORT TO:	DATE	CLASSIFICATION:	REPORT NO.
Audit Committee	**26 September 2013**	**Unrestricted**	

REPORT OF:	TITLE:
Chris Holme–Acting Corporate Director of Resources	**Statement of Accounts 2012/13 – Audit Report and approval**
ORIGINATING OFFICER(S):	WARD(S) AFFECTED:
Kevin Miles – Chief Accountant	N/A

1. SUMMARY

1.1 This report presents the Authority's Statement of Accounts for the financial year ending 31st March 2013 now the majority of the audit has been completed by KPMG. The latest version of the accounts as at 17th September is attached. Although there are some minor disclosure changes to the accounts, the Council's overall financial position is unchanged from the draft circulated to Members in June, except for a minor technical increase to the HRA reserve of £180,000, though this adjustment should not be considered an increase in usable reserves.

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 2013, having regard for the auditor's Annual Governance Report.

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.

3. BACKGROUND

3.1 In June, officers presented the draft Statement of Accounts for 2012/13 (including the pension fund accounts) which was subject to audit. This was the third 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 KPMG 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 before the end of September.

3.3 The external auditors, KPMG will be presenting their Annual Governance Reports, the ISA260 (see agenda item 4) 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. The auditors have completed their audit review of the accounts.

4. STATEMENT OF ACCOUNTS 2012/13

4.1 The restated Statement of Accounts for 2012/13 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 2013, 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 (except for an increase in the HRA reserve as a result of a reversal of a previous impairment charge).

4.4.1 **Corrected errors** – whilst the external 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 2013 there were some minor changes to the accounts concerning the treatment of accrued annual leave as an accrual rather than a provision and the re-categorisation of a payment due to Municipal Mutual Insurance Ltd (MMI) as a provision rather than a reserve. There were also some minor disclosure amendments as outlined in appendix 3 of the audit report. These changes did not impact on the Council's out-turn for the year or its available resources.

4.4.2 **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. Risks identified as part of the 2011/12 audit process have been addressed. The auditors are satisfied that the creditor risk identified last year has been addressed.

4.4.3 **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 2012/13. 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.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

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

6.1 The Accounts and Audit (England) Regulations 2011 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 30 June each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The audit committee must approve the statement of accounts by 30 September each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 30 September along with any certificate, opinion or report issued or given by the Auditor under section 9 of the Audit Commission Act 1998.

7. ONE TOWER HAMLETS CONSIDERATIONS

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

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

8. ANTI-POVERTY CONSIDERATIONS

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

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

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

10. RISK MANAGEMENT IMPLICATIONS

10.1 There are no specific risk management implications.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 There are no crime and disorder reduction implications.

12. EFFICIENCY STATEMENT

12.1 There are no specific efficiency implications although KPMGhave reported on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter.

13. APPENDICES

Appendix 1 – Explanatory Foreword, Statement of Accounts and Annual Governance Statement for the year ended 31st March 2013 (subject to final, audit opinion).

Local Government Act, 2000 (SECTION 97)
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	Name and telephone number of holder and address where open to inspection
Closure of Accounts Working Papers	Kevin Miles, Ext. 6791
Capital Working Papers	Alison Gebbett, Ext. 3360
HRA Closure of Accounts Working Papers	Paul Leeson, Ext. 4995

LONDON BOROUGH OF TOWER HAMLETS

ANNUAL FINANCIAL REPORT 2012-13

2008 - 2009
Reducing Re-offending
2003 - 2008
Winner of 6 previous Beacon Awards

INVESTOR IN PEOPLE

ANNUAL FINANCIAL REPORT 2012-13

CONTENTS

EXPLANATORY FOREWORD

Overview by the Corporate Director of Resources

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2012/13, 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 2012/13, and the Service Reporting Code of Practice. These constitute "proper accounting practice" with which councils must comply by statute. The Council also produces 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 overall budget savings for the year of £23.4 million; a reduction of some 7% of the net revenue budget.

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 £11.7 million to £38.1 million. This increase is in line with the councils plan to increase reserves by £6.4million. The remaining balance of £5.3 million is the result of unallocated contingencies for price increases that did not materialise and lower than expected interest costs. 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 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 2012/13 include:

- Delivering more than 500 affordable homes
- Rehousing more than 1,400 overcrowded families
- Improving street and environment cleanliness, including reductions in litter, detritus and fly-posting
- Reducing the number of young people not in education, employment or training

- Narrowing the gap between the Tower Hamlets and London employment rates and Jobseekers Allowance claimant rates
- Raising educational attainment – Tower Hamlets now performs better than the national average at Key Stage 2 and GCSE
- Supporting crime reduction – rates of personal robbery, residential burglary and motor vehicle crime have all reduced over the past year
- Assisting 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 strategic partners including the; Police, NHS Tower Hamlets, Jobcentre Plus and the Voluntary and Community sector (VCS). 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 £149 million spent on its capital programme. The main areas of investment were in housing and schools, with £39 million of improvement works through the housing programme and £77 million through the Building Schools for the future programme. Other major projects included the newly built Watney Market Ideas Store and school expansion schemes to allow for additional pupil places.

Looking forward the Council will continue to face significant financial challenges. The 2013-2015 Medium Term Financial Plan agreed by Full Council in March 2013 includes a £24.2 million savings programme in the years to 2015/16, and whilst this forms the basis of a balanced budget over the next three years, there remain a number of major financial risks – in particular the expectation that £20-£30 million of savings will be required in 2016/17 onwards. 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

The structure of the 2012/13 Statement of Accounts is similar to that for 2011/12.

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 Statement, 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 74 to 76) and the surplus or deficit on the Pension Fund Account (detailed on pages 84 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. From 2013/14, the Council will retain an element of Business Rates (however other Government Grants in the medium term have been scaled down to more than offset any increase).

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

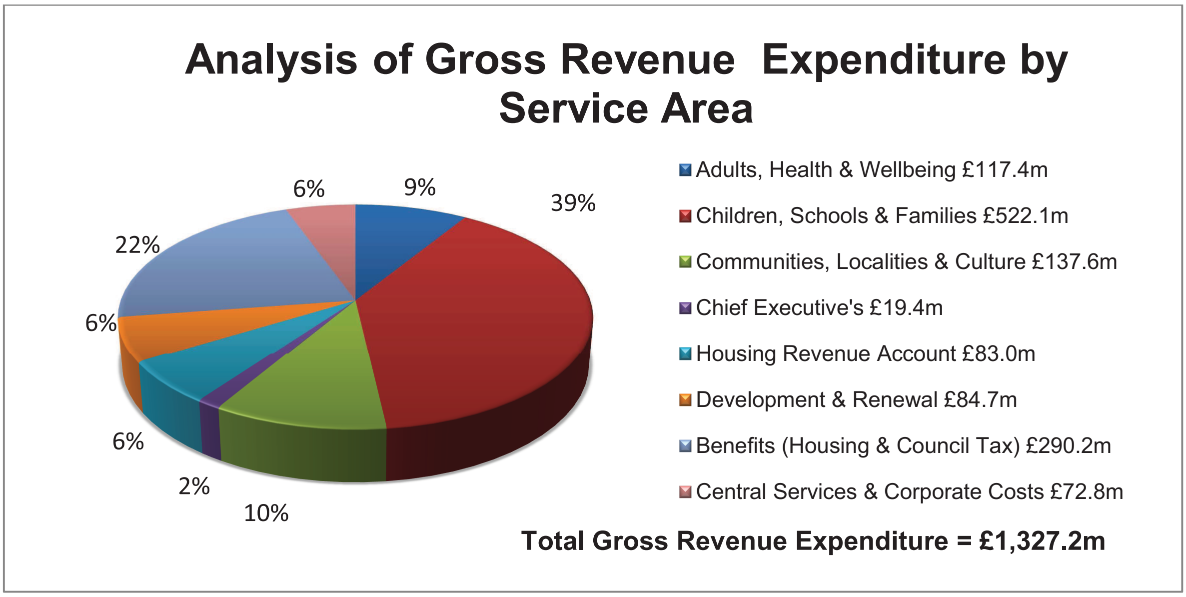
Review of the Year

Revenue Income and Expenditure

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

Overall, the Council's Directorate spend is in line with the net General Fund budget of £314 million after the planned transfer of £6.4 million and unallocated contingencies of £5.3 million to General Fund Reserves. The HRA account showed an additional surplus of some £1.5 million against budget which has been transferred to HRA reserves.

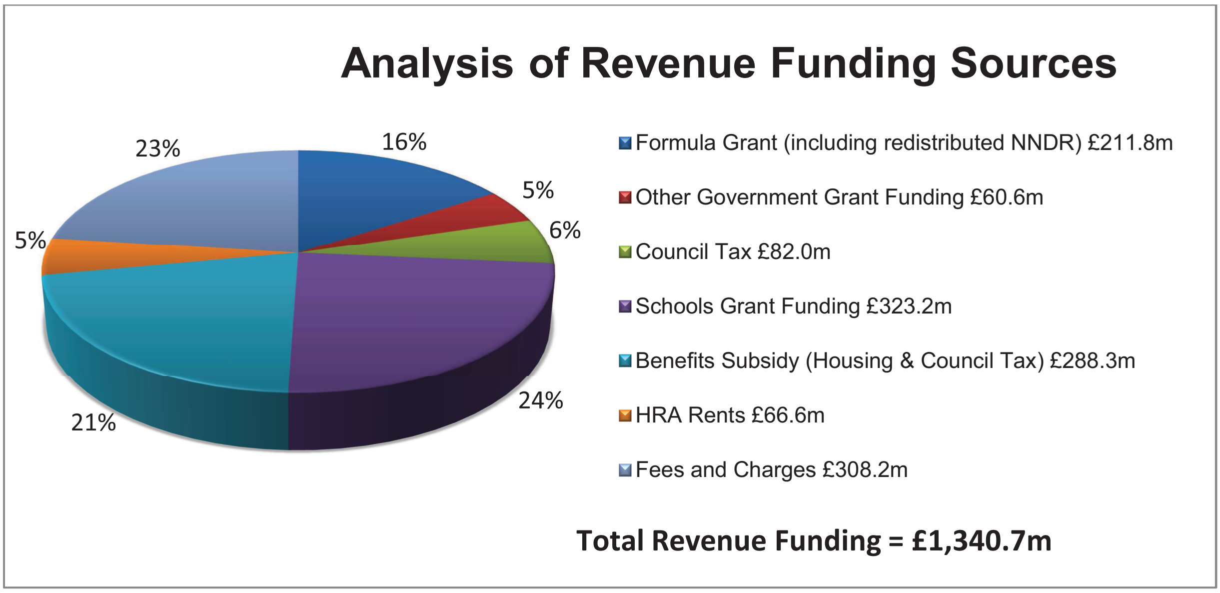
The Council's gross expenditure on services, excluding accounting adjustments, was £1.3 billion (£1.3 billion in 2011/12). An analysis by directorate is shown in the following diagram.



Revenue Funding

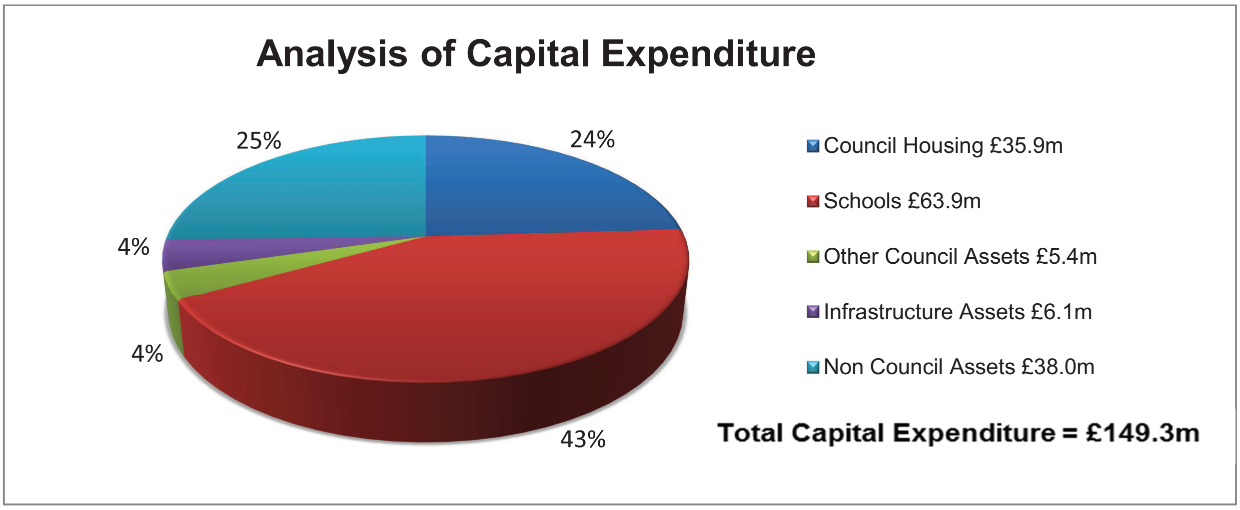
Government grants and subsidies continue to be the main sources of revenue funding (£0.88 billion). In its 2010 Spending Review the government not only reduced the overall level of grant funding to local authorities but also rationalised the way in which that funding is provided; this involved ‘rolling-up’ a large number of grants for specific services into either the main Formula Grant or a smaller number of Core Grants. The new Core Grants can be used to fund Council services in general rather than being tied to a specific service: this has provided a greater level of financial flexibility.

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



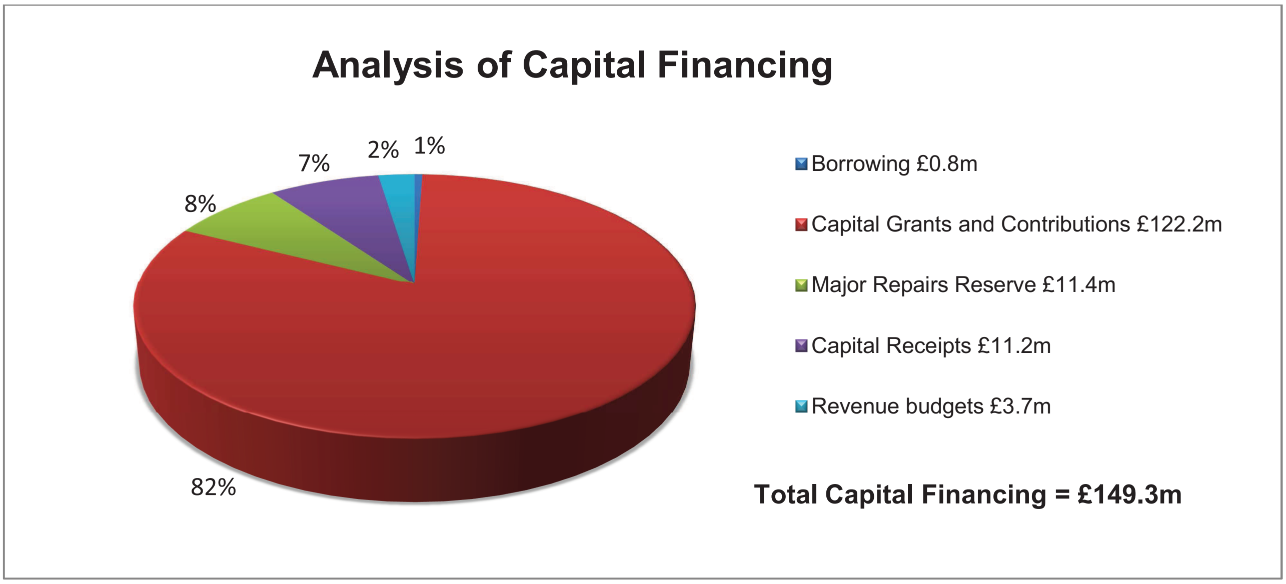
Capital Investment

The Council has continued to make considerable capital investment in its capital assets. The following table sets out the broad categories of investment during the year with the main areas of spending being on schools (primarily through the Building Schools for the Future Programme) and housing where the Council spent £35.9 million on its housing assets.



Investment shown as being in 'non-Council assets' includes £30.7 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. The majority of this funding was from capital grants and contributions. In addition, £11.4 million was also used from the Major Repairs Reserve which is set aside from the Housing Revenue Account for capital investment.



Borrowing

At the year end the Council had outstanding borrowings of £92 million. This is broadly the same level as at 31st March 2012.

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 2012/13 there was a net liability of £524 million (£423 million 2011/12). 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 deficit is principally due to the financial assumptions used at 31 March 2013 being less favourable than they were at 31st March 2012. A significant reduction in the net present value discount rate combined with lower than expected returns on investment has led to a higher value being placed on liabilities - this has been the case for most LGPS funds. This is a snapshot valuation for accounting purposes and the revaluation for contributory purposes is taking place currently and will be available later in the year. This will affect employer contributions to the fund with effect from April 2014.

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

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	
		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	TOTAL UNUSABLE RESERVES £'000	TOTAL AUTHORITY RESERVES £'000
Balance as at 31 March 2011		23,380	109,354	12,786	6,346	24,425	19,750	**196,041**	**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**	**221,247**
Other comprehensive expenditure and income		0	0	0	0	0	0	**0**	**(102,532)**	**(102,532)**
Total Comprehensive Expenditure and Income		**(34,864)**	**0**	**256,111**	**0**	**0**	**0**	**221,247**	**(102,532)**	**118,715**
Adjustments between accounting basis and funding basis under regulations		52,225	0	(254,319)	1,639	3,183	30,406	**(166,866)**	**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**	**64,336**	**118,715**
Transfers to or from earmarked reserves	8	(11,948)	11,948	0	0	0	0	**0**	**0**	**0**
Transfers to or from school reserves	8	(2,413)	2,413	0	0	0	0	**0**	**0**	**0**
Increase or (Decrease) in 2011/12		**3,000**	**14,361**	**1,792**	**1,639**	**3,183**	**30,406**	**54,381**	**64,336**	**118,715**
Balance as at 31 March 2012 carried forward		**26,380**	**123,715**	**14,578**	**7,985**	**27,608**	**50,156**	**250,422**	**1,141,433**	**1,391,855**
Movement in reserves during 2012/13										
Surplus or (Deficit) on the Provision of Services		58,710	0	45,465	0	0	0	**104,175**	**0**	**104,175**
Other comprehensive expenditure and income		0	0	0	0	0	0	**0**	**(263,151)**	**(263,151)**
Total Comprehensive Expenditure and Income		**58,710**	**0**	**45,465**	**0**	**0**	**0**	**104,175**	**(263,151)**	**(158,976)**
Adjustments between accounting basis and funding basis under regulations		(35,592)	0	(43,810)	4,379	(6,966)	5,545	**(76,444)**	**76,444**	**0**
Net Increase or Decrease before Transfers to Earmarked Reserves		**23,118**	**0**	**1,655**	**4,379**	**(6,966)**	**5,545**	**27,731**	**(186,707)**	**(158,976)**
Transfers to or from earmarked reserves	8	(5,350)	5,350	0	0	0	0	**0**	**0**	**0**
Transfers to or from school reserves	8	(6,088)	6,088	0	0	0	0	**0**	**0**	**0**
Increase or (Decrease) in Year		**11,680**	**11,438**	**1,655**	**4,379**	**(6,966)**	**5,545**	**27,731**	**(186,707)**	**(158,976)**
Balance as at 31 March 2013		**38,060**	**135,153**	**16,233**	**12,364**	**20,642**	**55,701**	**278,153**	**954,724**	**1,232,879**

***HRA Reserves** - The Housing Revenue Account reserve balance of £15.053 million includes an earmarked HRA reserve of £1 million for future housing supply.
The HRA Reserve also includes £0.180m in relation to unrealised revaluation gains as per requirements of HRA self-financing legislation

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2011/12 Gross Expenditure Restated £'000	2011/12 Gross Income Restated £'000	2011/12 Net Expenditure Restated £'000		Note	2012/13 Gross Expenditure £'000	2012/13 Gross Income £'000	2012/13 Net Expenditure £'000
			Continuing Operations				
29,790	6,859	22,931	Cultural and Related Services		22,005	4,018	17,987
47,938	38,760	9,178	Central Services		42,755	34,590	8,165
529,192	437,468	91,724	Children's and Education Services		537,216	442,173	95,043
41,568	9,471	32,097	Environment and Regulatory Services		43,967	9,208	34,759
31,709	20,704	11,005	Highways and Transport Services		32,677	21,825	10,852
66,921	90,718	(23,797)	Local Authority Housing (Housing Revenue Account)		55,283	84,442	(29,159)
305,846	285,696	20,150	Other Housing Services		314,733	295,855	18,878
30,045	19,648	10,397	Planning Services		21,968	9,483	12,485
116,743	29,626	87,117	Adult Social Care		115,175	24,687	90,488
14,981	2,897	12,084	Corporate and Democratic Core		19,594	3,476	16,118
14,584	250	14,334	Non-distributed Costs		5,862	1,719	4,143
1,229,317	**942,097**	**287,220**	**NET COST OF SERVICES**		**1,211,235**	**931,476**	**279,759**
		130,450	Other Operating Expenditure	9			(161)
		108,193	Financing and Investment Income and Expenditure[1]	10			23,649
		(747,110)	Taxation and Non-Specific Grant Income	11			(407,422)
		(221,247)	**(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES**				**(104,175)**
			Other Comprehensive Income and Expenditure				
		(13,701)	(Surplus)/Deficit on revaluation of non-current assets				168,459
		116,236	Actuarial (gains) or losses on pension assets and liabilities				94,692
		102,535	**OTHER COMPREHENSIVE INCOME AND EXPENDITURE**				**263,151**
		(118,712)	**TOTAL COMPREHENSIVE INCOME AND EXPENDITURE**				**158,976**

[1] 2011/12 figures include effect of CLG debt repayment in March 2012

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 2013.

31 March 2012 £'000		Notes	31 March 2013 £'000
	Long-term Assets		
1,850,505	Property, plant and equipment	12	1,753,825
4,799	Heritage Assets	43	4,810
768	Long Term Debtors	13	672
1,856,072	**Total Long-term assets**		**1,759,307**
	Current Assets		
131,603	Short-term investments	15	146,336
945	Assets held for sale	21	3,248
517	Inventories	16	390
74,912	Short-term debtors	19	70,818
126,726	Cash and cash equivalents	20	135,996
334,703	**Total Current Assets**		**356,788**
	Current liabilities		
2,266	Short-term borrowing	15	2,979
150,398	Short-term creditors	22	149,693
1,594	Provisions	23	921
154,258	**Total Current liabilities**		**153,593**
	Long Term Liabilities		
13,088	Provisions	23	13,071
90,479	Long-term borrowing	15	89,564
422,546	Liability related to defined benefit pension schemes	41	522,962
72,255	Capital grants receipts in advance	37	61,341
40,299	Deferred liabilities	40	39,410
5,996	Deferred Income - Receipt in Advance		3,276
644,663	**Total Long-Term Liabilities**		**729,624**
1,391,854	**NET ASSETS**		**1,232,878**
	Reserves		
	Usable Reserves		
26,380	General Fund		38,060
14,578	Housing Revenue Account		16,233
97,932	Earmarked reserves	8	103,282
25,783	Schools reserves	8	31,871
27,608	Capital receipts reserve		20,642
50,156	Capital grants unapplied		55,701
7,985	Major repairs reserve		12,364
250,422	**Total Usable Reserves**		**278,153**
	Unusable Reserves	25	
497,734	Revaluation Reserve		324,686
1,068,460	Capital Adjustment Account		1,153,640
24	Collection Fund Adjustment Account		1,588
959	Financial Instruments Adjustment Account		1,032
(422,546)	Pensions reserve		(522,962)
(3,355)	Accumulated Absences Account		(3,369)
156	Deferred capital receipts		110
1,141,432	**Total Unusable Reserves**		**954,725**
1,391,854	**TOTAL RESERVES**		**1,232,878**

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.

2011/12 £'000		Notes	2012/13 £'000
221,247	Net surplus or (deficit) on the provision of services		104,175
205,036	Adjustments to net surplus or deficit on the provision of services for non cash movements	26A	42,320
(163,976)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26A	(132,944)
262,307	**Net cash flows from Operating Activities**		**13,551**
(3,577)	Investing Activities	27	(1,753)
(268,567)	Financing Activities	28	(2,528)
(9,837)	**Net increase or decrease in cash and cash equivalents**		**9,270**
136,563	Cash and cash equivalents at the beginning of the reporting period		126,726
126,726	**Cash and cash equivalents at the end of the reporting period**	20	**135,996**

NOTE 1. STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31st March 2013. The Council 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 2012/13 and the *Service Reporting Code of Practice (SeRCOP) 2012/13*, 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 2013 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 Council 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 Council.
- Revenue from the provision of services is recognised when the Council 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 Council. This

includes the accounting for 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 Council's cash management.

4. Exceptional Items

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

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

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

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

Changes in Accounting Policy:

Financial Instrument Disclosures: Amendments to IFRS 7 *Financial Instruments: Disclosures* in the code is not a change of accounting policy that will require the publication of a Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) in the 2012/13 financial statements.

Other changes – other changes adopted in the 2012/13 Code did not require additional disclosure for the 2011/12 or 2012/13 financial statements.

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

Changes to IAS19 –from 2013/14, termination benefits will be accounted for based on when an offer cannot be removed – this will be a later point than at present when they are accounted for when the Council is committed to making an offer. There will be further actuarial disclosures regarding the return on pension assets.

Changes to IFRS7 – Financial Instrument disclosure that requires offsetting Financial Assets and Liabilities to be disclosed .

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 Council. 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 Council 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 Council 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 Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

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 iBoxxSterling Corporates Index, AA over 15 years) as at 31st March 2013.

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

9. Financial Instruments

a. Financial Liabilities

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

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

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 theComprehensive 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 Council 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 Council when there is reasonable assurance that:

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (revenue grants) or Capital Grants Receipts in Advance account (capital grants). When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-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.

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 2013. This valuation is based on valuations for art and museum collections where the asset has a material value. The council 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).

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.

Where the Council has information on the cost or value of a heritage asset the Council includes that value in its 2012/13 balance sheet. Where this information is not available and the historical cost information cannot be obtained the asset is excluded from the balance sheet.

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.

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.

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 Council 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 Council 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 Council'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 Council can be determined by reference to an active market. In practice, no intangible asset held by the Council 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 Council 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 Council 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 Council 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 Council 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 council 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 Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

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 2012/13 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – costs not attributable to services such as depreciation and impairment losses chargeable on non-operational properties

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

19. Property, Plant and Equipment

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

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

Measurement
Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

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

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. Gains are credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

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

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

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

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

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

- **dwellings -** 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 timeof disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

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 Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.The Council is party to two PFI contracts in respect of schools which terminate in 2027 and 2029.

The original recognition of these long-term assets at 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 Council.

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

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

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

There is also a third PFI contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. As the Council does not pay for this scheme, there is no MRP chargeable.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 Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

c. Contingent Assets

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

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

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.

The Council treats transfers from the insurance reserve as above the line income to services rather than below the line transfers between reserves. This is a deviation from the Accounting Code of Practice but does not have a material effect on the financial statements.

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 Council 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 Council is recognised and reported in the costs of the Council'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 Council 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 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. Included in property, plant & equipment are community schools and PFI schools that are owned by the council or in the case of PFI schools, will revert to council ownership at the end of the contract. Voluntary aided, academies, foundation and trust schools are not owned by the council so are not included on the council's balance sheet.

- 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 prior financial year but not paid.

- To ensure that the carrying value of the PPE assets are not materially different from the fair value the council engages the professional services of a firm of external property valuers to review the Councils property portfolio in line with the CIPFA and RICS guidelines. Given the size, value and complexity of the asset base it is likely that a revaluation could have a significant impact on the financial statements, however any adjustments should not impact materially on usable reserves.

3 Restated Accounting Statements

No prior year comparative figures within the Council's 2012/13 accounts have been restated, however accruals are now shown separately within note 22 - Creditors. In the 2011/12 accounts, this balance of £50 million was shown within the balance of Creditors for "Other Entities and Individuals". Further details are within the creditor accruals statement below in note 4.

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 Council 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 2013 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 Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

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

Heritage Assets - In valuing material heritage assets, valuations have been obtained from independent Valuers where 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. Most heritage items have been given a nil value in the Accounts as their values are significantly below the materiality threshold - any risk is the assets' value is understated.

Debtors - The Council has a balance of £47.7 million sundry debtors as at 31st March 2013 . A bad debt provision for non collection equates to 21% of this debt. If debt collection levels were to deteriorate, then a 10% increase of the provision would equate to £1 million.

Creditor Accruals - creditor accruals 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 2013, the value of these creditors was £54.2 million (£50 million at 31st March 2012).

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 Council with expert advice about the assumptions to be applied.

The assumptions interact in complex ways. During 2012/13, the Council’s actuaries advised that the net pensions liability had increased by £100.4 million to £523.0 million as a result of higher future inflationary forecasts and a lower discount factor for calculating the net present value of liabilities.

5 Material Items of Income and Expense

Previous 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 came into effect from 1st April 2012. The debt repayment included a £76.3

Current Year Items

Within the Other Comprehensive Income and Expenditure line of the accounts, there are two material non-cash expenditure items:

Actuarial loss on pension fund - there was a £96 million actuarial loss on the pension fund due to higher inflation estimates and lower net present value discounting factors being used.

Revaluation of Properties - a £166m unrealised revaluation loss on the value of property (in particular schools) is shown on the face of the Comprehensive Income & Expenditure Account.

6 Events After the Balance Sheet Date

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

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2012/13	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									
Reversal of items debited or credited to the Comprehensive I&E									
Charges for depreciation and impairment of non current ass	20,695	0	0	15,754	0	0	**36,449**	**(36,449)**	0
Revaluation losses on PPE (charged to SDPS)	19,852	0	(21,350)	0	0	0	**(1,498)**	**1,498**	0
Movements on the market value of investment assets	0	0	0	0	0	0	**0**	**0**	0
Amortisation of intangible assets	0	0	0	0	0	0	**0**	**0**	0
Capital grants and contributions applied	(76,849)	0	(4,442)	0	0	(40,982)	**(122,273)**	**122,273**	0
Movement in the donated assets account	0	0	0	0	0	0	**0**	**0**	0
Revenue expenditure funded from capital under statute	34,838	0	3,130	0	0	0	**37,968**	**(37,968)**	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,147	0	1,122	0	0	0	**2,269**	**(2,269)**	0
Inclusion of items not debited or credited to the Comprehensive Income & Expenditure Statement									
Statutory provision for the financing of capital investment	(7,280)	0	0	0	0	0	**(7,280)**	**7,280**	0
Capital expenditure charged against the General Fund and HRA balances	(192)	0	(3,465)	0	0	0	**(3,657)**	**3,657**	0
Adjustments involving the Capital Receipts Reserve									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(1,245)	0	(2,069)	0	3,314	0	**0**	**0**	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(11,194)	0	**(11,194)**	**11,194**	0
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	0	0	0	0	0	**0**	**0**	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	944	0	0	0	(944)	0	**0**	**0**	0
Unattached Capital Receipts	(368)	0	(1,444)	0	1,812	0	**0**	**0**	0
Deferred Capital Receipts	0	0	0	0	46	0	**46**	**(46)**	0
Adjustment involving the Major Repairs Reserve									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(11,375)	0	0	**(11,375)**	**11,375**	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	103	0	(176)	0	0	0	**(73)**	**73**	0
Adjustment involving the Pensions Reserve									
Reversal of items relating to retirement benefits debited or credited to the CIES	38,959	0	1,156	0	0	0	**40,115**	**(40,115)**	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(32,177)	0	(2,214)	0	0	0	**(34,391)**	**34,391**	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	(1,564)	0	0	0	0	0	**(1,564)**	**1,564**	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
Other adjustments include									
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	14	0	0	0	0	0	**14**	**(14)**	0
Total Adjustments	**(35,592)**	**0**	**(43,810)**	**4,379**	**(6,966)**	**5,545**	**(76,444)**	**76,444**	**0**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2011/12	USABLE RESERVES							UNUSABLE RESERVES	
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	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									
Reversal of items debited or credited to the Comprehensive I&E									
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			**(236,199)**	**236,199**	0
Income & Expenditure Statement									
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 Reciepts	(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									
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	(11,382)	0	0	**(11,382)**	**11,382**	0
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
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
Other adjustments include									
Adjustments involving the Capital Grants Unapplied Account									
Capital grants and contributions unapplied credited to CIES wh	(46,873)	0	(3,289)	0	0	50,162	**0**	**0**	0
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
State)	0	0	0	0	0	0	**0**	**0**	0
Adjustments involving the Accumulated Absences Account								**0**	
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**	**(254,319)**	**1,639**	**3,183**	**30,406**	**(166,866)**	**166,866**	**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 2012/13

		BALANCE AT 1 APRIL 2011 £'000	TRANSFERS OUT 2011/12 £'000	TRANSFE-RS IN 2011/12 £'000	BALANCE AT 31 MARCH 2012 £'000	TRANSFERS OUT 2012/13 £'000	TRANSFERS IN 2012/13 £'000	BALANCE AT 31 MARCH 2013 £'000
GENERAL FUND								
General Fund Reserve		23,380	0	3,000	26,380	0	11,680	38,060
EARMARKED RESERVES								
	Corporate							
1	Improvement & Efficiency	7,033	(66)	4,529	11,496	(2,333)	249	9,412
2	Severance	4,000	0	0	4,000	0	3,000	7,000
3	Finance Systems	2,724	0	0	2,724	(624)	0	2,100
4	ICT Refresh	1,355	0	0	1,355	0	0	1,355
5	Olympics	2,437	(558)	0	1,879	(1,168)	0	711
6	Education Grant Reduction	4,000	0	0	4,000	(2,109)	678	2,569
7	Employment and other Corporate Initiatives	3,756	(1,295)	3,775	6,236	(1,198)	6,867	11,905
8	Other	3,421	(1,480)	0	1,941	(1,706)	1,900	2,135
	Service Specific							
9	Homelessness	2,515	(390)	799	2,924	(380)	480	3,024
10	Parking Control	2,438	0	158	2,596	(840)	0	1,756
11	PFI (Building Schools for the Future)	1,345	(1,345)	0	0	0	0	0
12	Development & Renewal Other	1,112	(173)	1,865	2,804	(284)	681	3,201
13	Communities, Localities & Culture	452	0	215	667	(436)	858	1,089
14	Children, Schools & Families	955	(840)	388	503	(238)	907	1,172
15	Adults, Health & Wellbeing	1,593	(114)	4,055	5,534	(2,066)	1,825	5,293
16	Chief Executives & Resources	0	0	102	102	0	362	464
	Revenue Reserves - Other							
17	Insurance	24,820	(733)	0	24,087	(1,184)	205	23,108
18	Schools Balances	23,370	(4,756)	7,169	25,783	(787)	6,875	31,871
19	CSF - Early Intervention	5,265	(1,204)	123	4,184	(674)	1,459	4,969
20	Housing Revenue Account (HRA)	12,786	0	792	13,578	0	1,655	15,233
21	Housing Revenue Account - Future Housing Supply	0	0	1,000	1,000	0	0	1,000
	Capital Reserves							
22	Capital Programme (General Fund)	16,763	(151)	4,288	20,900	(3,168)	4,287	22,019
Earmarked Reserve Total		**122,140**	**(13,105)**	**29,258**	**138,293**	**(19,195)**	**32,288**	**151,386**
Total Usable Reserve Total		**145,520**	**(13,105)**	**32,258**	**164,673**	**(19,195)**	**43,968**	**189,446**

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

2011/12 £'000		Note	2012/13 £'000
	Levies		
263	- Lee Valley Regional Park Authority		261
175	- Environment Agency		177
1,300	- London Pensions Fund Authority		1,313
1,738	**Total Levies**		**1,751**
24	Payments to Housing Capital Receipts Pool		944
132,881	Net (gain)/loss on disposal of non-current assets		(1,044)
(4,193)	Unattached capital receipts		(1,812)
130,450	**Total**		**(161)**

10 Financing and Investment Income and Expenditure

2011/12 £'000			2012/13 £'000
26,926	Interest payable and similar charges		9,952
76,280	HRA Settlement Determination (premia)		0
8,004	Pensions interest cost and expected return on pensions assets		17,050
(2,838)	Interest receivable and similar income	15	(3,179)
(179)	Surplus or deficit of trading operations	29	(174)
108,193	**Total**		**23,649**

11 Taxation and Non Specific Grant Income

2011/12 £'000			2012/13 £'000
(78,161)	Council Tax income		(81,994)
(175,443)	Non domestic rates		(209,738)
(64,780)	Non-ringfenced Government grants	37	(16,569)
(116,247)	Capital grants and contributions	37	(99,121)
(312,479)	HRA Settlement Determination (including premia)		0
(747,110)	**Total**		**(407,422)**

12 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2012/13	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRA-STRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT £'000
Cost or Valuation									
At 1 April 2012	812,418	1,119,403	22,280	132,608	50,122	10,439	1,385	**2,148,655**	314,787
Additions	35,914	65,621	349	6,052	563	0	2,821	**111,320**	39,812
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(13,021)	(227,441)	0	0	0	0	0	**(240,462)**	(104,316)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	21,350	(19,672)	0	0	0	0	0	**1,678**	0
Derecognition - Disposals	(654)	(203)	0	0	0	0	0	**(857)**	0
Derecognition - Other	0	(435)	0	0	0	0	0	**(435)**	0
Assets Reclassified (to)/from Held for Sale	0	(3,248)	0	0	0	0	0	**(3,248)**	0
Other Reclassification of Assets	0	(4,794)	0	0	(1,304)	6,098	0	**0**	0
At 31 March 2013	**856,007**	**929,231**	**22,629**	**138,660**	**49,381**	**16,537**	**4,206**	**2,016,651**	**250,283**
Accumulated Depreciation and Impairment									
At 1 April 2012	151,520	99,132	14,841	32,111	0	546	0	**298,150**	24,609
Depreciation charge	14,223	16,323	2,539	3,355	0	206	0	**36,646**	4,234
Depreciation written out to the Revaluation Reserve	(13,021)	(58,982)	0	0	0	0	0	**(72,003)**	(28,013)
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	0	0	0	0	0	0	**0**	0
Derecognition - Other	0	33	0	0	0	0	0	**33**	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	**0**	0
Other Reclassification of Assets	0	(650)	0	0	0	650	0	**0**	0
At 31 March 2013	**152,722**	**55,856**	**17,380**	**35,466**	**0**	**1,402**	**0**	**262,826**	**830**
Net Book Value									
At 31 March 2013	**703,285**	**873,375**	**5,249**	**103,194**	**49,381**	**15,135**	**4,206**	**1,753,825**	249,453
At 31 March 2012	**660,898**	**1,020,271**	**7,439**	**100,497**	**50,122**	**9,893**	**1,385**	**1,850,505**	290,178

12 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPARATIVE MOVEMENTS IN 2011/12	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
Cost or Valuation									
At 1 April 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 31st March 2012	**660,898**	**1,020,271**	**7,439**	**100,497**	**50,122**	**9,893**	**1,385**	**1,850,505**	290,178
At 1st April 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)

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:
- Council Dwellings – As a method of depreciation, the council has used the Major Repairs Allowance (MRA) to adjust the value of the housing stock to reflect the effects of use, deterioration and obsolescence. In 2012/13, the council compared the MRA figure to a depreciation figure calculated by a qualified valuer to ensure the depreciation charge to the HRA was adequate to finance the HRA's long-term financial plan.
- 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 £28.013 million at 31st March 2013 (£46.119 million at 31st March 2012).

	Committed sum £m	Costs to 31/3/2013 £m	2013/14 onwards £m	Contract End Date
Cayley Primary School	4.607	2.628	1.979	18/10/2013
Ocean Estate Refurbishment	41.845	28.583	13.262	31/03/2014
Building Schools for the Future ICT	23.743	10.971	12.772	31/01/2015
TOTAL	**70.195**	**42.182**	**28.013**	

Revaluations

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

In 2012/13, 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	INFRASTRUCT-URE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUC-TION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	0	788	5,249	103,194	49,381	0	4,206	162,818
Valued at fair value in:								
2012/13	703,285	661,221	0	0	0	0	0	1,364,506
2011/12	0	47,023	0	0	0	195	0	47,218
2010/11	0	47,161	0	0	0	1,069	0	48,230
2009/10	0	90,435	0	0	0	2,355	0	92,790
2008/09	0	26,747	0	0	0	11,516	0	38,263
Value at 31 March 2013	**703,285**	**873,375**	**5,249**	**103,194**	**49,381**	**15,135**	**4,206**	**1,753,825**

13 LONG TERM DEBTORS

	1st April 2011 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2012 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2013 £'000
Mortgages on Right to Buy properties	252	0	(71)	181	0	(53)	128
Sundry Loans	756	101	(270)	587	89	(132)	544
	1,008	**101**	**(341)**	**768**	**89**	**(185)**	**672**

14 INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licenses, not internally generated software. For 2012/13 there are no intangible asset transactions as the provision of IT services has transferred to the Council's partner organisation.

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 1st April 2012 £'000	Expenditure 2012/13 £'000	Revenue Charge 2012/13 £'000	Balance at 31st March 2013 £'000
Software licences	0	0	0	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 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000
Financial Liabilities						
Borrowings at amortised cost	90,479	89,564	1,475	2,090	91,954	91,654
Deferred Liabilities (PFI)	40,299	39,410	791	889	41,090	40,299
Creditors - Financial Liabilities carried at contract amount	0	0	70,591	66,892	70,591	66,892
Total Liabilities	**130,778**	**128,974**	**72,857**	**69,871**	**203,635**	**198,845**
Financial Assets						
Loans and receivables	0	0	131,603	146,336	131,603	146,336
Debtors - financial assets carried at contract amounts	0	0	11,264	14,019	11,264	14,019
Cash held at bank and cash equivalents	0	0	126,726	135,996	126,726	135,996
Total Financial Assets	**0**	**0**	**269,593**	**296,351**	**269,593**	**296,351**

NOTES

1. Market loans (LOBOs) of £77.5 million have been included in long term borrowing.

2. Cash equivalents includes £99.014 million (£78.270 million as at 31st March 2012) of short-term deposits with banks and building societies excluded from loans and receivables.

3. The above long term figures are based on paragraph B9, Module 7 of the 2012/13 code of practice guidance notes which states an instrument will be held for its full term unless the Council has a specified intention to repay/call in early or reliable experience of similar instruments being derecognised before the full term.

4. 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:

	2011/12		2012/13	
	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	26,926	0	9,952	0
Interest income	0	2,838	0	3,179
TOTAL INTEREST AND INVESTMENT INCOME	**26,926**	**2,838**	**9,952**	**3,179**

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 2013.
- 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 2012 Carrying amount £'000	31 March 2012 Fair value £'000	31 March 2013 Carrying amount £'000	31 March 2013 Fair value £'000
Public Works Loans Board	14,129	17,166	13,845	17,195
Lender's option, borrower's option loans	77,825	77,895	77,809	80,924
Deferred liabilities - Private Finance Initiatives (PFI)	41,090	41,090	40,299	40,299
Creditors - Financial Liabilities carried at contract amount	70,591	70,591	66,892	66,892
Financial Liabilities	**203,635**	**206,742**	**198,845**	**205,310**

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

Fair Value of Assets Carried at Amortised Cost	31 March 2012 Carrying amount £'000	31 March 2012 Fair value £'000	31 March 2013 Carrying amount £'000	31 March 2013 Fair value £'000
Fixed term deposits with banks and building societies	131,473	132,296	146,213	147,008
Equity Shares (not quoted in an active market)	130	130	123	123
Debtors - financial assets carried at contract amounts	11,264	11,264	14,019	14,019
Cash held at Bank	48,456	48,456	36,982	36,982
Cash equivalents (deposits with banks and other financial institutions)	78,270	78,270	99,014	99,014
Financial Assets	**269,593**	**270,416**	**296,351**	**297,146**

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 for financial institutions and £70 million for government backed borrowing, in any one transation.

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 2012 £'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	71,056	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	**258,329**	**0%**	**0%**	**0%**

	Amounts at 31 March 2013 £'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	81,994	0%	0%	0%
Money Market Funds	54,002	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	0%	0%	0%
3 - 6 months	10,022	0%	0%	0%
6 - 12 months	95,714	0%	0%	0%
Over 12 months	40,477	0%	0%	0%
TOTAL	**282,209**	**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 £1.375 million of the £47.7 million balance (2011/12 - £2.379 million of the £45.951 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 2012 £'000	31 March 2013 £'000
Three to six months	713	476
Six months to one year	545	265
More than one year	1,121	634
TOTAL	**2,379**	**1,375**

2. Liquidity Risk

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 meets its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 20% of loans are due to mature within any financial year through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

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

Loans outstanding	31 March 2012 £'000	31 March 2013 £'000
Public Works Loans Board	14,129	13,845
Market debt	77,825	77,809
PFI	41,090	40,299
TOTAL	**133,044**	**131,953**
Less than 1 year	2,266	2,979
Between 1 and 2 years	4,846	1,609
Between 2 and 5 years	13,340	7,444
Between 5 and 10 years	28,680	17,757
More than 10 years	83,912	102,164
TOTAL	**133,044**	**131,953**

In the more than 10 years category, there are £77.5 million of Lender's Option, Borrower's Option (LOBO) market loans, of which £17.5 million have call dates in the 1-2 year category. 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 Council 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. 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 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2011/12 £'000	2012/13 £'000
Increase in interest payable on variable rate borrowings	955	707
Increase in interest receivable on variable rate investments	(697)	(2,709)
Impact on Income and Expenditure Account	**258**	**(2,002)**

Fair Value Movements	2011/12 £'000	2012/13 £'000
Decrease in fair value of fixed rate investments	1,700	1,027
Decrease in fair value of fixed rate borrowing liabilities	136	625
Impact on Income and Expenditure Account	**1,836**	**1,652**

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)

	2011/12 £'000	2012/13 £'000
London Mutual Insurance Limited	123	116
The Tower Hamlets Local Education Partnership	7	7
Total	**130**	**123**

16 INVENTORIES

	Consumable Stores		Client Services Work in Progress		Total	
	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000
Balance outstanding at start of year	17	19	804	498	821	517
Purchases	24	25	1,503	1,327	1,527	1,353
Recognised as an expense in the year	(22)	(25)	(1,809)	(1,455)	(1,831)	(1,480)
Balance outstanding at year-end	**19**	**20**	**498**	**370**	**517**	**390**

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

17 CONSTRUCTION CONTRACTS

The Council does not have any construction contracts (work in progress) where the construction work is undertaken for the Council'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 2013 and concluded that there was no significant impairment to report.

19 DEBTORS

	31 March 2012 £'000	31 March 2013 £'000
Central government bodies	23,614	19,603
Other local authorities	307	0
Other entities and individuals	46,311	47,782
Payments in advance	4,681	3,433
Total	**74,912**	**70,818**

20 CASH AND CASH EQUIVALENTS

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

	31 March 2012 £'000	31 March 2013 £'000
Cash held by the Council	48,456	36,982
Short-term deposits with banks and building societies	78,270	99,014
Total Cash and Cash Equivalents	**126,726**	**135,996**

21 ASSETS HELD FOR SALE

As at the 31st March 2013, the Council has 3 properties which are classified as Assets Held for Sale.

	Current		Non Current	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
Value at 1st April	0	945	0	0
Assets newly classified as held for sale:				
Property, Plant and Equipment	945	3,248	0	0
Assets sold	0	(945)	0	0
Value at 31st March	**945**	**3,248**	**0**	**0**

22 CREDITORS

	31 March 2012 £'000	31 March 2013 £'000
Central government bodies	52,904	58,849
Other local authorities	0	2,342
Other entities and individuals	34,023	19,976
Accruals*	49,652	57,528
Receipts in advance	10,464	10,998
Total	**147,043**	**149,693**

* 31st March 2012 accruals now shown separately from other entities & individuals creditor balance

23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 1 April 2011 £'000	Amounts used in 2011/12 £'000	Contributions in 2011/12 £'000	Balance at 31 March 2012 £'000	Amounts used in 2012/13 £'000	Contributions in 2012/13 £'000	Balance at 31 March 2013 £'000
(a) Single Status	291	(117)	0	174	0	155	329
(b) Liability to DEFRA for BMW landfill usage	13	(13)	0	0	0	0	0
(c) Adoption Fees	45	(45)	0	0	0	40	40
(d) Redundancy provisions	506	(362)	0	144	(27)	0	117
(e) Carbon Reduction provision	0	0	315	315	(315)	333	333
(f) Youth and community contracts	0	0	102	102	0	0	102
(g) Inquest provision	0	0	859	859	(859)	0	0
TOTAL	**855**	**(537)**	**1,276**	**1,594**	**(1,201)**	**528**	**921**

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

LONG-TERM PROVISIONS	Balance at 1 April 2011 £'000	Amounts used in 2011/12 £'000	Contributions in 2011/12 £'000	Balance at 31 March 2012 £'000	Amounts used in 2012/13 £'000	Contributions in 2012/13 £'000	Balance at 31 March 2013 £'000
(g) Inquest provision	0	0	241	241	(241)	0	0
(h) Insurance Fund	8,462	0	3,422	11,884	(690)	1,314	12,508
(i) Repayment of deposits	381	(212)	0	169	0	0	169
(j) Repayment of European funding	394	0	0	394	0	0	394
(k) Pension liability - part time staff	400	0	0	400	(400)	0	0
(l) Barkantine PFI	2,377	(2,377)	0	0	0	0	0
TOTAL	**12,014**	**(2,589)**	**3,663**	**13,088**	**(1,331)**	**1,314**	**13,071**
							13,992

(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

(d) Provision for redundancy settlements.

(e) Provision created to cover the council's liability towards the Governments carbon reduction energy efficiency scheme as at 31st March.

(f) Provision for youth and community contracts bonus payments to be settled.

(g) Provision for inquest contribution. Provision removed as central Government have agreed costs of inquest no longer a Council liability.

(h) 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.

(i) 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.

(j) 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.

(k) This pension provision was not required, therefore it has been transferred back to general fund reserves.

(l) Following discussions with the CLG in 2011/12, a provision for the potential repayment of PFI credits is no longer required.

24 USABLE RESERVES

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

25 UNUSABLE RESERVES

31 March 2012 £'000		31 March 2013 £'000
497,734	Revaluation Reserve	324,686
0	Available for Sale Financial Instruments Reserve	0
1,068,460	Capital Adjustment Account	1,153,640
959	Financial Instruments Adjustment Account	1,032
(422,546)	Pensions Reserve	(522,962)
24	Collection Fund Adjustment Account	1,588
(3,355)	Accumulating Compensated Absences Adjustment Account	(3,369)
156	Deferred Capital Receipts	110
1,141,432	**Total Unusable Reserves**	**954,725**

Revaluation Reserve

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

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

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

2011/12 £'000		2012/13 £'000	
533,521	**Balance at 1 April**		497,734
15,729	Upward revaluation of assets	30,670	
(2,027)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(199,129)	
13,702	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(168,459)
(9,099)	Difference between fair value depreciation and historical cost depreciation	(3,202)	
(40,390)	Accumulated gains on assets sold or scrapped	(1,387)	
(49,489)	Amount written off to the Capital Adjustment Account		(4,589)
497,734	**Balance at 31 March**		**324,686**

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 Council as finance for the costs of acquisition, construction and enhancement.

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2011/12 £'000		2012/13 £'000	
852,406	**Balance at 1 April**		**1,068,459**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(41,774)	Charges for depreciation and impairment of non current assets	(36,449)	
3,482	Revaluation losses (and reversals) on Property, Plant and Equipment	1,498	
(1,270)	Amortisation of intangible assets	0	
(46,370)	Revenue expenditure funded from capital under statute	(37,968)	
(139,271)	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	(2,269)	
(225,202)			(75,188)
49,489	Adjusting amounts written out of the Revaluation Reserve		4,589
(175,713)	Net written out amount of the cost of non current assets consumed in the year		(70,599)
	Capital financing applied in the year:		
7,462	Use of the Capital Receipts Reserve to finance new capital expenditure	11,194	
11,382	Use of the Major Repairs Reserve to finance new capital expenditure	11,375	
122,985	Application of grants to capital financing from the Capital Grants Unapplied Account	122,273	
8,877	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,280	
4,862	Capital expenditure charged against the General Fund and HRA balances	3,657	
155,567			155,779
236,199	Capital receipts from Secretary of State used to repay debt in accordance with the HRA Settlement Determination		0
1,068,459	**Balance at 31 March**		**1,153,640**

25 UNUSABLE RESERVES (continued)

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2013 will be charged to the General Fund over the next 12 years.

2011/12 £'000		2012/13 £'000
885	**Balance at 1 April**	959
74	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	73
959	**Balance at 31 March**	**1,032**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2011/12 £'000		2012/13 £'000
(308,690)	**Balance at 1 April**	(422,546)
(116,236)	Actuarial gains or losses on pensions assets and liabilities	(94,692)
(32,259)	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	(40,115)
34,639	Employer's pensions contributions and direct payments to pensioners payable in the year	34,391
(422,546)	**Balance at 31 March**	**(522,962)**

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.

2011/12 £'000		2012/13 £'000
3,154	**Balance at 1 April**	24
(3,130)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,564
24	**Balance at 31 March**	**1,588**

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 Council 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.

2011/12 £'000		2012/13 £'000
241	**Balance at 1 April**	156
(85)	Transfer to the Capital Receipts Reserve	(46)
156	**Balance at 31 March**	**110**

26a NOTE A TO THE CASH FLOW STATEMENT

2011/12 £'000		2012/13 £'000	
221,247	**Net Surplus or (Deficit) on the Provision of Services**		**104,175**
	Adjust net surplus or (deficit) on the provision of services for non cash movements		
41,772	Depreciation	36,449	
(3,481)	Impairment and downward valuations	(1,678)	
1,270	Amortisation		
175	Adjustments for effective interest rates	175	
(1,895)	Increase/Decrease in Interest Creditors	(211)	
16,734	Increase/Decrease in Creditors	(3,985)	
(920)	Increase/Decrease in Interest and Dividend Debtors	268	
13,436	Increase/Decrease in Debtors	718	
304	Increase/Decrease in Inventories	127	
(2,380)	Pension Liability	5,724	
1,812	Contributions to/(from) Provisions	2,450	
(1,062)	Provision for Equal Pay	14	
139,271	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	2,269	
205,036			**42,320**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities		
(153,391)	Capital Grants credited to surplus or deficit on the provision of services	(127,818)	
(10,585)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(5,126)	
(163,976)			**(132,944)**
262,307	**Net cash flows from operating activities**		**13,551**

26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2011/12 £'000		2012/13 £'000
1,918	Interest received	3,447
(28,544)	Interest paid	(10,163)
(26,626)		**(6,716)**

27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2011/12 £'000		2012/13 £'000
(119,534)	Purchase of property, plant and equipment, investment property and intangible assets	(110,037)
(30,452)	Purchase of short-term and long-term investments	(14,429)
(118)	Other payments for investing activities	(89)
5,561	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,115
140,966	Other receipts from investing activities	120,687
(3,577)	**Net cash flows from investing activities**	**(1,753)**

28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2011/12 £'000		2012/13 £'000
497	Billing Authorities - Council Tax and NNDR adjustments	(793)
(682)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(791)
(268,382)	Repayments of short- and long-term borrowing	(944)
(268,567)	**Net cash flows from financing activities**	**(2,528)**

29 TRADING OPERATIONS

The following services are reported as trading activities in 2012/13:

	2011/12			2012/13			
	Expenditure	Income	Surplus/ (Deficit)	Expenditure	Income	Surplus/ (Deficit)	Balance 31/03/2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Street Trading	2,183	2,352	169	2,152	2,326	174	241
TOTAL TRADING ACCOUNTS	**2,183**	**2,352**	**169**	**2,152**	**2,326**	**174**	**241**

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 2012/13 this commission amounted to £741,213 (£726,792 in 2011/12).

31 POOLED BUDGETS

Under the terms of a Section 75 Agreement (National Health Service Act 2006), the Council entered into three 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)

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.

2012/13	ICES £'000	LDSA £'000	OTS £'000
Income			
The Council	930	1,228	1,806
Barts and the London Trust health services	841	1,704	1,805
	1,771	2,932	3,611
Expenditure	1,862	3,105	3,563
Surplus/(Deficit) for the year	**(91)**	**(173)**	**48**

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**

32 MEMBERS' ALLOWANCES

The Council paid the following amounts to members of the council during the year.

	2011/12 £'000	2012/13 £'000
Allowances	938	940
Total	**938**	**940**

33 OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

2011/12	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr K A Collins - Chief Executive [1]	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	0	150,356
Communities, Localities and Culture [2]	140,182	0	0	22,659	6,166	169,007
Resources	141,003	0	0	21,792	0	162,795
Adults Health and Wellbeing [3]	64,955	0	0	10,017	0	104,972
Adults Health and Wellbeing (Interim) [3]	61,380	0	0	0	0	61,380
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	1,185,876

[1] Postholder left 31st October 2011.
[2] Postholder receives additional payment of £6,166 as Interim Assistant Chief Executive Appointment date?
[3] Postholder left 2nd October 2011. Interim postholder appointed.

2012/13	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr A Dalvi - Chief Executive (Interim) [1]	115,007	0	0	3,884	0	118,891
Mr S Halsey - Head of Paid Service [2]	30,638	0	0	4,760	0	35,398
Total Chief Executive / Head of Paid Service	**145,645**	**0**	**0**	**8,644**	**0**	**154,289**
Corporate Directors						
Children, Schools and Families	141,414	0	0	21,857	0	163,271
Communities, Localities and Culture [3]	120,700	0	0	18,925	1,645	141,270
Resources [4]	108,262	0	0	16,678	0	124,940
Resources (Acting) [5]	24,036	0	0	3,702	0	27,738
Adults Health and Wellbeing [6]	74,894	0	0	0	0	74,894
Development and Renewal [7]	119,155	0	0	18,406	0	137,561
Development and Renewal (Acting) [8]	16,792	0	0	2,586	0	19,378
Assistant Chief Executive (Legal)	124,186	0	0	19,135	0	143,321
	875,084	0	0	109,933	1,645	986,662

[1] Ceased as Interim Chief Executive on 21 May 2012
[2] Commenced as Head of Paid Service 23 January 2013
[3] 'Other' Includes additional payments for duties of Head of Paid Service.
[4] Left Council 06 January 2013
[5] Acting Corporate Director, Resources effective from 07 January 2013
[6] Interim Post Holder left Council 28 September 2012.
[7] From 22 May 2012 when Acting Chief Executive role ended.
[8] Ceased as Acting Corporate Director, Development and Renewal on 28 May 2013

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contribution) were paid the following amounts:
amounts:

Remuneration band (£)	2011/12					2012/13				
	Teaching Staff	Includes Teaching Redund-ancies	Other Staff	Includes Other Staff Redund-ancies	Total Staff	Teaching Staff	Includes Teaching Redund-ancies	Other Staff	Includes Other Staff Redund-ancies	Total Staff
50,000 - 54,999	211	(4)	84	(9)	295	212	(2)	78	(3)	290
55,000 - 59,999	112	(2)	80	(9)	192	121	(2)	65	(3)	186
60,000 - 64,999	43	0	40	(10)	83	42	0	32	(3)	74
65,000 - 69,999	34	0	21	(4)	55	30	0	19	(1)	49
70,000 - 74,999	32	0	27	(7)	59	29	(2)	20	(1)	49
75,000 - 79,999	12	0	7	(3)	19	19	(1)	9	(3)	28
80,000 - 84,999	8	0	8	(4)	16	7	(1)	7	(2)	14
85,000 - 89,999	6	0	12	(5)	18	4	0	6	0	10
90,000 - 94,999	7	(2)	9	(3)	16	7	(2)	4	(2)	11
95,000 - 99,999	0	0	2	(1)	2	4	(1)	4	(1)	8
100,000 - 104,999	1	0	3	0	4	0	0	7	(1)	7
105,000 - 109,999	3	0	1	(1)	4	3	(1)	2	0	5
110,000 - 114,999	1	0	2	0	3	3	0	1	0	4
115,000 - 119,999	1	0	0	0	1	1	0	0	0	1
120,000 - 124,999	0	0	0	0	0	0	0	2	(2)	2
125,000 - 129,999	3	0	0	0	3	1	0	0	0	1
130,000 - 134,999	0	0	1	(1)	1	2	0	0	0	2
140,000 - 144,999	1	0	0	0	1	1	0	0	0	1
180,000 - 184,999	0	0	1	(1)	1	0	0	0	0	0
	475	(8)	298	(58)	773	486	(12)	256	(22)	742

Exit Payments

The number of exit payments with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£000)	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
0 - 20,000	36	12	118	35	154	47	949	317
20,001 - 40,000	7	3	36	8	43	11	1,246	275
40,001 - 60,000	1	2	20	9	21	11	1,009	560
60,001 - 80,000	1	1	14	11	15	12	1,030	815
80,001 - 100,000	0	0	5	1	5	1	460	81
100,001 - 150,000	1	0	2	2	3	2	337	220
150,001 - 200,000	0	0	1	1	1	1	177	160
200,001 - 250,000	0	0	1	0	1	0	249	0
Total	**46**	**18**	**197**	**67**	**243**	**85**	**5,457**	**2,429**

34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

The following table shows how capital expenditure was financed in the year.

	2011/12 £'000	2012/13 £'000
Expenditure		
Property, Plant and Equipment	118957	111320
Intangible Assets	1270	0
Heritage Assets	0	11
Revenue Expenditure Funded from Capital Under Statute	46370	37968
TOTAL	**166,596**	**149,299**
Sources of Finance		
Borrowing	19,906	800
Capital Grants and Contributions	122,985	122,273
Capital Receipts	7,462	11,194
Major Repairs Reserve	11,382	11,375
Direct Revenue Funding	4,862	3,657
TOTAL	**166,597**	**149,299**

	2011/12 £'000	2012/13 £'000
Opening Capital Financing Requirement	**456,421**	**231,735**
Capital investment		
Property, Plant and Equipment	118,957	111,320
Intangible Assets	1,270	0
Heritage Assets	0	11
Revenue Expenditure Funded from Capital under Statute	46,370	37,968
Sources of finance		
Capital grants and contributions	(122,985)	(122,273)
Capital receipts	(7,462)	(11,194)
Major repairs reserve	(11,382)	(11,375)
Sums set aside from revenue:		
• Direct revenue contributions	(4,862)	(3,657)
• Minimum Revenue Provision[1]	(8,392)	(6,687)
HRA Settlement Determination	(236,199)	0
Closing Capital Financing Requirement	**231,735**	**225,848**
Explanation of movements in year		
Increase in underlying need to borrow (supported by government financial assistance)	11,513	(5,887)
Increase/(decrease) in Capital Financing Requirement	**11,513**	**(5,887)**

[1] Capital Financing Requirement excludes PFI schemes

35 EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors - KPMG.

	2011/12 £'000	2012/13 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	462	277
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	96	51
Fees payable in respect of other services provided by external auditors during the year	12	38
Total	**570**	**366**

The fees payable to the external auditors for other services comprise of an IT audit fee - 20K, Subscription to the VAT Forum - 5K, and an apportionment of fees relating to provision of VAT advice. The full contract sum is 6K but it is estimated that only 1K relates to 2012/13

The Audit Commission has paid a rebate of £29K to reflect attaining internal efficiency savings in 2012/13. This has not been included in the table above but has the effect of reducing the overall cost to the Council by £29K.

In addition to the above, there were grant claim fees payable of £4k to the Audit Commission for completing 2011/12 grant and subsidy claims in 2012/13.

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 council-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.

Notes	DSG Receivable for 2011/12	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.

Notes	DSG Receivable for 2012/13	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2012/13 before Academy Recoupment	22,468	277,491	299,959
B	Academy figure Re-Couped 2012/13	0	(7,657)	(7,657)
C	Total DSG after Academy Recoupment 2012/13	22,468	269,834	292,302
D	Brought forward from 2011/12	5,915	0	5,915
E	**Agreed initial budgeted distribution in 2012/13**	**28,383**	**269,834**	**298,217**
F	In-year adjustments	(523)	523	0
G	Final budget distribution for 2012/13	**27,860**	**270,357**	**298,217**
H	Less actual central expenditure	(22,306)	0	(22,306)
I	Less actual ISB deployed to schools	0	(270,357)	(270,357)
J	Plus Council contribution for 2012/13	0	0	0
K	**Carry forward to 2013/14**	**5,554**	**0**	**5,554**

A DSG figure as issued by DfE on 30th June 2012
B Academy figure recouped 2012/13
C Total DSG after Academy recoupment 2012/13
D Figure brought forward from 2011/12
E Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
F Changes to initial distribution in 2012/13
G Final distribution of DSG 2012/13
H Actual amount of central expenditure items in 2012/13
I Amount of ISB distributed to schools.
J Contribution from the Council in 2012/13 which substituted for DSG in funding the Schools Budget.
K Difference between budgeted distributions and actuals plus carry forward agreed in advance.

37 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

	2011/12 £'000	2012/13 £'000
Credited to Taxation and Non Specific Grant Income		
Non-Ringfenced Government Grants		
Revenue Support Grant (Formula Grant)	(54,230)	(2,105)
Council Tax Freeze Grant	(1,968)	(3,972)
Local Service Support Grant	(4,295)	(282)
New Homes Bonus	(4,287)	(10,110)
High Street Innovation Fund	0	(100)
Total Non-Ringfenced Government Grants	**(64,780)**	**(16,569)**
Capital Grants and Contributions		
Non-conditional grants:		
Schools-funded Capital Programme	(4,089)	(4,439)
Transport for London Funding	(3,713)	(2,880)
Contributions from schools towards BSF	(9,135)	(2,083)
Major Works Contributions (cash received)	(3,191)	(2,506)
Capital Maintenance Grant	(4,108)	(3,633)
Basic Needs/New Pupil Places	(13,847)	(12,652)
Decent Homes Backlog Funding	0	(11,000)
2-Year Olds Entitlement	0	(1,207)
Contribution relating to George Green Alms houses	0	(1,219)
Other Non-Conditional Grants Received	(9,725)	(2,407)
Conditional grants:		
Building Schools for the Future	(56,420)	(46,194)
Watney Market Idea Store Lottery Grant	0	(1,613)
Primary Capital Programme	(1,663)	0
HCA National Affordable Housing Programme	0	(1,635)
Building Britain's Future Grant	(1,378)	(98)
Other Conditional Grants Applied	(1,757)	(144)
Developers' Contributions	(7,221)	(5,411)
Total Capital Grants and Contributions	**(116,247)**	**(99,121)**
Credited to Services		
Capital Grants funding REFCUS	(31,651)	(27,844)
Developers' Contributions (capital) funding REFCUS	(5,493)	(852)
Developers' Contributions (revenue)	(1,825)	(1,483)
PFI Credits	(10,104)	(8,741)
School Sixth Form Grant	(15,124)	(15,789)
Early Intervention Grant	(20,734)	(21,300)
Pupil Premium Grant	0	(14,002)
Other Revenue Grants	(21,972)	(11,130)
Total Credited to Services	**(106,903)**	**(101,141)**
Total Grant Income in Comprehensive Income & Expenditure Account	**(287,930)**	**(216,831)**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	31st March 2012 £'000	31st March 2013 £'000
Capital Grants Receipts in Advance		
Developers' Contributions	33,680	38,917
Building Schools for the Future	20,074	3,440
Major Works Invoices	9,313	9,638
National Affordable Housing Programme	7,998	6,265
Energy Efficiency Programme (DECC)	0	2,254
Other capital grants and contributions	1,190	827
Total	**72,255**	**61,341**

38 RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council– it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 44 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2013 are within the creditors note.

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.

Subsidiary

Tower Hamlets Homes is a wholly owned subsidiary of London Borough of Tower Hamlets. Group Accounts begin on page 141 of this document

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 2011/12 £'000	Payments by the Council over £10k 2012/13 £'000	Amounts due to Orgs. > £10k at 31/03/13 £'000
Action for Bow	M Francis	Council Representative			
Aldgate and Allhallows Barking Foundation	S Islam	Council Representative			
Alzheimers Society	E Jones	Employee	109		47
Balagonji Educational Trust	S Ali	Council Representative			
Bethnal Green Museum of Childhood	D Jones	Council Representative			
Bishop Challoner Catholic Collegiate School	A Asad	Member	78		
Bromley By Bow Centre	R MA Saunders	Council Representative	456	282	
	Z Rahman	Management Board (Voluntary)			
Central London Waste Disposal	Z Rahman	Joint Committee member (Council Nominee)			
Citizens Advice Bureau	C Gibbs	Person in household board member in a private capacity	247	240	
	A Whitelock	Trustee			
Collingwood Tenants And Residents Association	R MA Saunders	Husband - Chris Weavers, is a Member of both			
Cultural Industries Development Agency	D Jones	Council Representative			
Developmental Council of Bangladeshi's in the U	K U Ahmed	Joint Treasurer			
Deaf Root	M Uz-Zaman	Board Member			
Durga Pash Union Parishod	M Uz-Zaman	Member			
Eastside Books Ltd	D Jones	Director of bookshop that supplies books to LBTH schools			
East End Homes	H Uddin	Board Member	925	944	3
	M Uz-Zaman	Board Member			
East London Mental Health Trust	A Whitelock	Council Representative			
GMB	AMO Ahmed	Council Representative		87	
Gohorpur Madrasha Bazar Unnoyon Shomiti	S Ali	Council Representative			
Golapgonj Education Trust	AMO Ahmed	Trustee			
Greenwich & Docklands Festivals	J J Peck	Council Representative (Resigned 2011/12)	30		
Green Candle Dance Company	P Golds	Council Representative			
Half Moon Young Peoples Theatre	R MA Saunders	Board Member (in 2011/12 only)	48		
Hamlet Supplementary Learning	M Uz-Zaman	Member			
Harbinger Primary School	Z E Davis	Governor (until December 2012)			
Ian Mikardo High School	R MA Saunders	Husband - Chris Weavers, was the Head General (2011/12 onl	65	67	1
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	807	224	
	T J Archer	Trustee			
Jagonari	L Pavitt	Council Representative	47		3,142
John Scurr Primary School	S Islam	Governor			
Kingsley Hall Community Centre	Rania Khan	Trustee			
Kobi Nazrul Centre	Z Rahman	Board Member			
Leaside Regeneration Ltd	D J Edgar	Council Representative	15	18	
London Canals Committee	P Golds	Council Representative			
London Youth Games	L Pavitt	Council Representative			
Moat Homes Ltd	C Harper-Penman	Director of Communications and Public Affairs			
Norton Folgate Alms Houses	R MA Saunders	Husband is Board Member			
Oxford House In Bethnal Green	S Islam	Board Member	33	24	1
Old Ford Housing Association	M Francis	Board Director		161	
Poplar Harca	K U Ahmed	Board Member (in 2011/12 only)	1,884	1,231	
	K Uddin	Services Board			
Rich Mix Cultural Foundation	R MA Saunders	Council Representative			
Solander Gardens Community & Education	H Miah	Secretary			
Spitalfields Housing Association Ltd	M Mukit	Board Member			
Spitalfields Market Trust	H U Abbas	Council Representative		289	
	S Islam	Council Representative			
St Pauls Way School Trust	R MA Saunders	Council Representative			
St Lukes C of E Primary School	T J Archer	School Governor			
St Matthias Primary School	M Mukit	School Governor			
Sylhet Divisional Welfare Council	K U Ahmed	General Secretary			
The London Thames Gateway	K Uddin	Council Representative (organisation disbanded in 2012/13)	62		
The Moat School	C Harper-Penman	Director of Communications and Public Affairs	32		
Tower Hamlets Community Housing	H U Abbas	Council Representative	238	152	
	S Islam	Council Representative			
	C Gibbs	Council Representative	52		
Tower Hamlets Community Transport Ltd	A Asad	Council Representative (not a representative in 2012/13)	56		
Tower Hamlets Council Of Mosques	A Ullah	Executive Committee Member	63		
Tower Hamlets Homes	A Choudhury	Council Representative	11,303	12,535	
	K Ahmed	Vice Chair			
	Rania Khan	Council Representative			
	M Francis	Council Representative			
Tower Hamlets Law Centre	L Rahman (Mayor)	Member			
Tower Hamlets Sports Council	A M O Ahmed	Council Representative			
	K Ahmed	Council Representative (not 2012/13)			
	Z E Davis	Council Representative			
	L Pavitt	Council Representative			
	D Snowdon	Council Representative			
Toy House Library Association	Z Rahman	Board Member			

39 LEASES

Authority as Lessee

Finance Leases

As a Lessee the Council has no material finance leases to report.

Operating Leases

The Council leases in some properties (including office accomodation, car parks and business units), and as well as a number of vehicles (including minibuses and vans), plant and equipment (including office equipment, specialised health and safety and security equipment). These leases are for variable lengths and range between 1 and 25 years in duration.

The future minimum lease payments due under these leases in future years are:

Leased In Assets

	Land & Buildings 31 March 2012 £'000	Vehicles Plant & Equipment 31 March 2012 £'000	Land & Buildings 31 March 2013 £'000	Vehicles Plant & Equipment 31 March 2013 £'000
Adults Health and Wellbeing				
Not later than one year	164	0	164	0
Later than one year and not later than five years	654	0	654	0
Later than five years	2,319	0	2,156	0
Children Schools and Families				
Not later than one year	223	740	240	762
Later than one year and not later than five years	643	592	569	464
Later than five years	682	0	708	0
Communities Localities and Culture				
Not later than one year	0	611	0	643
Later than one year and not later than five years	0	1941	0	1,931
Later than five years	0	1300	0	952
Development and Renewal				
Not later than one year	6,384	177	3,698	6
Later than one year and not later than five years	7,504	0	11,579	0
Later than five years	1,592	0	7,818	0
Total				
Not later than one year	**6,771**	**1,528**	**4,102**	**1,411**
Later than one year and not later than five years	**8,801**	**2,533**	**12,802**	**2,395**
Later than five years	**4,593**	**1,300**	**10,682**	**952**
	20,165	**5,361**	**27,586**	**4,758**

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 31st March 2012 £'000	Vehicles Plant & Equipment 31st March 2012 £'000	Land & Buildings 31st March 2013 £'000	Vehicles Plant & Equipment 31st March 2013 £'000
Adults Health and Wellbeing				
Minimum Lease Payments	164	0	164	0
Communities Localities and Culture				
Minimum Lease Payments	0	755	0	777
Children Schools and Families				
Minimum Lease Payments	223	895	250	1,555
Development and Renewal				
Minimum Lease Payments	6,384	314	6,384	12
Total				
Minimum Lease Payments	**6,771**	**1,964**	**6,798**	**2,344**

Authority as Lessor
Finance Leases
As a Lessor the Council has no finance leases to report .

Operating Leases

The Council leases out property and equipment under operating leases for econcomic development purposes to provide suitable affordable accommodation for local businesses.

As the primary purpose of holding these assets is to provide support to the community, rather than generating financial gain for the Council, these assets are not considered as investment properties.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31st March 2012 £'000	31st March 2013 £'000
Not later than one year	(3,029)	(3,327)
Later than one year and not later than five years	(10,796)	(11,594)
Later than five years	(19,692)	(19,471)
	(33,517)	**(34,392)**

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. In accordance with International Financial Reporting Standards the assets are included on the Council's Balance Sheet, matched by a finance lease liability. The Council has the right to use the schools as part of its provision of education services. At the end of the contract, the school buildings revert to the Council's ownership.

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

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 2012	47,245	239,828	3,105	290,178
Depreciation	(683)	(3,348)	(203)	(4,234)
Revaluations	(16,695)	(59,608)	0	(76,303)
Enhancements	2,122	37,690	0	39,812
Asset value at 31 March 2013	**31,989**	**214,562**	**2,902**	**249,453**

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liabilities at 31 March 2012	7,123	31,002	2,965	41,090
Repayments	(188)	(405)	(198)	(791)
Liabilities at 31 March 2013	**6,935**	**30,597**	**2,767**	**40,299**
Consisting of:				
Long term liability	6,715	30,126	2,569	39,410
Short-term liability	220	471	198	889
Liability value at 31 March 2013	**6,935**	**30,597**	**2,767**	**40,299**

The Council makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but is otherwise fixed. Payments remaining to be made under the contracts at 31st March 2013 (excluding any estimation of inflation and availability / performance deductions) are as follows:

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liability				
Within 1 year	220	471	198	889
Within 2 - 5 years	1,122	2,542	791	4,455
Within 6 - 10 years	1,778	8,734	988	11,500
Within 11 - 15 years	3,068	18,850	790	22,708
Within 16 - 19 years	747	0	0	747
	6,935	**30,597**	**2,767**	**40,299**
Interest				
Within 1 year	778	4,814	0	5,592
Within 2 - 5 years	2,845	18,449	0	21,294
Within 6 - 10 years	2,757	19,568	0	22,325
Within 11 - 15 years	1,493	8,938	0	10,431
Within 16 - 19 years	84	0	0	84
	7,957	**51,769**	**0**	**59,726**
Service Charges				
Within 1 year	673	3,987	0	4,660
Within 2 - 5 years	2,694	12,040	0	14,734
Within 6 - 10 years	3,367	12,957	0	16,324
Within 11 - 15 years	3,367	13,569	0	16,936
Within 16 - 19 years	673	0	0	673
	10,774	**42,553**	**0**	**53,327**

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	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
	£'000	£'000	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Account						
Net Cost of Services						
Current service costs	22,035	22,218	340	341	22,375	22,559
Impact of settlements and curtailments	1,880	506	0	0	1,880	506
Net Operating Expenditure						0
Interest cost	57,171	55,574	2,906	2,657	60,077	58,231
Expected return on assets in the scheme	(49,684)	(39,137)	(2,389)	(2,044)	(52,073)	(41,181)
Net Charge to the Comprehensive Income and Expenditure Account	**31,402**	**39,161**	**857**	**954**	**32,259**	**40,115**
Movement in Reserves Statement - General Fund Balance						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(31,402)	(39,161)	(857)	(954)	(32,259)	(40,115)
Actual amount charged against the General Fund Balance for pensions in the year	**33,729**	**33,582**	**910**	**809**	**34,639**	**34,391**

In 2012/13 the Council paid £14.202 million into the Teachers Pension Scheme, representing 14.1% of pensionable pay. The figures for 2011/12 were £14.527 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 2012/13 this amounted to £0.122 million (£0.115 million in 2011/12).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Account, actuarial gains of £95.878 million (£116.236 million in 2011/12) 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 £427.561 million.

41 PENSION SCHEME (continued)

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of scheme liabilities (LGPS):

	The Council		LPFA		Total	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
	£'000	£'000	£'000	£'000	£'000	£'000
1st April	(1,042,983)	(1,214,784)	(54,168)	(59,245)	(1,097,151)	(1,274,029)
In-year adjustment to exclude/(incorporate) THH deficit	(52,255)	(49,196)	0	0	(52,255)	(49,196)
Current service cost	(22,035)	(22,218)	(340)	(341)	(22,375)	(22,559)
Interest cost	(57,171)	(55,574)	(2,906)	(2,657)	(60,077)	(58,231)
Contributions	(8,094)	(7,537)	(102)	(85)	(8,196)	(7,622)
Actuarial gains / (losses)	(69,499)	(143,865)	(4,854)	(8,116)	(74,353)	(151,981)
Benefits paid	39,133	39,849	3,125	3,108	42,258	42,957
Losses on curtailments	(1,880)	(506)	0	0	(1,880)	(506)
31st March	**(1,214,784)**	**(1,453,831)**	**(59,245)**	**(67,336)**	**(1,274,029)**	**(1,521,167)**

Reconciliation of fair value of the scheme assets (LGPS):

	The Council		LPFA		Total	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
	£'000	£'000	£'000	£'000	£'000	£'000
1st April	740,326	803,077	48,135	48,405	788,461	851,482
In-year adjustment to exclude/(incorporate) THH deficit	50,967	46,332	0	0	50,967	46,332
Expected rate of return	49,684	39,137	2,389	2,044	52,073	41,181
Actuarial (losses) / gains	(40,590)	57,868	(6)	2,286	(40,596)	60,154
Members	8,094	7,537	102	85	8,196	7,622
Employer	33,729	33,582	910	809	34,639	34,391
Benefits paid	(39,133)	(39,849)	(3,125)	(3,108)	(42,258)	(42,957)
31st March	**803,077**	**947,684**	**48,405**	**50,521**	**851,482**	**998,205**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity

Scheme history

	2008/09	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities:					
The Council	(815,900)	(1,457,968)	(1,042,983)	(1,214,784)	(1,453,831)
LPFA	(47,051)	(67,502)	(54,168)	(59,245)	(67,336)
Fair value of assets					
The Council	555,794	796,161	740,326	803,077	947,684
LPFA	36,592	39,386	48,135	48,405	50,521
Deficit in the scheme					
The Council	(260,106)	(661,807)	(302,657)	(411,707)	(506,147)
LPFA	(10,459)	(28,116)	(6,033)	(10,840)	(16,815)
Total deficit in the schemes	**(270,565)**	**(689,923)**	**(308,690)**	**(422,546)**	**(522,962)**

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 £524.2 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 2014 are £34.429 million to the Council's scheme and £1.278 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	
	2011/12	2012/13	2011/12	2012/13
Long-term expected rate of return on assets in the scheme [1]		4.5%		4.3%
Equity investments	6.2%		6.3%	
Target return portfolio			4.5%	
Property	4.4%			
Bonds	3.3%			
Cash flow matching			3.3%	
Cash	3.5%		3.0%	
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	21.8 years	21.8 years	19.9 years	20 years
Women	23.9 years	23.9 years	23.2 years	23.3 years
Longevity at 65 for future pensioners:				
Men	23.3 years	23.3 years	22 years	22.1 years
Women	26.5 years	26.5 years	25.1 years	25.2 years
Rate of inflation	2.5%		3.3%	3.2%
Rate of increase in salaries	4.8%	5.1%	4.2%	4.1%
Rate of increase in pensions	2.5%	2.8%	2.5%	2.4%
Rate for discounting scheme liabilities	4.8%	4.5%	4.6%	3.6%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%*		

[1] The expected rates of return are set equal to the discount rate (as per the forthcoming revised version of IAS19).
* 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	
	2011/12	2012/13	2011/12	2012/13
Equities	62%	68%	13%	14%
Bonds	16%	21%	0%	0%
Property	11%	10%	0%	0%
Cash	11%	1%	2%	1%
Cash flow matching	0%	0%	32%	31%
Target return portfolio	0%	0%	53%	54%

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2012/13 can be analysed into the following categorie measured as a percentage of assets or liabilities at 31st March 2013:

	2008/09 %	2009/10 %	2010/11 %	2011/12 %	2012/13 %
The Council					
Experience gains and (losses) on assets	-30.12	19.57	-8.88	-5.40	6.10
Experience gains and (losses) on liabilities	0.00	0.00	-16.98	5.98	9.89
London Pensions Fund Authority					
Experience gains and (losses) on assets	-15.90	6.79	17.75	-0.01	4.52
Experience gains and (losses) on liabilities	0.27	-0.78	-1.58	8.19	12.05

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 Council'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 Council's directorates recorded in the report to Cabinet on 3rd July 2013 is as follows:

DIRECTORATE CI&E 2012/13	Adults Health and Wellbeing	Chief Executive's	Children, Schools and Families	Communities, Localities and Culture	Development and Renewal	Resources	Corp & Others	Housing Revenue Account	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(14,162)	(9,286)	(91,421)	(49,388)	(63,081)	(44,286)	(18,970)	(84,233)	**(374,827)**
Government grants	(1,812)	(309)	(353,260)	(8,019)	(2,053)	(291,890)	0	(274)	**(657,617)**
TOTAL INCOME	**(15,974)**	**(9,595)**	**(444,681)**	**(57,407)**	**(65,134)**	**(336,176)**	**(18,970)**	**(84,507)**	**(1,032,444)**
Employee expenses	28,079	8,540	336,591	37,894	21,860	45,160	0	2,165	**480,289**
Other service expenses	83,951	5,806	160,307	76,736	57,906	248,746	23,441	46,036	**702,929**
Support service recharges	5,404	5,067	25,170	22,961	4,898	53,097	0	34,830	**151,427**
TOTAL EXPENDITURE	**117,434**	**19,413**	**522,068**	**137,591**	**84,664**	**347,003**	**23,441**	**83,031**	**1,334,645**
NET EXPENDITURE	**101,460**	**9,818**	**77,387**	**80,184**	**19,530**	**10,827**	**4,471**	**(1,476)**	**302,201**

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure

	£'000
Net expenditure in the Directorate Analysis	302,201
Net expenditure of services and support services not included in the Analysis	0
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(9,822)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(12,620)
COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT	**279,759**

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 2012/13	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	(374,827)	92,768	(198)	8,397	**(273,860)**	0	**(273,860)**
Interest and investment income	0	0	0	0	**0**	(3,179)	**(3,179)**
Unattached capital receipts	0	0	0	0	**0**	(1,812)	**(1,812)**
Government grants and contributions - service specific	(657,617)	0	0	0	**(657,617)**	0	**(657,617)**
Income from Council tax	0	0	0	0	**0**	(81,994)	**(81,994)**
Government grants and contributions - non-service specific	0	0	0	0	**0**	(16,569)	**(16,569)**
Distribution from non-domestic rates pool	0	0	0	0	**0**	(209,738)	**(209,738)**
Capital Grants and Contributions	0	0	0	0	**0**	(99,121)	**(99,121)**
HRA Settlement Determination (including premia)	0	0	0	0	**0**	0	**0**
(Surplus)/Deficit on Trading Activities	0	0	0	0	**0**	(174)	**(174)**
TOTAL INCOME	**(1,032,444)**	**92,768**	**(198)**	**8,397**	**(931,477)**	**(412,587)**	**(1,344,064)**
Employee expenses	480,289	0	14	0	**480,303**	0	**480,303**
Other service expenses	702,929	0	(8,324)	(21,017)	**673,588**	0	**673,588**
Support service recharges	151,427	(92,768)	0	0	**58,659**	0	**58,659**
Depreciation, amortisation and impairment	0	0	(1,314)	0	**(1,314)**	0	**(1,314)**
Interest payments	0	0	0	0	**0**	9,952	**9,952**
Precepts and levies	0	0	0	0	**0**	1,751	**1,751**
Payments to Housing Capital Receipts Pool	0	0	0	0	**0**	944	**944**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	**0**	(1,044)	**(1,044)**
Pensions interest costs and expected return on pensions assets	0	0	0	0	**0**	17,050	**17,050**
HRA Settlement Determination (including premia)	0	0	0	0	**0**	0	**0**
(Surplus)/Deficit on Trading Activities	0	0	0	0	**0**	0	**0**
TOTAL EXPENDITURE	**1,334,645**	**(92,768)**	**(9,624)**	**(21,017)**	**1,211,236**	**28,653**	**1,239,889**
SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	**302,201**	**0**	**(9,822)**	**(12,620)**	**279,759**	**(383,934)**	**(104,175)**

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 Council'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 Council's directorates recorded in the report to Cabinet on 20th June 2012 is as follows:

DIRECTORATE CI&E 2011/12 COMPARATIVE FIGURES	Adults Health and Wellbeing	Chief Executive's	Children, Schools and Families	Communities, Localities and Culture	Development and Renewal	Resources	Corporate & Others	Housing Revenue Account	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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 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	(328,319)	90,014	(42,149)	282	**(280,172)**	0	**(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)**

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. 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.

The council is considering a number of options relating to the future of one of the statues including the possibility of sale.

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 1st April 2011	2011/12 Acquisitions	2011/12 Disposals	Balance at 31st March 2012	2012/13 Acquisitions	2012/13 Disposals	Balance at 31st March 2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'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
(d) - Public Art (Middlesex Street)	0	0	0	0	11	0	11
TOTAL HERITAGE ASSETS	**4,799**	**0**	**0**	**4,799**	**11**	**0**	**4,810**

(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. 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 in January 2012.

(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.

(d) A new capital scheme started in 2012/13 to create a piece of public art funded by section 106 contributions from developments in the area. The agreed budget for the scheme is £250k and is not yet completed. The asset is shown at historical cost, which is 2012/13 expenditure.

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 1/4/2011	2011/12 Expenditure	2011/12 Income	Balance at 31/3/2012	2012/13 Expenditure	2012/13 Income	Balance at 31/3/2013
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a)	Welfare Savings	791	409	527	909	582	627	954
(b)	Social Services Trust Funds - sundry other	119	442	2,652	2,329	2,292	1,593	1,630
(c)	Tower Hamlets Further Education Trust	614	104	104	614	1,359	959	214
(d)	Globe Town Picture Fund	160	0	0	160	0	0	160
(e)	Sundry Other	16	0	75	91	56	4	39
	TOTAL TRUST FUNDS	**1,700**	**955**	**3,358**	**4,103**	**4,289**	**3,183**	**2,997**

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

The Council also holds a number of deposits relating to Trust Funds administered by the Council. The funds are held in an interest bearing account maintained by the Council. The account is excluded from the financial statements relating to the Council. The relevant Trusts and transactions during the financial year ended 31st March 2013 may be summarised as follows:

(c) This was established by the Council in conjunction with Canary Wharf Limited with the objective of "the advancement of education and training for the residents of the London Borough of Tower Hamlets". The Council is the sole Trustee and the Trust is registered with the Charities Commission (No. 1002772). Accounts relating to the Trust have been deposited with the Charities Commissioners.

(d) This Fund was established with the proceeds of the sale of a painting by the Council.

(e) Sundry Other includes funds representing a number of miscellaneous deposits.

45 CONTINGENT LIABILITIES

Housing Transfers to Registered Social Landlords

Between March 1998 and March 2013 the Council transferred tenanted and leasehold properties to other landlords - 7,457 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to East End Homes; 2,079 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields Housing Association. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council. The amount of the potential liability cannot be determined with any certainty at present.

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	2011/12 £'000	2012/13 £'000
EXPENDITURE			
Repairs and maintenance		19,306	19,768
Supervision and management		34,188	34,893
Rents, rates, taxes and other charges		2,840	3,017
Depreciation of non-current assets	6		
On dwellings		13,020	14,223
On other assets		1,758	1,531
Revaluation losses (and reversals)		(7,782)	(21,530)
Debt management costs		238	73
Movement in the allowance for bad debts		0	178
Sums directed by the Secretary of State that are expenditure in accordance with the Code		3,353	3,130
TOTAL EXPENDITURE		66,921	55,283
INCOME			
Gross rental income			
Dwelling rents		59,357	63,252
Non dwelling rents		3,222	3,394
Charges for services and facilities		16,336	17,407
Contributions towards expenditure		115	115
HRA subsidy receivable	11	11,552	274
Movement in the allowance for bad debts		136	0
TOTAL INCOME		90,718	84,442
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT		(23,797)	(29,159)
HRA services share of Corporate and Democratic Core		157	157
HRA Share of other amounts included in the whole authority cost of services but not allocated to specific service			44
NET COST OF HRA SERVICES		**(23,640)**	**(28,958)**
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		(1,960)	(947)
Unattached capital receipts		(4,177)	(1,444)
Interest payable and similar charges	12	14,371	3,338
Interest and investment income		(103)	(66)
Pensions interest cost and expected return on pension assets	7	713	1,112
Capital grants and contributions receivable		(5,116)	(18,500)
PWLB Debt Redemption as per HRA Settlement Determination		(312,479)	0
Amortisation of premia and discounts due to HRA settlement	10	76,280	0
DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES		**(256,111)**	**(45,465)**

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	2011/12		2012/13	
		£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward			(12,788)		(13,578)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		(256,111)		(45,465)	
Net additional amount required by statute to be credited to the HRA balance for the year		254,321		43,809	
Decrease (Increase) in the HRA Balance			**(1,790)**		**(1,656)**
Transfers to or (from) reserves			1,000		0
Balance on the Statutory HRA Carried Forward			**(13,578)**		**(15,234)**

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

1. NOTE TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

	2011/12		2012/13	
	£'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	(3,353)		(3,130)	
Capital grants and contributions	5,116		18,500	
PWLB Debt Redemption as per HRA Settlement Determination	312,479		0	
Amortisation of premia and discounts due to HRA settlement	(76,280)		0	
Gain or loss on sale of HRA non-current assets	1,960		947	
Unattached capital receipts	4,177		1,444	
Reversal of revaluation losses on non-current assets	7,782		21,350	
Transfer to / from the Major Repairs Reserve	(1,758)		0	
Difference between amounts charged to the Income & Expenditure Account for premiums and discounts and the charge for the year determined in accordance with statute	175		176	
Net charges made for retirement benefits in accordance with IAS19	1,797		1,057	
Transfers from General Fund (as directed by Secretary of State)	0	252,095	0	40,344
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year				
Capital expenditure financed from revenue	2,224		3,465	
Other adjustments (transfer to capital receipts reserve)	2	2,226	0	3,465
Net additional amount required by statute to be credited to the HRA Balance for the year		**254,321**		**43,809**

2 HOUSING STOCK

The type and number of dwellings in the Council's housing stock at 31st March were as follows:

	2011/12	2012/13
Low-rise flats (1-2 storeys)	265	262
Medium-rise flats (3-5 storeys)	7,351	7,340
High-rise flats (6 or more storeys)	4,110	4,112
Houses and bungalows	792	793
TOTAL AT 31st MARCH	**12,518**	**12,507**

3 NON-CURRENT ASSETS

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

	2011/12 £'000	2012/13 £'000
Dwellings	660,898	703,285
Other Land and Buildings	56,751	54,224
Surplus Assets Not Held for Sale	912	1,264
Assets Held for Sale	0	525
TOTAL	**718,561**	**759,298**

The balance sheet values of the land, houses and other property within the Housing Revenue Account are as follows:

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 1st April 2011	637,909	57,970	1,195	0	697,074
Additions, disposals, transfers and revaluations	22,989	(1,219)	(283)	0	21,487
Total value at 31st March 2012	660,898	56,751	912	0	718,561
Additions, disposals, transfers and revaluations	42,387	(2,527)	352	525	40,737
TOTAL VALUE AT 31st MARCH 2013	**703,285**	**54,224**	**1,264**	**525**	**759,298**

The vacant possession value of dwellings within the Council's HRA was £2,727 million in 2012/13 (£2,587 million in 2011/12). 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

	2011/12 £'000	2012/13 £'000
Balance at 1st April	6,346	7,985
Transfer from Capital Adjustment Account - depreciation	14,778	15,754
Transfer to HRA - depreciation on non-dwellings (pre 2012/13 only	(1,757)	0
Financing of capital expenditure	(11,382)	(11,375)
Balance at 31st March	**7,985**	**12,364**

5 CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	2011/12 Dwellings £'000	2011/12 Other £'000	2011/12 Total £'000	2012/13 Dwellings £'000	2012/13 Other £'000	2012/13 Total £'000
Expenditure	28,262	3,353	**31,615**	35,914	3,130	**39,044**
Sources of finance						
Borrowing	12,500	0	**12,500**	0	0	**0**
Capital Receipts	1,986	0	**1,986**	8,049	0	**8,049**
Capital Grants and Contributions	2,965	0	**2,965**	16,155	0	**16,155**
Major Repairs Reserve	8,029	3,353	**11,382**	8,245	3,130	**11,375**
Direct Revenue Financing	2,782	0	**2,782**	3,465	0	**3,465**
TOTAL CAPITAL FINANCING	**28,262**	**3,353**	**31,615**	**35,914**	**3,130**	**39,044**

(ii) Capital Receipts

Capital receipts (gross) in 2012/13 from the disposal of non-current assets within the HRA amounted to £2.069 million (£5.487 million in 2011/12) as follows:

	2011/12 £'000	2012/13 £'000
Dwellings	2,508	1,264
Other land and buildings	2,979	805
TOTAL CAPITAL RECEIPTS	**5,487**	**2,069**

6 DEPRECIATION

The total depreciation charge for the year was £15.754 million (£14.778 million in 201/12), made up of £14.223 million (£13.020 million in 2010/11) in respect of council houses and £1.531 million (£1.758 million in 2011/12) in respect of other HRA 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.

	2011/12 £'000	2012/13 £'000
Dwellings	13,020	14,223
Other Land and Buildings	1,758	1,531
TOTAL DEPRECIATION	**14,778**	**15,754**

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.

	The Council		LPFA		Total	
Income and Expenditure Account	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000
Net Cost of Services						
Current service costs	1	0	8	10	9	10
Net Operating Expenditure						
Interest cost	4,218	3,700	71	78	4,289	3,778
Settlements / Curtailments	139	34	0	0	139	34
Expected return on assets in the scheme	(3,665)	(2,605)	(59)	(60)	(3,724)	(2,665)
Past Service Costs	0	0	0	0	0	0
Net Charge to the Income and Expenditure Account	**693**	**1,129**	**20**	**28**	**713**	**1,157**
Statement of Movement in the HRA Balance						
Reversal of net charges made for retirement benefits in accordance with IAS19	(693)	(1,129)	(20)	(28)	(713)	(1,157)
Employer's contribution to scheme	**2,447**	**2,172**	**7**	**7**	**2,454**	**2,179**

8 RENT ARREARS

	2011/12 £'000	2012/13 £'000
Gross rent arrears at 31st March	2,926	3,110
Arrears as % of rent receivable	4.9	4.9
Provision made for bad debts	2,114	2,252

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 2012/13.

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

	2011/12 £'000	2012/13 £'000
Management & Maintenance Allowances	35,828	0
Major Repairs Allowance	13,020	0
Charges for capital	20,493	0
Other Allowances	18	0
Guide Line Rent Income	(57,774)	0
Interest on Receipts	(14)	0
Prior Year Adjustment	(19)	274
TOTAL HOUSING REVENUE ACCOUNT SUBSIDY	**11,552**	**274**

12 ITEM 8 INTEREST ADJUSTMENT

Capital works on non-current assets within the council's HRA are partly funded by borrowing. The total interest cost of borrowing is allocated between HRA and General Fund in accordance with the Item 8 Credit and Item 8 Debit (General) Determination for the year, as specified in Schedule 4 of the Local Government and Housing Act 1989. These are included within the interest figures shown on the HRA Income and Expenditure Account.

COLLECTION FUND

	Note	2011/12 £'000	2011/12 £'000	2012/13 £'000	2012/13 £'000
INCOME					
Council Tax (net of benefits)	2	77,140		82,404	
Transfers from General Fund - Council Tax Benefits		30,635	107,775	29,403	111,807
Distribution of prior year deficit on Collection Fund			0		-
National Non-Domestic Rates	3		259,953		318,294
Business Rate Supplement			12,006		11,908
TOTAL INCOME			**379,734**		**442,009**
EXPENDITURE					
Precepts and demands					
London Borough of Tower Hamlets		78,738		80,430	
Greater London Authority		27,548	106,286	27,859	108,289
Distribution of prior year surplus on Collection Fund			3,441		
National Non-Domestic Rates					
Payment to National Pool		259,007		317,354	
Cost of collection allowance		946	259,953	940	318,294
Business Rate Supplement	4				
Payment to Greater London Authority		11,973		11,878	
Cost of collection allowance		33	12,006	30	11,908
Increase in provision for bad debts	5		2,268		1,412
TOTAL EXPENDITURE			**383,954**		**439,903**
INCREASE/(DECREASE) IN FUND BALANCE			**(4,220)**		**2,106**
COLLECTION FUND BALANCE					
Balance at the beginning of the year			4,253		33
(Deficit)/Surplus for the year			(4,220)		2,106
BALANCE AT END OF YEAR	1		**33**		**2,139**

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 (£2,139,173.71) is attributable to the Council (£1,588,764.31) and the Greater London Authority (£550,409.40). 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 the Inland Revenue as at 1st April 1991 and placed in one of eight bands. By law the tax for each Band is set as a fraction of Band D.

Band	Market Value in April 1991	Fraction of Band D
A	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

When the 2012/13 Council Tax was set the position was as follows:

Band	2011/12 No. of Properties	2011/12 Council Tax Base	2012/13 No. of Properties	2012/13 Council Tax Base
A	1,803	750	2,077	728
B	25,054	15,937	25,643	16,133
C	34,478	26,410	34,928	26,584
D	21,319	18,210	21,883	18,523
E	15,692	16,269	16,547	17,112
F	7,406	9,104	7,645	9,491
G	3,143	4,240	3,074	4,296
H	462	748	456	770
Total	**109,357**	**91,668**	**112,253**	**93,637**

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:

	2011/12		2012/13			
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000	Increase / (Decrease) £	%
Tower Hamlets	885.52	78,738	885.52	80,430	0	0
Greater London Authority	309.82	27,548	306.72	27,859	-3.10	-1.0%
TOTAL	**1,195.34**	**106,286**	**1,192.24**	**108,289**	**-3.1**	**-0.26%**

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

4. CROSSRAIL BUSINESS RATE SUPPLEMENT

The Greater London Authority (GLA) introduced a business rate supplement (BRS) on 1 April 2010 to finance £4.1 billion of the costs of the £15.9 billion Crossrail project. Details on the progress of the project so far and the proposed policies for the BRS in the 2012/13 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 was 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 2012/13 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:

2011/12 £'000		2012/13 £'000
13,446	Non Domestic Rates Due	13,348
	Less Allowances and Other Adjustments	
656	Mandatory & Discretionary Relief	650
784	Provision for Bad Debts	790
33	Cost of Collection	30
11,973	**Collectable from Business Rate Supplement Payers**	**11,878**

5. 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 £1.412 million (increased by £2.268 million in 2011/12) and £1.562 million of irrecoverable debts were written off (£1.884 million in 2011/12).

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 2013 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 auditor 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 2011		23,380	109,354	12,786	6,346	24,425	19,750	491	**196,532**	**1,077,099**	**1,273,631**
Movement in reserves during 2011/12											
Surplus or (Deficit) on the Provision of Services		(34,864)	0	256,111	0	0	0	0	**221,247**	**0**	**221,247**
Other comprehensive expenditure and income		0	0	0	0	0	0	0	**0**	**(102,534)**	**(102,534)**
Total Comprehensive Expenditure and Income		**(34,864)**	**0**	**256,111**	**0**	**0**	**0**	**0**	**221,247**	**(102,534)**	**118,713**
Adjustments between accounting basis and funding basis under regulations		52,225	0	(254,319)	1,639	3,183	30,406	0	**(166,866)**	**166,868**	**2**
Net Increase or Decrease before Transfers to Earmarked Reserves		**17,361**	**0**	**1,792**	**1,639**	**3,183**	**30,406**	**0**	**54,381**	**64,334**	**118,715**
Transfers to or from earmarked reserves	7	(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**	**0**	**54,381**	**64,334**	**118,715**
Balance as at 31 March 2012 carried forward		**26,380**	**123,715**	**14,578**	**7,985**	**27,608**	**50,156**	**491**	**250,913**	**1,141,433**	**1,392,346**
Movement in reserves during 2012/13											
Surplus or (Deficit) on the Provision of Services		58,710	0	45,465	0	0	0	867	**105,042**	**0**	**105,042**
Other comprehensive expenditure and income		0	0	0	0	0	0	0	**0**	**(264,237)**	**(264,237)**
Total Comprehensive Expenditure and Income		**58,710**	**0**	**45,465**	**0**	**0**	**0**	**867**	**105,042**	**(264,237)**	**(159,195)**
Adjustments between accounting basis and funding basis under regulations		(35,592)	0	(43,810)	4,379	(6,966)	5,545	2,012	**(74,432)**	**76,343**	**1,909**
Net Increase or Decrease before Transfers to Earmarked Reserves		**23,118**	**0**	**1,655**	**4,379**	**(6,966)**	**5,545**	**2,879**	**30,610**	**(187,894)**	**(157,286)**
Transfers to or from earmarked reserves	7	(5,350)	5,350	0	0	0	0	0	**0**	**0**	**0**
Transfers to or from school reserves		(6,088)	6,088	0	0	0	0	0	**0**	**0**	**0**
Increase or (Decrease) in Year		**11,680**	**11,438**	**1,655**	**4,379**	**(6,966)**	**5,545**	**2,879**	**30,610**	**(187,894)**	**(157,286)**
Balance as at 31 March 2013		**38,060**	**135,153**	**16,233**	**12,364**	**20,642**	**55,701**	**3,370**	**281,523**	**953,539**	**1,235,060**

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2011/12 Gross Expenditure £'000	2011/12 Gross Income £'000	2011/12 Net Expenditure £'000		2012/13 Gross Expenditure £'000	2012/13 Gross Income £'000	2012/13 Net Expenditure £'000
			Continuing Operations			
29,790	6,859	22,931	Cultural and Related Services	22,005	4,018	17,987
47,938	38,760	9,178	Central Services	42,755	34,590	8,165
529,192	437,468	91,724	Children's and Education Services	537,216	442,173	95,043
41,568	9,471	32,097	Environment and Regulatory Services	43,967	9,208	34,759
31,709	20,704	11,005	Highways and Transport Services	32,677	21,825	10,852
65,064	90,718	(25,654)	Local Authority Housing (Housing Revenue Account)	54,676	84,442	(29,766)
305,846	285,696	20,150	Other Housing Services	314,733	295,855	18,878
30,045	19,648	10,397	Planning Services	21,968	9,483	12,485
116,743	29,626	87,117	Adult Social Care	115,175	24,687	90,488
14,981	2,897	12,084	Corporate and Democratic Core	19,594	3,476	16,118
15,227	250	14,977	Non-distributed Costs	5,967	1,719	4,248
1,228,103	**942,097**	**286,006**	**NET COST OF SERVICES**	**1,210,733**	**931,476**	**279,257**
		130,450	Other Operating Expenditure			(161)
		107,173	Financing and Investment Income and Expenditure			23,266
		(747,110)	Taxation and Non-Specific Grant Income			(407,422)
		13	Corporation Tax			18
		(223,468)	**(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES**			**(105,042)**
			Other Comprehensive Income and Expenditure			
		(13,701)	(Surplus)/Deficit on revaluation of non-current assets			168,459
		123,296	Actuarial (gains) or losses on pension assets and liabilities			95,778
		109,595	**OTHER COMPREHENSIVE INCOME AND EXPENDITURE**			**264,237**
		(113,873)	**TOTAL COMPREHENSIVE INCOME AND EXPENDITURE**			**159,195**

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 2013.

31 March 2012 £'000		Notes	31 March 2013 £'000
	Long-term Assets		
1,850,716	Property, plant and equipment		1,753,959
4,799	Heritage Assets		4,810
768	Long Term Debtors		672
1,856,283	**Total Long-term assets**		**1,759,441**
	Current Assets		
131,603	Short-term investments		146,336
945	Assets held for sale	21	3,248
517	Inventories	6	390
74,624	Short-term debtors	6	70,489
131,408	Cash and cash equivalents	6	141,325
339,097	**Total Current Assets**		**361,788**
	Current liabilities		
2,266	Short-term borrowing		2,979
152,600	Short-term creditors	6	151,457
1,594	Provisions		921
156,460	**Total Current liabilities**		**155,357**
	Long Term Liabilities		
13,088	Provisions		13,071
90,479	Long-term borrowing		89,564
422,546	Liability related to defined benefit pension schemes	6	524,149
72,255	Capital grants receipts in advance		61,341
40,299	Deferred liabilities		39,410
5,996	Deferred Income - Receipt in Advance		3,276
644,663	**Total Long-Term Liabilities**		**730,811**
1,394,257	**NET ASSETS**		**1,235,061**
	Reserves		
	Usable Reserves		
26,380	General Fund		38,060
14,578	Housing Revenue Account		16,233
97,932	Earmarked reserves		103,282
25,783	Schools reserves		31,871
27,608	Capital receipts reserve		20,642
50,156	Capital grants unapplied		55,701
7,985	Major repairs reserve		12,364
2,403	Income & Expenditure Reserve		3,370
252,825	**Total Usable Reserves**		**281,523**
	Unusable Reserves		
497,734	Revaluation Reserve		324,686
1,068,460	Capital Adjustment Account		1,153,640
24	Collection Fund Adjustment Account		1,588
959	Financial Instruments Adjustment Account		1,032
(422,546)	Pensions reserve	6	(524,149)
(3,355)	Accumulated Absences Account		(3,369)
156	Deferred capital receipts		110
1,141,432	**Total Unusable Reserves**		**953,538**
1,394,257	**TOTAL RESERVES**		**1,235,061**

GROUP CASH FLOW STATEMENT

2011/12 £'000		Notes	2012/13 £'000
223,468	Net surplus or (deficit) on the provision of services		105,042
204,696	Adjustments to net surplus or deficit on the provision of services for non cash movements	1	42,128
(163,976)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1	(132,944)
264,188	**Net cash flows from Operating Activities**		**14,226**
(3,584)	Investing Activities	3	(1,780)
(268,567)	Financing Activities	4	(2,528)
(7,963)	**Net increase or decrease in cash and cash equivalents**		**9,918**
139,371	Cash and cash equivalents at the beginning of the reporting period		131,408
131,408	**Cash and cash equivalents at the end of the reporting period**		**141,326**

1 NOTE A TO THE CASH FLOW STATEMENT

2011/12 £'000		2012/13 £'000	2012/13 £'000
223,468	**Net Surplus or (Deficit) on the Provision of Services**		105,042
	Adjust net surplus or (deficit) on the provision of services for non cash movements		
41,865	Depreciation	36,552	
(3,481)	Impairment and downward valuations	(1,678)	
1,270	Amortisation	0	
175	Adjustments for effective interest rates	175	
(1,895)	Increase/Decrease in Interest Creditors	(211)	
16,472	Increase/Decrease in Creditors	(3,927)	
(920)	Increase/Decrease in Interest and Dividend Debtors	268	
13,573	Increase/Decrease in Debtors	588	
304	Increase/Decrease in Inventories	127	
(2,688)	Pension Liability	5,824	
1,812	Contributions to/(from) Provisions	2,127	
(1,062)	Provision for Equal Pay	14	
139,271	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	2,269	
204,696			**42,128**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities		
(153,391)	Capital Grants credited to surplus or deficit on the provision of services	(127,818)	
(10,585)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(5,126)	
(163,976)			**(132,944)**
264,188	**Net cash flows from operating activities**		**14,226**

2 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2011/12 £'000		2012/13 £'000
1,981	Interest received	3,538
(28,544)	Interest paid	(10,163)
(26,563)		**(6,625)**

3 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2011/12 £'000		2012/13 £'000
(119,541)	Purchase of property, plant and equipment, investment property and intangible assets	(110,064)
(30,452)	Purchase of short-term and long-term investments	(14,429)
(118)	Other payments for investing activities	(89)
5,561	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,115
140,966	Other receipts from investing activities	120,687
(3,584)	**Net cash flows from investing activities**	**(1,780)**

4 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2011/12 £'000		2012/13 £'000
497	Cash receipts of short- and long-term borrowing	(793)
(682)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(791)
(268,382)	Repayments of short- and long-term borrowing	(944)
(268,567)	**Net cash flows from financing activities**	**(2,528)**

5 INCOME AND EXPENDITURE ACCOUNT

The following Tower Hamlets Homes transactions are included in the Group Income and Expenditure Account:

	2011/12 £'000	2012/13 £'000
Operating (profit) / loss	(1,214)	(502)
Interest payable	0	0
Interest receivable	0	0
Pensions interest cost	(1,020)	(383)
Corporation tax	13	18
Total	**(2,221)**	**(867)**

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	
	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000
Non-current assets - equipment	7,439	5,249	211	134	7,650	5,383
Inventories	517	390	0	0	517	390
Short term debtors	74,912	70,818	(288)	(329)	74,624	70,489
Cash and cash equivalents	126,726	135,996	4,682	5,329	131,408	141,325
Short-term creditors	147,043	149,693	2,202	1,764	149,245	151,457
Pensions liability	422,546	522,962	0	1,087	422,546	524,049
Pensions reserve	(422,546)	(522,962)	0	(1,087)	(422,546)	(524,049)
Income and Expenditure Reserve	0	0	2,403	3,370	2,403	3,370

Other Notes relating to the Group Statements can be found in the the main statements.

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2011/12 £'000	2012/13 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	37,325	37,466
From members	3	9,180	8,637
Transfers in			
Transfers in from other pension funds	4	5,507	2,939
Benefits			
Pensions	4	(32,129)	(34,271)
Lump sum benefits	4	(9,699)	(7,116)
Payments to and on account of leavers			
Refunds of contributions		(2)	(1)
State scheme premiums		(2)	(1)
Transfers out to other pension funds	4	(5,475)	(3,458)
Administrative expenses	13	(1,002)	(926)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		**3,703**	**3,269**

RETURN ON INVESTMENTS		2011/12 £'000	2012/13 £'000
Investment Income	11	13,307	10,586
Taxes on Income		(291)	(396)
Change in market value of investments			
Realised		(204)	4,989
Unrealised	10	844	83,354
Investment management expenses	16	(2,174)	(2,283)
NET RETURN ON INVESTMENTS		**11,482**	**96,250**
Net increase in the Fund during the year		15,185	99,519
Add: Opening net assets of the scheme		812,167	827,352
CLOSING NET ASSETS OF THE SCHEME		**827,352**	**926,871**

NET ASSETS STATEMENT AS AT 31ST MARCH		2012 £'000	2013 £'000
Investments Assets			
Equities		177,932	203,869
Pooled Investment Vehicles			
Unit Trusts		460,149	523,418
Property		92,048	92,128
Other		82,772	91,831
Derivative Contracts			
Forward Foreign Exchange Contracts		510	654
		813,411	911,900
Cash deposits	6	7,187	6,198
Other investment balances	5	1,270	1,001
Investments Liabilities			
Forward Foreign Exchange Contracts	10	(285)	(122)
Other investment balances	5	(443)	(215)
Current Assets	5	7,679	9,752
Current Liabilities	5	(1,467)	(1,643)
TOTAL NET ASSETS		**827,352**	**926,871**

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 2013. The actuarial present value of promised retirement benefits, valued on an IAS19 basis, is disclosed in note 12 of the Accounts as permitted under IAS26.

Fund account - revenue recognition

Contribution Income

Normal contrbutions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which relate. Any amount due in the year but unpaid will be classed as a current financial asset.

Employer deficit contributions are accounted for in accordance with the agreement under which they are paid.

(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 2013.

(ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2013.

(iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2013.

(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 2013. Where the Council 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) **Investment Income**

(i) Interest income is recognised in the Fund account as it accrues.

(ii) Dividend income is recognised in the Fund account on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

(iii) Distributions from pooled funds are re-invested and as such are recognised in the change in market value.

(iv) Changes in the net market value of investments held at any time during the year are recognised as income and comprise all realised and unrealised gains/losses.

2. ACCOUNTING POLICIES Cont….

Fund account - expense items

(f) **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.

(g) **Benefits Payable**

Pensions and lump sums payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Net assets statement

(h) **Financial Assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-quoted investments

Market quoted investments – the value of an investment for which there is a readily available market price is determined by the bid price ruling on the final day of the accounting period.

(ii) Fixed interest securities

Fixed Interest Securities – are recorded at net market value based on their bid price.

(iii) Unquoted investments

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.

2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 2 the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the statement of accounts are as follows:

The accounts have been prepared on a going concern basis. The concept of a going concern assumes that the pension fund will continue in operational existence for the foreseeable future.

The pension fund liability is calculated every three years by Hymans Robertson, a firm of consulting actuaries, with annual updates provided in the intervening years. The methodology used to calculate this is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 12. The estimate is subject to significant variances based on changes to underlying assumptions.

2.b ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION AND 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 assumptions and estimates.

There is just one item in the authority's net asset statement as at 31st March 2013 for which there which there is a significant risk of material adjustment in the forthcoming financial year.

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 Council with expert advice about the assumptions to be applied.

The assumptions interact in complex ways. During 2012/13, the Council’s actuaries advised that the net pensions liability had increased by £100.4 million to £523.0 million as a result of higher future inflationary forecasts and a lower discount factor for calculating the net present value of liabilities.

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 2013 range from 15.8% to 44.1% of pensionable pay. The Council paid an agreed additional monetary contribution of £15.25m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2011/12 £'000	2012/13 £'000
Members normal contributions		
Council	8,254	7,571
Admitted bodies	241	223
Scheduled body	685	843
Total members	**9,180**	**8,637**
Employers		
Normal contributions		
Council	18,755	17,979
Admitted bodies	956	997
Scheduled bodies	1,714	2,282
Deficit funding contributions		
Council	14,000	15,250
Other contributions		
Council	1,900	958
Total employers	**37,325**	**37,466**
Total contributions	**46,505**	**46,103**

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2012/13 employees made contributions of £44,059.40 (£51,533.43 in 2011/12) into the AVC Scheme operated by Aviva (Norwich Union) and £6,444.33 (£8,560.40 in 2011/12) to Equitable Life. The contributions are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) 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. Benefits are index-linked to keep pace with inflation. In April 2011, the method of indexation changed from the retail prices index to the consumer prices index.

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.

	2011/12				2012/13			
	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000
Pensions	(30,734)	(810)	(585)	(32,129)	(32,650)	(872)	(749)	(34,271)
Lump sum retirement benefits	(7,143)	(384)	(1,157)	(8,684)	(4,943)	(768)	(392)	(6,103)
Lump sum death benefits	(1,015)	0	0	(1,015)	(1,012)	0	0	(1,012)
Total Pensions and Benefits	**(38,892)**	**(1,194)**	**(1,742)**	**(41,828)**	**(38,605)**	**(1,640)**	**(1,141)**	**(41,386)**
Transfer Values Received	5,507	0	0	5,507	2,939	0	0	2,939
Transfer Values Paid	(5,475)	0	0	(5,475)	(3,458)	0	0	(3,458)
Total	**(38,860)**	**(1,194)**	**(1,742)**	**(41,796)**	**(39,124)**	**(1,640)**	**(1,141)**	**(41,905)**

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.

	2011/12 £'000	2012/13 £'000
Debtors		
Other Investment Balances		
Dividends receivable	841	691
Tax recoverable	429	310
	1,270	1,001
Current Assets		
Contributions due from admitted bodies	31	87
London Borough of Tower Hamlets Pension Fund	69	340
	100	427
Total Debtors	**1,370**	**1,428**
Creditors		
Other Investment Balances		
Investment purchases	443	215
Current Liabilities		
Unpaid benefits	1,097	1,073
Administrative expenses	370	570
	1,467	1,643
Total Creditors	1,910	1,858
Net Debtors	**(540)**	**(430)**

6. CASH

The deposits held by fund managers can be further analysed as follows:

	2011/12 £'000	2012/13 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	2,893	2,477
Schroders: Multi Asset Portfolio	12	15
Schroders: Property Portfolio	4,272	3,698
London Borough of Tower Hamlets Pension Fund	7,579	9,324
TOTAL CASH	**14,766**	**15,524**

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 for agreement on 14th November 2013.

9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March 2013

	2012	2013
London Borough of Tower Hamlets		
Active Members	4,780	4,789
Pensioners	3,892	3,957
Deferred Pensioners	5,756	5,970
Dependants	936	965
	15,364	**15,681**
Admitted & Scheduled Bodies		
Active Members	472	509
Pensioners	172	191
Deferred Pensioners	304	322
Dependants	4	14
	952	**1,036**

The following bodies have been admitted into the Fund:

Admitted Bodies

Agilisys
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 Bodies

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	Mandate
Baillie Gifford Life Ltd.	Global Equity, Diversified Growth
GMO UK Ltd.	Global Equity
Investec Asset Management	Absolute Return Bonds
Legal & General Investment Management	UK Equity, Index Linked Gilts
Ruffer LLP	Diversified Growth
Schroders Asset Management Property Fund	Property

The value of the Fund, by manager, as at 31st March was as follows:

	2012		2013	
	£ million	%	£ million	%
Baillie Gifford Life Ltd - Diversified Growth	41.7	5.1	46.3	5.0
Baillie Gifford Life Ltd - Equities	137.0	16.7	163.1	17.7
GMO UK Ltd.	200.0	24.4	227.3	24.7
Investec Asset Management	95.5	11.6	97.0	10.6
Legal & General Investment Management - Equities	166.1	20.2	194.1	21.1
Legal & General Investment Management	45.9	5.6	51.3	5.6
Ruffer LLP	41.0	5.0	45.5	5.0
Schroders Asset Management Property Fund	93.8	11.4	94.1	10.3

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 2012 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2013 £'000	Transaction Costs £'000
Baillie Gifford Life Ltd - Diversified Growth	41,741	63	0	4,509	46,313	0
Baillie Gifford Life Ltd - Equities	136,998	0	0	26,063	163,061	0
GMO UK Ltd.	196,074	81,865	(69,903)	15,793	223,829	65
Investec Asset Management	95,524	0	0	1,510	97,034	0
Legal & General Investment Management	212,025	0	0	33,365	245,390	0
Ruffer LLP	41,032	0	0	4,486	45,518	0
Schroders Asset Management Property	89,732	5,495	(2,222)	(2,372)	90,633	0
	813,126	**87,423**	**(72,125)**	**83,354**	**911,778**	**65**

Transaction costs incurred during the year total £65,000 (£45,000 in 2011/12). These costs include commissions, stamp duty and other fees.

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2012 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2013 £'000
UK Investment Assets					
Quoted	507,200	5,558	(2,222)	67,561	578,097
Overseas Investment Assets					
Quoted	305,701	81,211	(69,781)	16,018	333,149
Unquoted	225	654	(122)	(225)	532
	813,126	**87,423**	**(72,125)**	**83,354**	**911,778**

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 2013 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 2013 £'000	Gains/(losses) on Contract £'000
Currency contracted to purchase	(42,987)	43,641	654
Currency contracted to sell	48,048	(48,170)	(122)
Net Position	**5,061**	**(4,529)**	**532**

Contract	Manager	Expiration	Gains/(Losses) on Contract £'000
Australian Dollar Foreign Currency	GMO UK Ltd	April 2013	3
Canadian Dollar Foreign Currency	GMO UK Ltd	April 2013	1
Danish Krone	GMO UK Ltd	April 2013	10
Euro Foreign Currency	GMO UK Ltd	April 2013	314
Hong Kong Dollar Foreign Currency	GMO UK Ltd	April 2013	119
Japanese Yen Foreign Currency	GMO UK Ltd	April 2013	(69)
Norwegian Krone Foreign Currency	GMO UK Ltd	April 2013	16
Singapore Dollar Foreign Currency	GMO UK Ltd	April 2013	130
Swedish Krona Foreign Currency	GMO UK Ltd	April 2013	(14)
Swiss Franc Foreign Currency	GMO UK Ltd	April 2013	(4)
US Dollar Forward Currency	GMO UK Ltd	April 2013	26
Unrealised Gain			**532**

Unrealised gains were made on foreign exchange contracts in the year amounting to £0.532 million.

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2011/12 £'000	2012/13 £'000
Dividends from overseas equities	9,455	7,217
Net rents from properties	2,906	3,159
Interest on cash deposits	(88)	51
Foreign tax	151	159
Underwriting costs, etc.	883	0
	13,307	**10,586**
Taxes on Income	(291)	(396)
TOTAL	**13,016**	**10,190**

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 common contrinution rate (the rate which all employers pay in the fund) is

Year	Employer's contribution rate
2011/12	30.1%
2012/13	30.1%
2013/14	30.1%

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 contributions 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 2012/13 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 valuation is undertaken every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1,497 million (£1,268 million in 2011/12).

The liabilities above will differ from the results of the 2010 triennial funding valuation as IAS19 stipulates a discount rate rather than a rate which reflects market rates.

TheThe assumptions used by the actuary are those adopted for the IAS19 report as required by the Code of Practice. They are set out below.

Financial Assumptions	2011/12	2012/13
Inflation/pensions increase rate	2.5%	2.8%
Salary increase rate	4.8%	5.1%
Discount rate	4.8%	4.5%

13. ADMINISTRATIVE EXPENSES

	2011/12 £'000	2012/13 £'000
Investment Advice	115	116
Performance Measurement	16	15
Administration	847	806
Audit Fees	35	21
Other Fees/Income	(11)	(32)
	1,002	**926**

14. RISK MANAGEMENT

Nature and extent of risks arising from financial instruments

Risk and Risk Management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. The aim of investment risk management is to minimise the risk of a reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level.

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 market value of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. 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 council only invests money with institutions with a minimum credit rating by Fitch rating agency of A+ or higher.

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 2012 and 31st March 2013 is set out below.

Interest Rate Risk	As At 31st March 2012	As At 31st March 2013
Asset Type	**£'000**	**£'000**
Cash and cash equivalents	7,187	6,198
Cash balances	7,679	9,752
Fixed interest securities	141,436	148,287
Total	**156,302**	**164,237**

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2013	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		**£'000**	**£'000**
Cash and cash equivalents	15,523	155	(155)
Cash balances	427	4	(4)
Fixed interest securities	148,287	(1,483)	1,483
Total change in net assets available	**164,237**	**(1,324)**	**1,324**

Interest rate risk - sensitivity analysis

Interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The table below shows the effect of a +/- 100 BPS change in interest rates.

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2012	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		**£'000**	**£'000**
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**	**(1,265)**	**1,265**

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. This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To alleviate this risk the Fund allows investment managers to use derivative contracts, in accordance with the contract conditions:

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 5.7%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2013 and as at the previous year end.

Currency Exposure - Asset Type Asset Type	As At 31st March 2012 £'000	As At 31st March 2013 £'000
Overseas quoted securities	174,622	205,044
Overseas unit trusts	7,966	7,384
Cash	2,725	2,300
Total overseas assets	**185,313**	**214,728**

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2013	Change in year in net assets available to pay benefits	
		+5.7%	-5.7%
Asset Type	£'000	£'000	£'000
Overseas quoted securities	205,044	216,732	193,356
Overseas unit trusts	7,384	7,805	6,963
Cash	2,300	2,431	2,169
Total change in net assets available	**214,728**	**226,968**	**202,488**

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2012	Change in year in net assets available to pay benefits	
		+9.9%	-9.9%
Asset Type		£'000	£'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**

The percentage change in the year of 5.7% 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.

14. RISK MANAGEMENT (continued)

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 2012/13 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Price Risk - sensitivity analysis Asset Type	Potential Market Movements (+/-)
UK equities	13.4%
Global equity	12.8%
Total fixed interest	2.9%
Alternatives	4.7%
Cash	0.0%
Pooled Property Investments	1.4%

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 2013 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	15,523	0.0%	15,523	15,523
Investment portfolio assets				
UK equities	194,137	13.4%	220,151	168,123
Global equity	386,358	12.8%	435,812	336,904
Total fixed interest	148,287	2.9%	152,587	143,987
Alternatives	91,831	4.7%	96,147	87,515
Pooled Property Investments	90,633	1.4%	91,902	89,364
Net derivative assets	532	0.0%	532	532
Investment income due	1,001	0.0%	1,001	1,001
Amounts receivable for sales			0	0
Amounts payable for purchases	(215)	0.0%	(215)	(215)
Total assets available to pay benefits	**928,087**		**1,013,440**	**842,734**

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:

	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**

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	
	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000
Financial Assets				
Loans and receivables	0	0	16,067	16,611
Financial assets at fair value through profit or loss*	812,902	911,246	578	994
Total Financial Assets	**812,902**	**911,246**	**16,645**	**17,605**
Financial Liabilities				
Payables	0	0	(1,910)	(1,858)
Financial liabilities at fair value through profit or loss	0	0	(285)	(122)
Total Financial Liabilities	**0**	**0**	**(2,195)**	**(1,980)**

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

* Equities and pooled funds were previously classified as available for sale financial assets in the 2011/12 accounts, These have been reclassified as financial assets at fair value through profit or loss in line with the Code of Practice.

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. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts

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. Such instruments would include unquoted equity investments and hedge fund of funds.

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2013.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	203,869	0	0	203,869
Pooled Funds				
Unit Trusts	523,418	0	0	523,418
Property Unit Trust	92,128	0	0	92,128
Other	91,831	0	0	91,831
Derivative Contracts				
Forward Foreign Exchange Contracts	0	532	0	532
Cash and bank Deposits	15,864	0	0	15,864
Current Assets	1,087	0	0	1,087
Current Liabilities	(1,858)	0	0	(1,858)
	926,339	**532**	**0**	**926,871**

During the year ended 31st March 2013 there were no transfers between the levels of the fair value hierarchy.
The equivalents at 31st March 2012 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	177,932	0	0	177,932
Pooled Funds				
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				
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**

15. FINANCIAL INSTRUMENTS DISCLOSURES

Net gains and losses on financial instruments

	Current	
	2011/12 £'000	**2012/13 £'000**
Financial Assets		
Loans and receivables		
Financial assets at fair value through profit or loss*	233	88,568
Financial Liabilities		
Payables		
Financial liabilities at fair value through profit or loss	407	(225)
Total Financial Assets	**640**	**88,343**

16. INVESTMENT MANAGEMENT EXPENSES

	2011/12 £'000	Fund Value %	2012/13 £'000	Fund Value %
Payments to Managers	2174	0.26	2,283	0.25

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 £806k (£850k 2011/12) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £15.3m (£14.0m 2011/12) 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 2013, the Fund held an average investment of £5.5m (£5.9m 31st March 2012), earning interest of £68k, (£94k 2011/12).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £2.2m (£2.3m 2011/12) from this company.

Fund administration expenses payable to the administrating authority are as set out in the table below.

Fund Administration Expenses	2011/12 £'000	2012/13 £'000
Payroll / HR Support	772	478
Corporate Finance	78	328
	850	**806**

Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2013 include:

Service Head, Finance Risk and Accountability

The financial value of their relationship with the fund is as set out below.

	2011/12 £'000	2012/13 £'000
Short term benefits	21	25
Long term/post retirement benefits	3	3

Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. For 2012/13 there were no Members of the Pension Fund Committee who had involvement with other organisations.

18. CONTINGENT LIABILITIES

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.

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. IMPAIRMENT LOSSES

During 2012/13 impairment losses were nil (Impairment losses in 2011/12 were also nil).

Independent auditor's report to the members of the London Borough of Tower Hamlets

We have audited the financial statements of the London Borough of Tower Hamlets for the year ended 31 March 2013 on pages 7 to 98. 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 2012/13.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

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 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. Our 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 us 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'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, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 103 to 114 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters

Conclusion on the London Borough of Tower Hamlet's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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.

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, the London Borough of Tower Hamlets put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of the London Borough of Tower Hamlets in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Andrew Sayers

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

26th September 2013

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 2012/13 will be considered for approval by the Council's Audit Committee on 26th September 2013.

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 2012/13 presents fairly the financial position of the Council at 31st March 2013 and its income and expenditure for the year.

Chris Holme
Acting Corporate Director of Resources
25th June 2013
Re-certified 26th September 2013

Annual Governance Statement 2012/13

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 Head of Paid Service and is scheduled to be reported in June 2013.

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 council 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 on-going 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 Council'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 2012/13, 19 priorities were identified, (http://www.towerhamlets.gov.uk/lgsl/20001-20100/strategic_plan_2013-14.aspx). 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

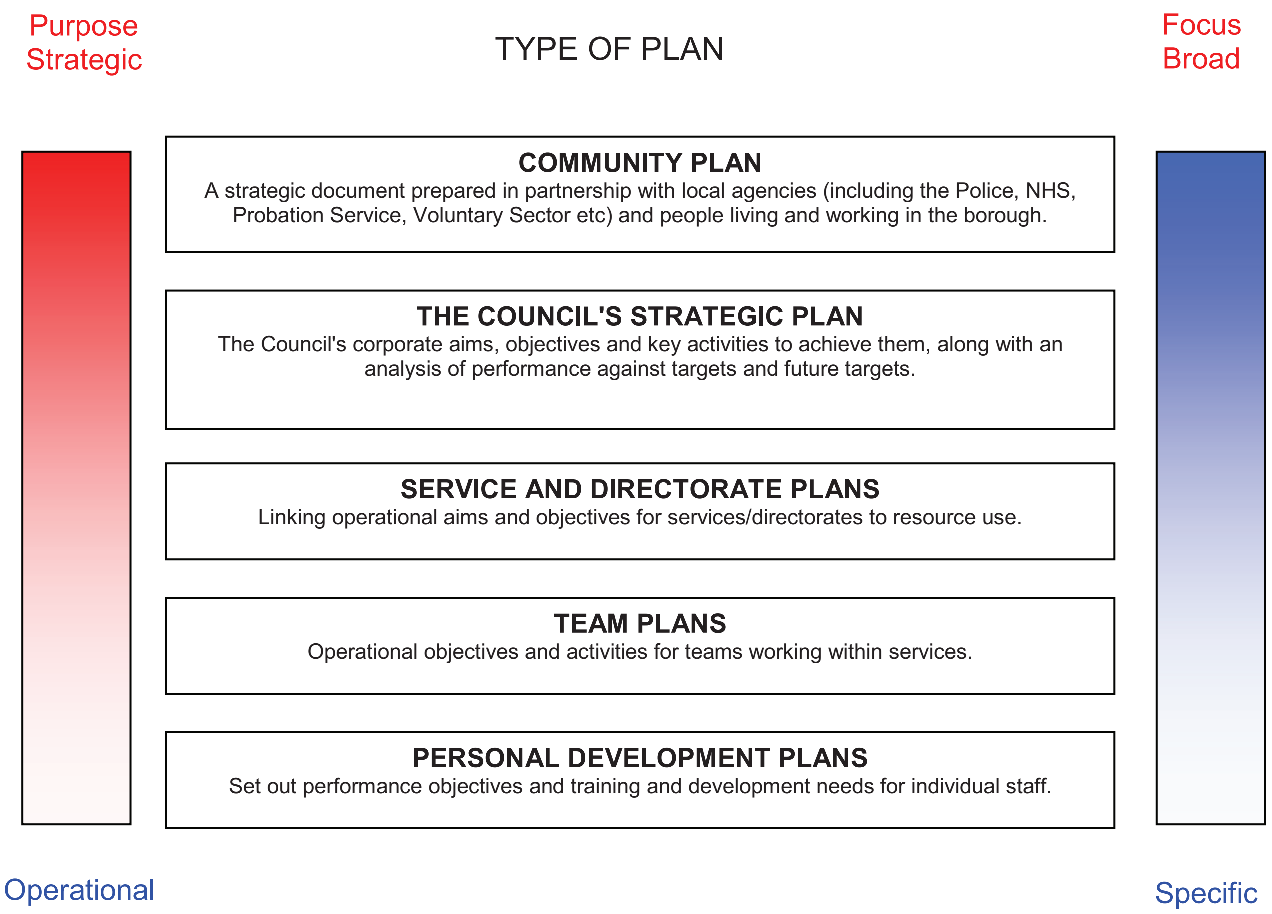
There has been significant consultation with local people to refresh the Community Plan through Local Strategic Partnership (LSP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people, culminating in the development of a three year Tower Hamlets Community Plan 2011. 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 makes decisions in respect of all executive matters which cover the operational delivery of Council services within the delegation set out under the executive powers of the constitution. In making his 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.

Since 2011, the annual review of the constitution has floundered as members were unable to agree terms of reference for the constitution working party. However, the Council has requested a governance review of the constitution which is underway and will report back in the autumn. The General Purposes Committee will consider and comment on any proposed changes to the constitution before notification at the Full Council. The Council will consider and approve any changes proposed by the Mayor to the key strategic policies set out in article 4 of the constitution, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the medium term financial plan including the capital programme and annual revenue budget;
- the licencing policy; 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 2012/13 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and the Health Scrutiny Panel. 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 Mayor in 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 mayor in 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 council's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the council's risk management framework; to meet the accounts and audit regulations in respect of approving the council'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 2012/13.

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 2012/13, the overall the control environment is adjudged to be satisfactory.

Following the release of the Public Sector Internal Audit Standards (PSIAS), the Council's internal audit arrangements will be reviewed and a report presented to the Audit Committee in due course.

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 value for money 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, led by the Audit Commission, designed to detect fraud perpetrated on public bodies. The Corporate Anti-Fraud team continues to actively engage with the Audit Commission to test and improve the output from the NFI exercise.

3.12 Risk Management

The Council 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.

In June 2012, Zurich Municipal Engineering undertook a review of the Council's risk management arrangements and suggested enhancements to further embed risk management within the organisation. The risk team has developed an action plan which was also shared with the Audit Committee.

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. On-going development and maintenance of the various processes is a management responsibility. The control arrangements in 2012/13 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 council 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 2012/13, 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. 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 council 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 Arm's 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 of effectiveness is informed by the work of the executive managers within the council who have responsibility for the development and maintenance of governance environment, the head of audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. 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 external audit 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 2012/13 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 Corporate Management Team and the Mayor's Advisory Board.

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.

Significant Governance Issues

The review of the effectiveness of the governance arrangements in 2012/13 has identified some areas where action is appropriate to enhance the Council's governance. The specific actions are set out below and in all cases work is already underway to address the action points as shown by the reference to the strategic or directorate plan of the Council.

Governance Issue	Action taken and next steps	CMT Lead
Partnership structures – new arrangements are in the process of being implemented at locality / ward level and at strategic level.	Evaluation processes specific to the new structures are planned and will be delivered over the next 12 months to determine the operational effectiveness of the new infrastructure and identify areas for improvement.	Corporate Director - Communities, Localities and Culture

Governance Issue	Action taken and next steps	CMT Lead
Recent audit reports have recommended a review is undertaken on the management arrangements for the control and monitoring of grants.	Officers within the third sector team are currently scoping the work programme that will put in place the control environment required. It is planned to have this in place by the second quarter of this financial year.	Corporate Director - Development and Renewal
Pupil placement planning: expanding school provision to meet rising demand for places.	Identification of short term primary place needs (2013/14 school year) and the development of the technical feasibility of temporary school expansion. Strengthening our pupil projections by engaging the Greater London Authority with projections modelling to ensure our planning is based on robust data. Continuation of implementation of medium term expansion plans to 2015/16. Early involvement of Head Teachers when Planning. The revision of the 2013 School Estates Strategy and whilst working with the Development and Renewal directorate; utilising and determining the viability of Council assets to assist with the strategic provision of additional primary places to 2021 school year.	Corporate Director - Education Social Care and Wellbeing
Transition of Public Health to the Council.	From 1 April 2013, the responsibility for delivering Public Health to the Council. The governance arrangements around delivery of Public Health are being reviewed and where necessary, regularised in line with Council policies and procedures.	Corporate Director - Education Social Care and Wellbeing
Embed the Council's use of the Virtual Desktop Infrastructure as part of the broader Smarter Working programme.	The Virtual Desktop Infrastructure (VDI) was rolled out as part of the Council's Smarter Working programme and is widely used by staff. Further action is planned to enhance the resilience of VDI over the year to	Corporate Director - Resources

Governance Issue	Action taken and next steps	CMT Lead
	maximise the opportunity to provide a highly flexible and secure desktop delivery model across the Council.	
Implementation of the Finance Systems.	The Council made a decision to replace its outmoded financial system to meet the evolving information needs of its users and the Council. The new system went live in May 2013 and working with the Council's Strategic IT partner, Agilisys, the new arrangements will be monitored to ensure that they deliver the expected benefits. This will include a refresh of the Council's financial procedures and instructions.	Corporate Director - Resources
Update the local code of Corporate Governance.	This report is being updated annually and goes first to the Standards Advisory Committee then to the Audit Committee.	Assistant Chief Executive - Legal Services
Update amendments agreed at the full Council meeting to the published constitution.	An interim refresh of the constitution has been prepared that covers updating some changes agreed by Council since 2011 and statutory changes. The governance review will update the constitution for consideration by Council by the end of the year.	Assistant Chief Executive - Legal Services and Governance Working Party
Enhance contract management and contract letting process.	The Procurement Strategy was reviewed by Cabinet and updated in the Spring. Further changes to procedures are the remit of the Competition Board who monitor procurements and review the top 20 contracts by spend annually.	Chair of Competition Board – Executive Legal Services

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvement that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

……….……….……….……….………. ……….……….……….……….……….

Head of Paid Service | Mayor

Date: | 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.

Arm's Length Management Organisation (ALMO) – Arm's length management organisation. An organisation set up to manage all or part of a local authority's housing stock. Ownership of the stock remains with the local authority.

Amortisation – The writing off of an intangible asset or loan balance to the Comprehensive Income and Expenditure Statement over an appropriate period of time.

Amortised Cost – The carrying value of an asset or liability in the balance sheet, which has been written up or down via the Comprehensive Income and Expenditure Statement.

Asset – Something valuable that the Council owns, benefits from, or has use of, in generating income.

Balance Sheet – A statement of all the assets, liabilities and other balances of the Council at the end of an accounting period.

Best Value Accounting Code of Practice (BVACOP) – CIPFA's accounting recommendations for local authorities that legally constitute proper accounting practice, below the statement of accounts level. This was superseded in 2011/12 by SeRCOP.

Billing Authority – Refers to a local authority that is responsible for the collection of tax, both on behalf of itself and local authorities in its area.

Budget – A forecast of future expenditure plans for the Council. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the Council Tax is set. Budgets are revised throughout the year for changes as necessary.

Business Rate Supplement – The Business Rate Supplements Act 2009 enables levying authorities - county councils, unitary district councils and, in London, the Greater London Authority - to levy a supplement on the Business Rate to support additional projects aimed at economic development of the area. In 2011/12 a Business Rate Supplement is being levied by the Greater London Authority in relation to the Crossrail project.

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.

Corporate and Democratic Core - This includes corporate policy making, all other member-based activities, and activities that relate to the corporate management of the Council. Under the terms of SeRCOP, all support costs are allocated to services except for Corporate and Democratic Core and Non Distributed Costs.

Consumer Price Index (CPI) – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The CPI includes some financial services in the basket of goods not included in the RPI.

Creditors - Amount of money owed by the Council for goods and services received. Also referred to as Payables.

Current Assets - Any asset expected to last or be in use for less than one year is considered a current asset. Examples are stock, cash and debtors.

Current Liability - An amount which will become payable or could be called in within the next accounting period. Examples are creditors and Short Term Borrowing.

Debtors - Amount of money owed to the Council by individuals, and organisations. Also referred to as Receivables.

Dedicated Schools Grant – Grant monies provided by the Department of Education ring-fenced to schools budgets. This is a ring-fenced grant.

Deferred Capital Receipts - 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.

Fees and Charges – Income receivable as payment for goods or services provided. These charges are reviewed annually as part of the annual budget process.

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.

Greater London Authority (GLA) – A strategic Local Authority with a capital-wide role.

Gross Spending – the total cost of providing services before any income such as government grants, fees and charges are deducted.

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, geo-physical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Historic Cost – The actual cost of an asset in terms of past consideration as opposed to current value.

Housing Revenue Account (HRA) - A statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

Impairment – A reduction in the valuation of PPE caused either by a change in the market price of the asset or damage/deterioration of the asset in excess of depreciation.

Infrastructure Assets – Inalienable assets, expenditure on which is only recoverable by continued use of the asset created. There is no prospect of sale or alternative use. Examples include roads, bridges, and tunnels.

Intangible Assets – Non-financial long-term assets that do not have physical substance but are identifiable and controlled by the Council i.e. purchased software licences.

Interest Rate Risk – The uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

International Financial Reporting Standards (IFRS) – The set of international accounting standards issued by the International Accounting Standards Board (IASB). Local Authorities are required to produce accounts based on IFRS.

Inventories – The 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.

Liability – A liability is where the Council owes payment to an individual or another organisation.

Levy – Payments to bodies such as the Environment Agency. The cost of these bodies is funded by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

Long-Term Assets – Assets that yield benefit to the Council and the services it provides for a period of more than one year.

Long-Term Liability – An amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

Major Repairs Reserve – Represents the funds available to meet capital investment in council housing

Medium Term Financial Plan (MTFP) – The Council's strategic plan surrounding its finances for the next 3 years.

Minimum Revenue Provision (MRP) – The amount that has to be charged to revenue to provide for the redemption of debt. Not applicable to the HRA.

Movement in Reserves Statement – A summary of the Council's reserves at the balance sheet date split between usable and unusable reserves.

National Non-Domestic Rates (NNDR) 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 (the precepting authority) on the Council to finance its net expenditure.

Private Finance Initiative (PFI) – 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 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

Revenue Support Grant – General grant paid by the Government to local authorities.

Right to buy - The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt, some of which will be retained by the council to spend on capital expenditure, while the remainder must be paid over to the DCLG under pooling arrangements.

Ring-Fenced Grant – A grant that can only be spent on a specific purpose, such as the Dedicated Schools Grant.

Service Reporting Code of Practice (SeRCOP) – CIPFA's accounting recommendations for local authorities that legally constitute proper accounting practice, below the statement of accounts level.

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 (now Code of Practice on Local Authority Accounting)

TH Tower Hamlets

THH Tower Hamlets Homes

WDA Waste Disposal Authority

REPORT TO:	DATE	CLASSIFICATION:	REPORT NO.
Audit Committee	**26 September 2013**	**Unrestricted**	
REPORT OF: **Chris Holme–Acting Corporate Director of Resources** *ORIGINATING OFFICER(S):* **Head of Risk Management and Audit**	TITLE: **Quarterly Internal Audit Assurance Report** WARD(S) AFFECTED: N/A		

1. SUMMARY

1.1. This report summarises the work of Internal Audit for the period June 2013 to August 2013.

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.

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*

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 2013, sixteen 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. The 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.

Chart 1 Analysis of Assurance Levels

SUMMARY		**Assurance**				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	**9**	**4**	**-**	**13**
	Moderate	-	**3**	**-**	**-**	**3**
	Low	-	**-**	**-**	**-**	**-**
Total Numbers		-	***12***	***4***	-	***16***
Total %		-	***75%***	***25%***	-	***100%***

5.4. From the table above it can be seen that of the 13 finalised audits which focused on high risk or high value areas; 9 were assigned Substantial Assurance and 4 were assigned Limited assurance. A further 3 audits were of moderate significance and all of these were assigned Substantial Assurance.

5.5. Overall, 75% of audits resulted in an adequate assurance (substantial or full). The remaining 25% 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 2013	25%	25%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	0% 0 out of 4
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	91% 10 out of 11

The table above shows that the proportion of internal audit work completed to July 2013 is on target.

6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 0%, whereas the percentage of priority 2 recommendations was 91%. The performance for priority 1 recommendations was entirely due to one audit viz. the follow up on Management of Voids, where four recommendations were not implemented. 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.

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 The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

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. The 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.

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Summary of Audits Undertaken

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Tower Hamlets Homes	Management of Voids – Follow Up audit
	Extensive	Resources	ICT Governance – Systems Audit
	Extensive	Education, Social Care and Wellbeing	Thomas Buxton School – Regularity audit
	Extensive	Education, Social Care and Wellbeing	Marion Richardson Primary School – Regularity audit
SUBSTANTIAL	Extensive	Resources	Housing Benefits and Council Tax Benefits – Systems audit
	Extensive	Resources	Capital Programme and Accounting – Systems audit
	Extensive	Development and Renewal	Management and Control of Section 106 Planning Obligations
	Extensive	Corporate Review	Core Management – Follow Up audit
	Extensive	Corporate Review	Performance Management – Follow Up audit
	Extensive	Corporate Review	Data Quality – Follow Up audit
	Extensive	Tower Hamlets Homes	THH Governance – Systems Audit
	Extensive	Tower Hamlets Homes	Control and Management of Estate Parking Permits
	Extensive	Education, Social Care and Wellbeing	Supporting People

Assurance level	Significance	Directorate	Audit title
Substantial	Moderate	Education, Social Care and Wellbeing	Morpeth Secondary School
	Moderate	Education, Social Care and Wellbeing	Old Church Nursery School
	Moderate	Education, Social Care and Wellbeing	Columbia Market Nursery School

Summary of Audits Undertaken

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Void Dwellings Follow-Up Audit	June 2013	The objective of this follow up audit was to assess the progress in implementing the agreed recommendations at the conclusion of the original audit finalised in June 2012. Our testing showed that only one out of the six recommendations previously agreed had been fully implemented. Testing of a sample of 10 dwellings which became void in the last six months, showed that only four had the V2 forms signed and had dates that were in line with the dates shown on SX3 system. Gaps were still present in the audit trail as not all V2 forms were being scanned on Comino. In order to address the issue of poor audit trail, we recommended in the original audit that a system of 'tick sheet' should be introduced within each tenant file that would list all of the key documents that must be on file. However, we found that the 'tick sheet' had not been fully implemented and was lacking in many of cases in the audit sample. The lack of tick sheet meant that essential components in the management and control of void dwellings were absent, leaving an incomplete audit trail. This could increase the risk of poor data quality in the control and monitoring of void dwellings. In addition, we found that only one out of 10 voids tested had both the electricity and gas safety certificates present on Comino and within the correct dates as required. Although SX3 system recorded the dates that the keys were returned, only two of the 10 cases had a copy of the Void Keys Record Sheet held within the Comino System. Of the 2 key logs present, only 1 was fully complete and related back to the dates found on SX3. All findings and recommendations were agreed with the Acting Director of Neighbourhood Services and a copy of the final report was issued to the Tower Hamlets Homes, Chief Executive.	Extensive	Limited

Management Comments

Following the first audit recommendations into void management, training and practice changes were made within Tower Hamlets Homes; however as the follow up audit reveals the recommendations have not been fully implemented. The key recommendations concern the need for rigour in recording the management of void dwellings and Tower hamlets homes determined the remaining shortfalls shown in the follow up audit will not continue. We have therefore taken the following actions covering the six high priority recommendations:-

The Head of Neighbourhoods has ensured that all LBTH Internal Audit recommendations are embedded by instructing staff to;-

1. Record on the SX3 system the date the tenant has signed V2 Tenancy Termination Form and served notice on THH or where relevant, the date that THH have served notice on the tenant.
2. To consistently have a tick sheet within each file that lists all of the key documents that should be in the file.
3. That key documents will always include gas and electricity inspection certificates, and copy of the void keys record sheet.
4. Tick sheets will be retained by the originating officer to verify the scanned documents are correct.
5. Pre termination inspections to be carried out in all cases where relevant.
6. The void process has been reviewed and additional training undertaken.

This change process was subject to the issuing of a clear process change instruction and guidance to staff; and this is being supported by on-going monthly sample checks by Team Leaders and Neighbourhood Area Manager of files scanned in that month to confirm compliance with instructions issued. Refresher training will be provided to all staff on SX3 and Northgate void modules. In addition, one officer in each area housing office is now responsible for co-ordinating all void activities, checking that all key documents were available and carry out the scanning of these key documents including the “tick sheet” onto Comino.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
ICT Governance Systems Audit	June 2013	The objective of the audit was to provide assurance as to whether the systems of control for governance of ICT were sound, secure and adequate. The main weaknesses were as follows:- • Although there is risk management process operated within ICT, further improvements were required in the recording, monitoring and reporting of pertinent risks. • The Information Management Strategy (IMS) dated 2010 was in draft. There was a second IT strategy document which was included within the Agilisys Operational Service Agreement (OSA) dated April 2012. Whilst there was some overlap between the two documents, they were not specifically aligned and it was unclear which (if any) document took precedence and whether they had been approved. • There was no formal information security awareness programme including formal acceptance by staff that they agree to abide by the terms of the IT policies upon joining the Council and education of staff in the requirements of the information security policy when they start their employment. • IT policies, including the Information Security Policy and the Internet, Intranet and E-mail policy, are not subject to regular (i.e. annual) review. All findings and recommendations were agreed with the Business Solutions Architect and reported to the Service Head, ICT and Customer Access and the Acting Corporate Director, Resources.	Extensive	Limited

Management Comments

A new JCAD structure for the ICT Partnership, including the Client Team has been agreed and implemented within JCAD. JCAD access has been provided to all members of the Client Team and to the Agilisys management team. The risks identified during the Client Team Risk Management workshop facilitated by Strategic Risk Advisor have been reviewed, consolidated and assigned an agreed owner. During July the resulting risks have been loaded into JCAD. These risks will be subject to monthly review by the Client Team to ensure that the risk and controls identified are appropriate and that the identified JCAD reviews are being documented.

Due to the higher priority Smarter Working and PSN Security/Remediation work the creation and communication of an updated IT Strategy has been delayed, however, the Client Team and Agilisys are commencing the process of documenting the Technology Roadmap for LBTH this will be communicated to CMT and Directorate SMT's by the Client team.

The information Governance team is in the process of reviewing the approach to Information Security induction and awareness education.

The Information Security Policy is in the process of being updated and will be completed as a part of the GCSx/PSN Remediation programme submission due by 24/08/13.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Thomas Buxton School	July 2013	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 had a Full Governing Body which had overall responsibility for financial planning and control. The school generally had effective controls over the collection and recording of income received. The school had adequate risk management and insurance arrangements in place. The main recommendations were as follows:- • All Governing Body and Sub-Committee meetings should be minuted and copies of minutes retained by the school. The minutes should provide an appropriate level of detail to outline attendees, issues discussed, reports presented and decisions made as well as highlighting ratification of policies. The minutes should be signed by the Chair of the Governing Body or relevant Committee at the next meeting as an accurate record of discussions and should be presented to the next meeting of the Governing Body. • Petty cash and staff expense claim forms should be fully completed and certified before any claim is reimbursed. The total of the claim should not exceed those amounts permitted to be paid by cash / cheque. Claim forms should be signed by the claimant as a true and accurate record of the expenses being claimed and should be certified by an independent, authorised signatory. All claim forms should be retained on file. • Declarations of interest should be obtained for all Governors and staff with financial responsibilities on an annual basis. Where Governors or staff have no interests to declare, nil returns should be completed. • Official order forms should be raised and authorised for all purchases, where appropriate, and retained on file. Furthermore all order forms should state a valid budget code. • Deliveries should be checked by the receiving officer. The delivery note should be signed off and dated by the receiving officer to confirm that the goods have been checked and agreed to the original order form. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Acting Corporate Director – Education, Social Care and Wellbeing.	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Marion Richardson Primary School	June 2013	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 had a Full Governing Body and a Finance Committee which had overall responsibility for financial planning and control. The school follows good practice for the accounting of income and expenditure and generally had effective controls over the collection and recording of income received, and procurement. The school had adequate risk management and insurance arrangements in place. The main recommendations were as follows:- • The Scheme of Delegation document should be reviewed and updated so that it reflects current work practices and mirrors the bank mandate. In addition, timesheets should be certified by an authorised signatory. If responsibility is to be delegated to other officers, the Scheme of Delegation should be updated accordingly. • The terms of reference for the Finance Committee should detail the frequency of meetings and the number of members required to be quorate. Furthermore, the meetings should be fully minuted to provide an appropriate level of detail to outline issues discussed and decisions made. • Governing Body meetings should be fully minuted. The minutes should provide an appropriate level of detail, evidencing the issues discussed and the decisions made as well as highlighting ratification of policies. • In line with guidance provided via the Council, the school should seek advice before entering into and/or extending lease agreements. • Purchase orders should be raised and authorised for all purchases (where appropriate) and retained on file. • The School Fund monies should be subject to an annual audit. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Acting Corporate Director – Education, Social Care and Wellbeing.	Moderate	Limited

Management Comments

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

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

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

Comments:

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

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

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

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

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing and Council Tax Benefits	July 2013	The main objectives of the audit were to provide assurance to management on whether the systems of control are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures. The sole weakness identified was that the Council tenant and private tenant claimant reconciliations could not identify sign off by an independent reviewer. All findings and recommendations were agreed with the Benefits Subsidy/Overpayments & ICT Manager and reported to the Head of Benefits Services, and the Acting Corporate Director of Resources.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Capital Programme and Accounting	July 2013	The main objectives of the audit were to provide assurance to management over the systems and controls for managing and monitoring the Capital Programme and Accounting and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures. The main weaknesses identified were as follows:- • There was no evidence to confirm that capital receipts were monitored and reported to the Cabinet throughout the year to identify any potential delays in the timing or the amount of capital receipts; and • As part of the 2011/12 Audit, Management agreed to perform the reconciliation of the fixed asset register to the Corporate Asset and Property Management System (CAPS) on a quarterly basis. However, we found that the reconciliation of the fixed asset register to CAPS was performed only in quarter 2. All findings and recommendations were agreed with the Chief Accountant and reported to the Service Head – Financial Services, Risk & Accountability, and the Acting Corporate Director, Resources.	Extensive	Substantial

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of s.106 Planning Obligations	July 2013	The objective of this audit was to provide assurance that the controls for managing Section 106 Planning Obligations were sound, secure and achieved the objectives of the Council. Following an audit review in 2008/09, a working party was set up to ensure that audit recommendations were implemented and the improvement in control environment was evident during the current audit. The overall governance through the Planning Obligations Overview Panel (PCOP) had improved. Agendas were well planned and report formats were standardised and facilitated by the introduction of report templates. Management of complex projects was tackled by introducing the Major Projects Coordination Board [MPCB] which met bi-monthly, in time for Strategic Development Committee. PCOP was receptive to innovative ways of managing its portfolio and had enhanced working practices by accruing similar Heads of Terms together for bulk delivery rather than on an agreement–by-agreement basis where this was possible. Financial obligations due for collection were monitored by Finance maintaining a close liaison with the programmes manager and s106 officers. However, we recommended that Terms of Reference for PCOP should be reviewed annually with clear quorum requirements. Any potential risks to officers needed to be clearly documented, communicated and mitigated to ensure officer independence. Key risks threatening effective management and delivery of S.106 agreements, needed to be formally captured and assessed. Improvement was required in the monitoring of non-financial obligations and also in ensuring that unallocated funds were programmed more effectively. All findings and recommendations were agreed by the Service Head, Planning and Building Control and final report was issued to the Corporate Director – Development and Renewal.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Core Management Follow Up audit	June 2013	The objective of this audit was to provide assurance that all recommendations agreed at the original audit had been implemented. From our review, we could provide assurance that of the four Priority 2 recommendations we followed up, three had been progressed and one was in the process of implementation. We understand that the launch of new Core HR policies did not take place in May 2012 as originally planned. The policies were expected to be launched in February 2013, followed by appropriate training and staff communication. Audit was later on advised by Talent Strategy Manager that the new Core HR policies were being consulted with the Trade Unions before being submitted to CMT for final approval. All findings and recommendations were agreed with the Service Head, Human Resources and Workforce Development and final report was issued to the Acting Corporate Director, Resources.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Performance Management Follow Up audit	June 2013	This follow up audit assessed the progress made in implementing the recommendations agreed at the original audit. There was one priority 2 recommendation we followed up, and on the basis of testing we carried out, we could provide assurance that this recommendation was fully implemented. We found that the preparation, approval and review of service and team plans was considered by the Performance Review Group at its meeting on 1st March 2013. The PRG agreed that DMT / SMTs should take strong assurance role in ensuring that effective team plans are in place and monitored and to undertake peer reviews for 2013/14 team plans in October 2013. Findings and recommendations were agreed with the Service Head, Corporate Strategy and Equality and final report was issued to the Assistant Chief Executive (Legal Services).	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Data Quality Follow Up audit	July 2013	The objective of this audit was to provide assurance that all recommendations agreed at the original audit had been implemented. Our testing showed that out of four priority 2 recommendations made, all had been progressed. However, there were areas which needed to be tested further once the recommendations had been fully embedded. The robustness of evidence to support performance measures like the one on Homelessness needed to be closely monitored and scrutinised to ensure the integrity of data quality submitted by LBTH is preserved and that the reputation risk is managed properly. We also found that a flow chart was developed, which directed the approval of definition change both in year and at year end. The Performance Review Group (PRG) actively monitored areas of weak performance and plans were in place to tackle areas of concern. Risk assessment had been carried out and weaknesses identified in 2012/13 sample checks were included in this risk assessment. As a result, the Homelessness measure was going to be reviewed again in 2013/14 and the PRG was fully updated with this issue. All findings and recommendations were agreed with the Service Head, Corporate Strategy and Equality and final report was issued to the Assistant Chief Executive (Legal Services).	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Governance Systems Audit	July 2013	The objective of this audit was to provide assurance over the adequacy and soundness of the governance arrangements for Tower Hamlets Homes (THH). The first meeting of the newly constituted Board took place in December 2012. However, at the time of audit, the board was not fully complemented as two Council Board Members had yet to have their appointment confirmed by the Executive of the Council. A review of the Independent Board Members' Recruitment pack submitted to audit showed in broad terms, the role and responsibilities and undertakings for the Board Member(s). The recruitment pack also stated that Members would be offered training and advice. However, we were advised that Member's on-going training was an area which was being further progressed. Our testing showed that the Board could fully consider any conflicts of interest, as there was a requirement to record any potential conflicts of interest at Board meetings. We were able to confirm that all Board Members completed a Declarations of Interest form. Members' Interests and guidance for Members was provided in a form of a note by the Chief Executive to the Board or Committee meetings. However, testing showed that declarations of Members Interests were not covered at the meeting of Finance and Audit Committee on the 12th December 2012 and for the 18th March 2013. Overall, our testing showed that a number of key governance documents including the Scheme of Management (General Management Delegations), Governance Resource Pack and Financial Regulations needed to be reviewed and brought up to date. We made eight recommendations of which, two were high priority and six were medium priority. All findings and recommendations were agreed with the Head of Communications and Governance and final report was issued to the THH Chief Executive.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Management of Estate Parking Permits Systems Audit	June 2013	This audit was designed to assure management that the systems for controlling, monitoring and issuing of estate parking permits were sound, secure and adequate. Our review found that there was a user friendly system for customers to locate vacant car spaces using the GIS parking system. Application forms could be downloaded and completed and sent electronically as well as sent by post. However, we highlighted the following control weaknesses:- • Improved management checks and monitoring was required to ensure that procedures were complied with by staff before applications were approved and permits were issued. • Security control over the stock of unused Estate Permits needed to be improved. • Permit batch control numbers not being recorded. • No system for recording spoils and cancellations. All findings and recommendations were agreed with the Director of Finance and Customer Services and final report was issued to the THH Chief Executive.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Supporting People	July 2013	The main objectives of the audit were to provide assurance to management over the systems and controls for managing and monitoring the Supporting People Programme to ensure that the programme achieves its key objectives and also to evaluate the potential consequences which could arise from any weaknesses in internal control procedures. The main weaknesses identified were as follows:- • We found that one out of the five services in our sample (Phoenix Court) had not had a monitoring visit within the last year. We understand that the implementation of annual visits to schemes is a relatively new introduction in the last financial year and, as a result, not all schemes have received a visit yet, but all visits are scheduled in and will be completed in the coming months. In addition, there is no evidence to confirm that findings from monitoring visits are discussed by senior management (i.e. Supporting People Steering Group). • The Supporting People Commissioning Strategy stipulates that a detailed action plan, which sets out how the key objectives of the strategy will be delivered, should be developed and monitored by the Supporting People Steering Group on a quarterly basis. However, there is no evidence from our review of Supporting People Steering Group meeting minutes that this process is in place. • Although service providers provide an activity report to the Council on a quarterly basis, we noted that there are a number of outcome targets included in the service specification at Phoenix Court which are not covered in the quarterly monitoring report currently provided by the contractor. All findings and recommendations were agreed with the Commissioning Manager Supporting People and reported to the Service Head Commissioning and Health, and the Interim Corporate Director, Education, Social Care and Wellbeing.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Morpeth Secondary School	July 2013	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 had a Full Governing Body and a Finance Committee which had overall responsibility for financial planning and control. The school followed good practice for the accounting of income and expenditure and generally had effective controls over the collection and recording of income received, and procurement. The school had adequate risk management and insurance arrangements in place. The main recommendations were as follows:- • All timesheets should be authorised in accordance with the Scheme of Delegation. • Best practice guidance is that estimated financial commitments should be clearly outlined in the school's School Development Plan. Consideration should be given to making use of the latest version of the software to map objectives in the SDP to financial costs. • All orders should be raised and authorised before they are placed with the supplier and not retrospectively after the school has received the invoice. • The Terms of Reference should be updated to reflect that the Committee meetings should be held on a termly basis if required. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Acting Corporate Director – Education, Social Care and Wellbeing.	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Old Church Nursery School	July 2013	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 had a Full Governing Body and a Resources Committee which had overall responsibility for financial planning and control. The school followed good practice for the accounting of income and expenditure and generally had effective controls over the collection and recording of income received, and procurement. The school had adequate risk management and insurance arrangements in place. The main recommendations were as follows:- • The Scheme of Delegation and Financial Procedures should be reviewed and updated on an annual basis to help ensure that they reflect current working practices and align with the school's bank mandate. The revised Scheme of Delegation and Financial Procedures should be presented to the Governing Body for approval and minuting. • Statutory policies including the Charging Policy, Pay Policy and Whistle Blowing Policy should be updated and presented to the Governing Body for review and minuting on an annual basis. • The School Improvement Plan should be presented to the Governing Body for review, approval and minuting on an annual basis. • Inventory records should be reviewed and updated on a regular basis. Once the annual inventory check has been completed a stock taking certificate should be produced and signed off by the person carrying out the check and signed off by the Head Teacher. The stock taking certificate should then be presented to the Governing Body for review and any discrepancies highlighted. • All valuable and portable assets should be security marked in a permanent and visible manner. Marking should include the name and postcode of the school. • Procedures and guidance should be developed for dealing with Freedom of Information requests and made available to relevant staff. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corpora Acting Corporate Director – Education, Social Care and Wellbeing.	Moderate	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Columbia Market Nursery School	June 2013	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 had a Full Governing Body and a Finance, Personnel and Health and Safety Committee which have overall responsibility for financial planning and control. The school generally had good arrangements over the accounting for income and expenditure, payroll management and risk management and insurance arrangements in place. The main recommendations were as follows:- • All Governing Body meetings should be fully minuted. The minutes should provide an appropriate level of detail in respect of issues discussed, reports presented and decisions made, specifically highlighting ratification of policies or official documents. • Official order forms should be raised and authorised for all purchases, where appropriate, and retained on file. Furthermore, the order forms should be raised prior to receipt of the invoice. • The school should maintain an up to date copy of the bank mandate which matches the authorised signatories for the school's bank account. • All official order forms and/or invoices should include the cost centre/budget code which the costs are associated with. • Minutes of the Curriculum Committee should be signed at the start of the next meeting by the Chair as an accurate record of the discussions of the previous meeting. • Evidence of budget monitoring review should be appropriately documented and retained to confirm review. The budget monitoring reports should be signed and dated by the preparing officer and the reviewing officer. • A petty cash claim form should be fully completed and certified before any petty cash claim is reimbursed. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Acting Corporate Director – Education, Social Care and Wellbeing.	Moderate	Substantial

APPENDIX 3

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

Audit Subject	Recommendation	Service Head	Officer Name
Voids Management	The Head of Neighbourhood's should ensure that when housing officers record Notice received date on the SX3 System that this is the date when the tenant has actually signed the Termination of Tenancy Form V2, as this would be the only legal document to support the end of the tenancy agreement.	David Thompson	Molly Wallis, Interim Head of Service, Neighbourhoods.
Voids Management	The Head of Neighbourhood's should look at the possibility of having a tick sheet within each file that lists all of the MUST key documents that should be on file. This enables the housing officer to check and sign verification before the file is sent to the HUB. A copy of the tick sheet to be retained by the originating officer. Once the file has been scanned the HUB should send an e-mail to the originating officer who will then check the scanned file on Comino to their copy tick sheet to verify that all key documents are now held electronically and acknowledge this with the HUB prior to the hard file being destroyed.	David Thompson	Molly Wallis, Interim Head of Service, Neighbourhoods.
Voids Management	The Neighbourhood housing manager should ensure that all void properties have gas and electricity safety inspections carried out. Copies of these Safety Certificates are to be held on Comino and Evidence that these checks have been undertaken	David Thompson	Molly Wallis, Interim Head of Service, Neighbourhoods.
Voids Management	The Neighbourhood housing manager should ensure that the key log for each void property is completed and scanned to the Comino system to ensure that a complete audit trail is preserved.	David Thompson	Molly Wallis, Interim Head of Service, Neighbourhoods.

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

Audit Subject	Recommendation	Service Head	Officer Name
Voids Management	The Area Housing Manager should ensure that all potential voids have a pre inspection during the notice period and that this is recorded both on the SX3 and Comino system. Where it is identified that repairs are rechargeable then tenants should be invoiced for the repair.	David Thompson	Molly Wallis, Interim Head of Service, Neighbourhoods.

REPORT TO: Audit Committee	DATE 26 September 2013	CLASSIFICATION: Unrestricted	REPORT NO.
REPORT OF: **Corporate Director, Resources**	TITLE: **Annual Anti -Fraud Report 2012-13**		
ORIGINATING OFFICER(S): ***Tony Qayum, Corporate Anti-Fraud Manager***	WARD(S) AFFECTED: N/A		

1. SUMMARY

1.1 This report provides the Audit Committee with an update of reactive and Anti - Fraud work undertaken during 2012/13.

1.2 It 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 the Audit Committee with a summary of work on sensitive and reactive enquiries undertaken during 2012/13. 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	• Corporate Anti-Fraud Manager • Senior Fraud Officer
	3	• Tenancy Fraud Officers • Temp Tenancy Fraud Officer 8 Months
Housing Benefits Fraud Team	2	• Team Leaders
	7	• Investigation Officers
		• Intelligence Officer- Vacant
Parking Services	1. 5	• Parking Fraud Investigation Officers

3.3 An analysis of the notional savings achieved covering 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 2012-13

4.1 There have been four substantial inquiries which have involved close working between the relevant Directorates, the Corporate Anti- Fraud Service, the DWP 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, investigations into potential systems abuses in front line services and a range of investigations into allegations of financial impropriety from a range of referrals.

4.4 We have also concluded 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 client's son, who had Power of Attorney was prosecuted and we received an award of £116,000 in unpaid Residential charges, HB and DWP liabilities. The son was imprisoned for 13 months. These monies have now been received by the Council.

4.5 We have undertaken another multi -agency review involving the investigation of a series of false documents which led to the allocation of Social Housing, DWP Benefits, NHS Bursaries and false immigration papers. The matter was tried and the defendant sentenced to four years imprisonment two of which will be served in custody. The value of the abuse totalled £86,000. Further charges are being brought against others and one other individual is in the process of sentencing.

4.6 Both of these cases were included in the Audit Commission publication 'Protecting the Public Purse 2012' as examples of good joint working initiatives.

4.7 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.

4.8 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.

4.9 We have 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. To this end Tower Hamlets Homes are funding a post to support this work and we have obtained agreement to add another temporary post to the existing resource for this financial year.

4.10 We have organised and run several training sessions with staff and external bodies/visitors 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 our Risk Management Service and provided a joint training session to Council Officers with the Audit Commissions Counter Fraud service.

4.11 We have also developed a Service Level Agreement with Parking Services and undertaken five Pro- active initiatives with the Police and Community Safety Service.

4.12 We were also shortlisted for a Local Government Chronicle award on fraud management and have been highly commended in a recent ALARM (Association of Local Authority Risk Managers) awards process.

4.13 Appendix A attached is a summary of the results and value of anti fraud work carried out in 2012/13 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 -

- £873,841 has been identified as overpayment/loss and is in the process of recovery. This includes the following break down:-
- HB/CTB £395,837
- Income Support /JSA £164,087
- Pensions £29,697
- Payroll & Other £34,834
- Creditors £111,383
- Council Tax £138,003

6. Other Activity

6.1 The following work areas have been undertaken, during 2012/13 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.

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 2012/13 the Service has had the following successes and has been evidenced as one of the most successful of London Boroughs with:-

- 135 sanctions achieved;
- 42 convictions at court.
- 26 Cautions (i.e. proven cases of fraud, whereby the amount was small or where there were mitigating circumstances to avoid prosecution);
- 34 Parking Offence Cautions
- 33 Administrative Penalties; and
- Total Housing and Council Tax overpayments that represent these cases equates to £599,673.57

8. Social Housing Recoveries

8.1 The team achieved 47 recoveries which is the highest we have made in one single year to date.

9 Parking Services

9.1 The Parking Service investigations have resulted in six Parking fraud cases being presented for prosecution.

9.2 40 Penalty Notices, 14 Removals, 41 Recovered Disabled badges and 25 Recovered Parking Permits.

10. Comments of the Chief Financial Officer

10.1 This report is an update of reactive and Anti - Fraud work undertaken during 2012/13. The Internal Audit Service identified Housing and Council Tax overpayments to the value of £599,673 and National Fraud Initiative (NFI) overpayments to the value of £873,841.

10.2 There are no specific financial implications emanating from this report. The Internal Audit team work programme meets the Council's legal requirements under section 151 of the Local Government Act 1972 and reports directly to the Director of Resources in order to minimise to the Council the risk of fraud, error and omission to the Council's finances and assets.

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

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

12. One Tower Hamlets

12.1 There are no specific one Tower Hamlets considerations.

13. Anti-Poverty Implications

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

14. Risk Management Implications

14.1 This report highlights changes in the governance of the Council. The proposals set out in this document will result in how the organisation deals with tenancy fraud. There are no specific risk implications at this stage.

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

15.1 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*

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APPENDIX A

	No.	Notional future savings value	Notional future savings value total	Actual Value
NFI 2010/11 (Final 2 year outturn)				
Identified value of overpayment/losses - recovery in progress				**873,841.00**
Housing properties recovered.	**47**	75,000.00	**3,525,000.00**	9,400,000.00*
				8,73,841.00
Value of other anti Fraud work carried out in 2011/12				
Benefits Prosecutions	**38**	3,200.00	121,600.00	
Benefits Cautions	**26**	1,200.00	31,200.00	
Benefits Administrative penalties	**33**	1,200.00	39,600.00	
Right to Buy Prevention	**2**	75,000.00	150,000.00	
Blue badge recoveries	**41**	3,000.00	123,000.00	
Homeless Unit prevented	**1**	18,000.00	18,000.00	**483,400.00**
overall totals			**4,491,800.00**	**10,757,241.00**

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

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REPORT TO: Audit Committee	DATE 26 September 2013	CLASSIFICATION: Unrestricted	REPORT NO.
REPORT OF: Chris Holme–Acting Corporate Director of Resources	TITLE: **Annual Internal Audit Report for Schools for 2012/13**		
ORIGINATING OFFICER(S): Head of Risk Management and Audit	WARD(S) AFFECTED: N/A		

1. SUMMARY

1.1. This report (attached) summarises the work of Internal Audit in relation to the audit of schools for the financial year 2012/13

1.2. The purpose of the report is to provide an overview of audit findings and facilitate a thematic assessment of the matters raised by Audit. It is envisaged that this assessment will be used by the Local Authority to enhance the governance framework around schools.

1.3. During the financial year, audit visits were carried out at 29 schools. Each audit visit involved compliance testing of system and procedures in 12 areas of control in accordance with a pre-agreed audit test programme.

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 Audit in each of the 12 areas examined.

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*

3. COMMENTS OF THE CHIEF FINANCIAL OFFICER

3.1 Any financial implications arising from this report are contained within the body of the report.

4. CONCURRENT REPORT TO THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

4.1. The Council is required by the Accounts and Audit Regulations 2003 to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. Under the Council's Constitution, the Audit Committee is given the function of reviewing internal audit findings.

5. ONE TOWER HAMLETS

5.1 The issues raised in the Annual Report have been reported to the Corporate Director, Education, Social Care and Wellbeing who has put necessary arrangements in place to ensure that the standard of financial management and control is improved and monitored across all the schools.

6. ANTI-POVERTY CONSIDERATIONS

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

7. RISK MANAGEMENT IMPLICATIONS

7.1. The risks involved in each of the control area reviewed by audit are incorporated within the body of the Annual Report.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

8.1 There are no specific SAGE implications.

ANNUAL REPORT
TO
AUDIT COMMITTEE
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2012/13

CONTENTS

REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2012/13

1. Introduction

1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2012/13.

1.2. The objective of this report is to provide assurance to the Corporate Director as to whether the Head Teachers and Governing Bodies have implemented adequate and effective internal controls over the administration and financial monitoring of the Borough's schools.

1.3. During the 2012/13 financial year, Internal Audit carried out probity audit visits to 16 primary schools, seven secondary schools, one infant school, three nursery schools and two special schools.An audit programme which incorporates the guidance issued by the Audit Commission in 'Keeping your Balance' is followed in undertaking schools audits. A probity audit based methodology is used which involves assessing the school against the identified controls documented within the audit test programme devised for the London Borough of Tower Hamlets. The audit process involves audit testing, evaluating and reporting upon key financial and management controls.

1.4. The 12 control areas examined during the audit are:-

- Operation of Governance Processes;
- Financial Planning and Budgetary Control;
- Control and Monitoring of Schools Bank Account;
- Procurement, including Large Single Purchases, Tendering and Value for Money;
- Accounting of Income and Expenditure;
- Charging Policy, Income Collection and Banking;
- Personnel and Payroll Management;
- School Meals;
- Voluntary Fund and School Journey;
- Asset Controls and Security of Assets;
- Security of the IT Infrastructure, Disaster Recovery and Data Protection; and
- Risk Management and Insurance.

1.5. As a result of the 29 probity audits undertaken in 2012/13, 18 schools were assigned a Substantial Assurance opinionand 11 schools were assigned a Limited Assuranceopinion.

1.6 Appendix A provides a breakdown of assurance opinions covering the period 2010/11 to 2012/13 for comparison purposes, whilst appendix B provides an analysis of key issues identified for the same period. Full details of the issues are included in the respective areas of this report detailed below.

2. Most Common Findings

2.1. All schools visited during the year had Governing Bodies collectively responsible for the overall direction and strategic management. However, the effectiveness of school governance could be improved by ensuring that inconsistencies between the Code of Financial Procedures Manual and the Scheme of Delegation are addressed and that the amended document, tailored to the requirements of the school, is formally approved by the Governing Body. The most common weaknesses in the document were the lack of delegated financial limits specified for the authorisation of financial transactions as well as inconsistencies between the document and bank mandates. Furthermore, financial delegation documents have not been reviewed and approved on an annual basis.This was raised in the 2011/12 CMT report.

2.2. Governing Body and Committee meeting minutes were not always checked and signed by the respective Chair to ensure they provide an accurate account of decisions made, including the approval of key policies. This was raised in the 2011/12 CMT report

2.3. Schools have not maintained an up to date register of business interests for all Governors on the Governing Body and/or all staff with financial management responsibilities. This was raised in the 2011/12 CMT report.

2.4. Terms of reference have not been drawn up for all sub-committees. Where they have been drawn up, they have not been reviewed annually and approved by the Governing Body. Furthermore, inconsistencies were found between required meeting frequencies and the actual meeting frequencies that took place. This was raised in the 2011/12 CMT report.

2.5. A common weakness identified was the lack of evidence to show that the Schools Development Plans had been formally reviewed and approved by the full Governing Body.

2.6. Budget monitoring reports had not been presented to budget holders on a regular basis to help ensure the effective monitoring of individual budgets.

2.7. In a number of instances schools did not retain an up-to-date bank mandate for its current, fund and special interest bearing bank accounts that reflected the school’s Scheme of Delegation.

2.8. Official orders were not raised by all schools as required to support purchases and there was a lack of documentary evidence that the goods and services received are checked for accuracy before payment and that delivery documentation was appropriately annotated.

2.9. The appropriate number of quotes were not always obtained as part of the procurement process and retained on file. Where it was not practical to obtain the required number of quotes, waivers were not always completed in line with the Schools Financial Regulations.

2.10. In a number of instances, petty cash payments were made before the completion of a petty cash form. As well as this, the financial limit for petty cash, as stipulated in the Schools Financial Regulations, was exceeded.

2.11. Bank and Payroll reconciliations were not checked and signed off by an independent senior member of staff to evidence segregation of duties.

2.12. Governors have not always approved a Charging Policy. Where a policy was in place, it was not always up to date.

2.13. The Governing Body has not always approved a Pay Policy and where these were in place they were not always up to date.

2.14. Starters and leavers documentation was not consistently authorised in a timely manner or retained on file.

2.15. Regular verification and liaison with the local authority to identify only those pupils who are entitled to free school meals are receiving them did not always occur. Where this check did occur, evidence supporting the pupils' entitlement was not always retained by the school.

2.16. In a number of instances the costing of school journeys were not fully documented, presented to the school's Financial Committee, and retained.

2.17. School fund accounts were not always independently audited and presented to the Governing Body with a statement of income and expenditure.

2.18. Annual inventory checks are not performed consistently across all schools, and where performed, the results of these inventory checks are not always reported to the Governing Body. Portable and valuable assets were not always visibly and indelibly security marked by the school. Furthermore, equipment loan registers did not generally specify employees' liability/responsibility for equipment. Disposals of assets were not appropriately authorised by an individual within their delegated limits.

2.19. In a number of instances the amount of cash held on premises by the school was in excess of the school's insurance limit.

3. Key Findings by Audit Area

3.1. Operation of Governance Processes

3.1.1 All schools had in place a Scheme of Delegation and Financial Procedures Manual. However, in a number of cases these were not up to date with evidence of regular review by the Governing Body. Inconsistencies in delegations were identified between the two documents.

3.1.2 The full Governing Body and sub-committee meetings are generally held termly and the minutes have usually been prepared. In a number of instances, there was no evidence of meeting minutes being presented to and approved by the appropriate Chair.

3.1.3 Where the Governing Body has set up sub-committees, terms of reference had not been approved and reviewed annually in a number of instances.

3.1.4 In most schools, the Register of Business Interests was not up-to-date with missing declarations for Governors on the Governing Body and staff with financial management responsibilities. However, the opportunity to declare interests is a standing item on most agendas of the Governing Body meetings.

3.2. Financial Planning, Budget Setting, Monitoring and Forecasting

3.2.1 Schools have generally produced comprehensive School Development Plans which include three year targets. The plan is produced and reviewed each financial year to help ensure resource implications are considered during the budget setting process. Governors are regularly updated on the progress against targets within the plan. However, in several instances approval of the plan was not evidenced adequately in minutes of meetings.

3.2.2 For the majority of schools the Chair of Governors and the full Governing Body had approved the budget plans in a timely manner. Income is profiled as part of budget planning and the results of budget monitoring are reported to the Finance sub-committee. Budget monitoring is usually undertaken either monthly or as a minimum on a quarterly basis. However, in a number of instances, budget monitoring reports had not been presented to budget holders in a timely manner.

3.2.3 Material variances were investigated and corrective action identified. Virements are generally presented to the appropriate committee.

3.3. Control and Monitoring over School Bank Accounts

3.3.1 Bank accounts were not always administered in accordance with the requirements of the approved bank account mandates as bank mandates have been found to be out of date in a number of cases. In several instances, copies of the bank mandate were not retained by the school.

3.3.2 Adequate arrangements have been established to support separation of duties over cheque production. Safe security and printed cheque security procedures were adequate.

3.3.3 Schools in most instances have ensured that surplus funds are identified and adequate arrangements made to maximise returns on the account balances. In a small number of cases, schools do not make use of a high interest bank facility.

3.3.4 Bank reconciliations were generally complete and performed in a timely manner, and these reconciliations were mostly independently checked to confirm completeness and accuracy. In some instances bank reconciliations had not been signed by both the individual performing the reconciliation and the individual carrying out its independent review.

3.3.5 Most schools had banked income received at the school in a timely manner and as a result ensured excessive amounts of cash were not held on site. However, in some instances schools were found to be holding amounts of cash in excess of the maximum insured amount.

3.4. Procurement (including Large Single Purchases, Tendering & VFM)

3.4.1. Schools in general have procedures for obtaining competitive prices and quotations for the purchase of goods and services. Pre-defined limits are identified, above which prior approval from the Governing Body is required.

3.4.2 Official orders were not raised in all instances to support purchases and therefore it was unclear whether the availability of budget was checked prior to purchasing or that purchases were authorised by appropriate individuals in accordance with their delegated limits. There was a lack of documentary evidence in some instances that the goods received are checked for accuracy and that delivery documentation was appropriately annotated.

3.4.3 Invoices sampled were arithmetically correct althoughin some cases it was not documented that the invoice had been certified for payment. Segregation of duties for procurement was generally evidenced.

3.4.4 Robust procedures were found to be in place for procurements using debit cards.

3.4.5 The appropriate number of quotes were not always obtained as part of the procurement process and retained on file. Where it was not practical to obtain the required number of quotes, waivers were not always completed in line with the Schools Financial Regulations.

3.5. Accounting of Income and Expenditure

3.5.1 Direct credits and debits were posted in a timely manner and journal entries on the financial accounting system appeared reasonable.

3.5.2 There were several instances where a weakness in the petty cash process was identified. These related to vouchers not being completed fully or authorisation of payments which exceed limits laid out in the school's Financial Code of Practice.

3.6. Charging Policy and Income Collection and Banking

3.6.1 Governors have not always approved a documented Charging Policy. Where one was in place, the policy was not always being kept up to date.

3.6.2 Official receipts were used where appropriate and where receipts were not issued compensatory records were generally adequate and reliable.

3.6.3 Most schools had a documented Lettings Policy in place where appropriate which included the terms and conditions for hiring the premises. Agreements were not always signed between the school and persons/ groups hiring the premises. Charges were made in compliance with an approved rate.

3.6.4 In the majority of cases income was regularly and fully bankedand periodicallyreconciled to the cash-book within the school's financial accounting system.

3.6.5 Records were not always maintained in relation to transfer of income between staff. There was an inadequate trail to confirm the person from whom income had been received, the date of receipt, the amount received and the date the income was banked.

3.7. Personnel and Payroll Management

3.7.1 Where the Governing Body has approved a Pay Policy, these were in several of the schools not kept up-to-date. In some instances, where they were reviewed annually by a delegated committee, they were not consequently approved by the Governing Body.

3.7.2 Evidence of pre-recruitment checks is not always obtained / retained, such as identity checks, references, medical checks, and qualifications checks. Letters of resignation / termination were not always held on file in respect of leavers.

3.7.3 Payroll reconciliations are undertakeninall schools. However, in some there was no evidence of a senior member of staff having performed an independent review of the reconciliation.

3.7.4 Where schools had employed agency staff during the year evidence was not always retained of the hours worked by the employee. Agency timesheets were not always authorised in accordance with the Scheme of Delegation/financial procedures.

3.7.5 In one school, a DBS (Disclosure and Barring Service) formerlyCRB check was not carried out for temporary hires.

3.8. School Meals

3.8.1 Allschoolshad procedures in place to ensure free school meals were only provided to pupils who are entitled to them. Schools did not always retain proof of entitlement for all appropriate pupils or have set procedures for obtaining eligibility confirmation from the Local Authority in a timely manner. Income due from pupils for school meals is recorded and accounted for and records identify arrears and credits.

3.9. Voluntary Fund and School Journey

3.9.1 The Governing Body in all schools visited approved the objectives of the Voluntary Fund account. However,the accounts for the school fund were not independently audited for some schools by a person who is not involved in the day to day administration of the account.

3.9.3 Schools did not always maintain evidence of how school journeys were costed and certified summary accounts for each school journey were not produced.

3.9.4 The Governors have approved a documented Grants Policy in the majority of cases and these usually defined the criteria under which subsidies may be approved.

3.10. Asset Controls and Security of Assets

3.10.1 This area remains an area of weakness and represents one of the most consistent findings in audit reports. Inventory records are not always maintained up to date with new assets being added and disposed assets recorded in a timely manner.

3.10.2 Inventory checks are not always performed and the results of the inventory check are not always reported to the Governing Body. An adequate equipment loan register is not maintained for a number of schools and signed loan agreements did not highlight the employee's liability/responsibility for equipment.

3.11 *Security of the IT Infrastructure, Disaster Recovery, Data Protection*

3.11.1 Most schoolshad evidence of registration under the Data Protection Act. However, some schools did not have procedures for dealing with requests made under the Freedom of Information Act. Anti-virus software had been installed on financial and administration systems and most schools had adequate computer back up procedures.

3.11.2 Improvements have been made in enforcing periodical password changes for administrative user accounts.

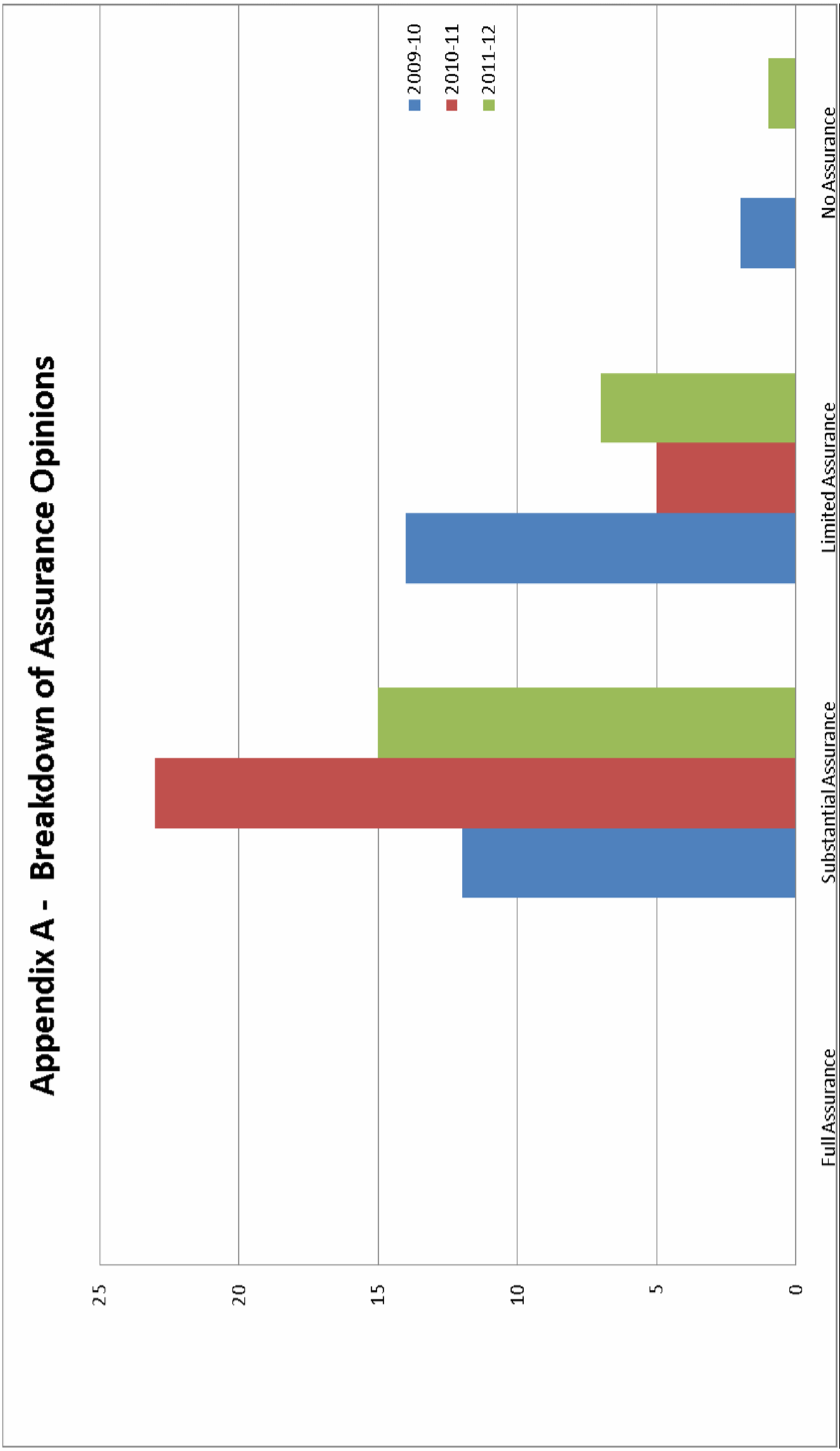
3.11.3 It was identified that one school did not have controls in place to prevent members of staff from installing software onto the shared drive.

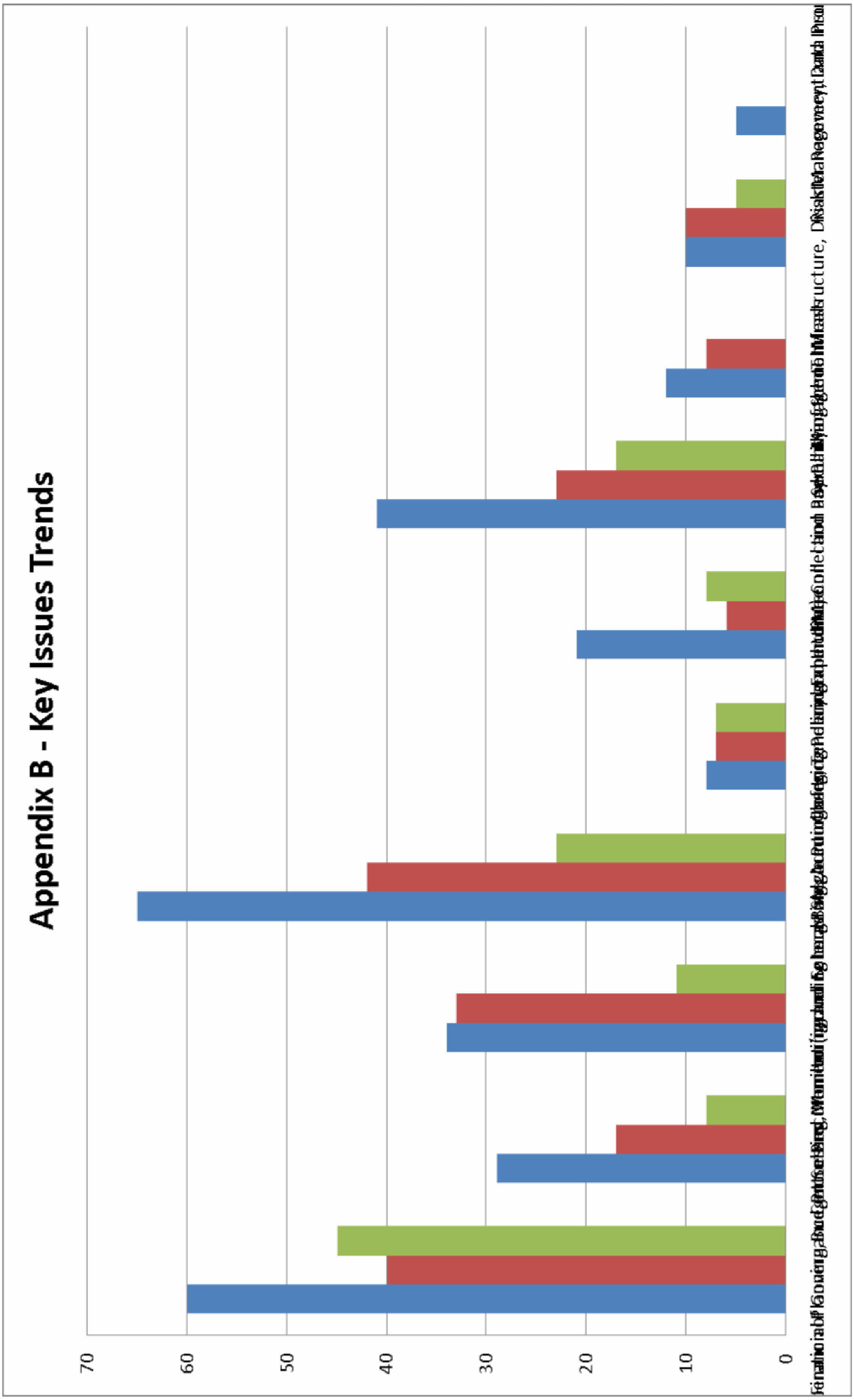
3.12. Risk Management and Insurance

3.12.1 The Governing Body's approach to risk management in the development of the School Improvement Plan (where in place), School Journey, and Health and Safety were considered appropriate. Schools generally have adequate arrangements for insurance in place.

4 Conclusions

4.1. In general, schools met the minimum standard of financial control and management. However, improvements were required in the areas of operation of governance processes; financial planning; control and monitoring of bank accounts, accounting for income and expenditure; procurement; personnel and payroll management; voluntary fund; school journey; asset control including security of assets and data protection.


Appendix A - Breakdown of Assurance Opinions
25
20
15
10
5
0
Full Assurance
Substantial Assurance
Limited Assurance
No Assurance
2009-10
2010-11
2011-12


Appendix B - Key Issues Trends
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Report To: Audit Committee	Date 26 September 2013	Classification Unrestricted	Report No.
REPORT OF: **Corporate Director, Resources**		TITLE: **Treasury Management Activity for Period Ending 31 August 2013**	
ORIGINATING OFFICER(S): **Paul Thorogood, Service Head, Finance & HR Development** **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 2013 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 rate of return on investment stands at 0.83%,

2. DECISIONS REQUIRED

2.1 Members are recommended to:

- note the contents of the treasury management activity report for period ending 31 August 2013.

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 2013/14

6.1 The Council's Treasury Management Strategy was approved on 13 February 2013 by Full Council. The Strategy comprehensively outlines how the treasury function is to operate over the financial year 2013-14 and it covers the following:

- Treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential and Treasury Indicators;
- 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 2013

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 2013.

8 MARKET UPDATE

8.1 Markets are generally volatile due to the uncertainty surrounding global outlook for economic growth.

8.2 Economic data in the UK show that there has been some sustained improvement, albeit at a modest level. The initial estimate for Q2 GDP growth showed that the economy has expanded at a far healthier rate than Q1 and early releases relating to Q3 suggest that the pattern has continued.

8.3 The availability of, and rate of borrowing on mortgages in the UK has brought buyers back to the market, which has been further boosted by Government intervention via the Funding for Lending and Help to Buy schemes. However, there are plenty of headwinds facing the economy that could stunt economic growth such as the problems in the Eurozone, which remain mired in recession. Export opportunities within the Eurozone remain weak, forcing UK exporters to look beyond Europe to sell goods.

8.3 The Eurozone remains an area of concern. Apart from Germany, the bloc's struggles have continued as the impact of austerity and global economic recession continue to affect members' economies, leaving the overall EU economy falling into deepening recession and record high unemployment. However, there are some promising signs from the region recently. Economic indicators in Germany, Italy and Spain have improved, offering some hope that the worst may be over. The European Central Bank has been able to maintain its low interest rate policy but, unlike the Bank of England, does not face an underlying inflation problem. Overall, there's more optimistic feel to EU despite other frailties in the Eurozone economy.

8.4 In the US, investors remain unclear as to when the Federal Reserve will start to taper its asset purchasing programme. Recent data has been more positive which has increased speculation that the tapering will commence sooner rather than later, although this uncertainty has generated market volatility.

8.5 China continues to raise concerns given the on-going struggle to maintain levels of growth that the Chinese authorities have targeted. Export markets remain weak with domestic demand failing to meet the shortfall of overseas demand. This uncertainty is set to continue for a while. Japan is starting to see some impact from the massive monetary actions that the Prime Minister has committed to in order to support and reflate the economy.

9 CREDIT CRITERIA

9.1 The following credit criteria for investment counterparties were established by the Council in February 2013 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.

INVESTMENT STRATEGY

Institution	Minimum High Credit Criteria	Money Limit	Term Limit
Debt Management Office (DMO) Deposit Facility	Not applicable	No Limit	N/A
Local Authorities	Not applicable	£30m*	1 year
Bank/Building Society - (High Credit Quality)	Short-Term F1 Long-Term AA-	£30m	1 year
Bank/Building Societies - (Medium Credit Quality)	Short-Term F1 Long-Term A+	£15m	1 year
Bank/Building Societies - (Lower Credit Quality)	Short-Term F1 Long-Term A	£10m	6 months
Part Nationalised / Wholly Owned Banks	N/A	Lesser of £70m or 40% of portfolio**	1 year
Council's Own Banker***	N/A	£10m	7 days
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
Money Market Funds	AAA rated	£15m	Liquid

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.

Definitions of credit ratings (which now incorporate Fitch's viability ratings) are attached at **Appendix 1**.
* The group limit for local authorities has been set at £100m.
** Percentage of portfolio at the time of investing.
*** Limit applied where bank's rating is below minimum required for external investment

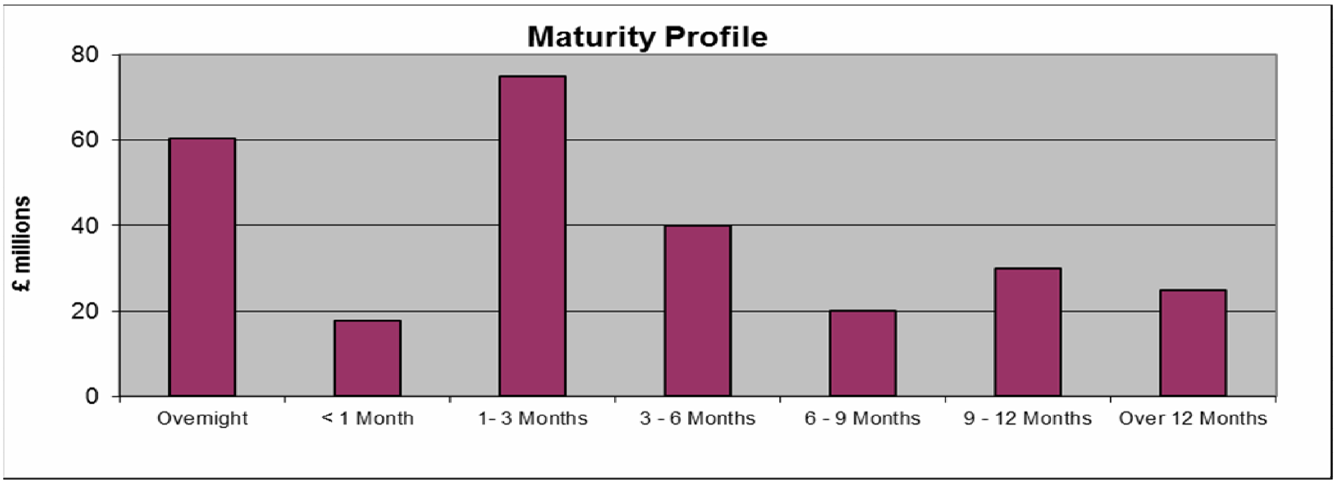
10.2 In addition to providing cash management services, Sector also provides treasury consultancy/advisory service to the Council.

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. Sector's view on interest rate is that bank rate is unlikely to rise before the 4th quarter of 2016. If and when rates do start to rise, the Council's cash management portfolio will be in a position to take advantage of rising interest rates.

10.4 The current balance of £268m is £93m.higher than the projected average cash balance of £175m. This is mainly attributable to slippage on the capital programme and an increase in earmarked reserves. It is envisaged that cash balances will reduce in the medium term as expenditure on the capital programme and earmarked revenue expenditure catch up.

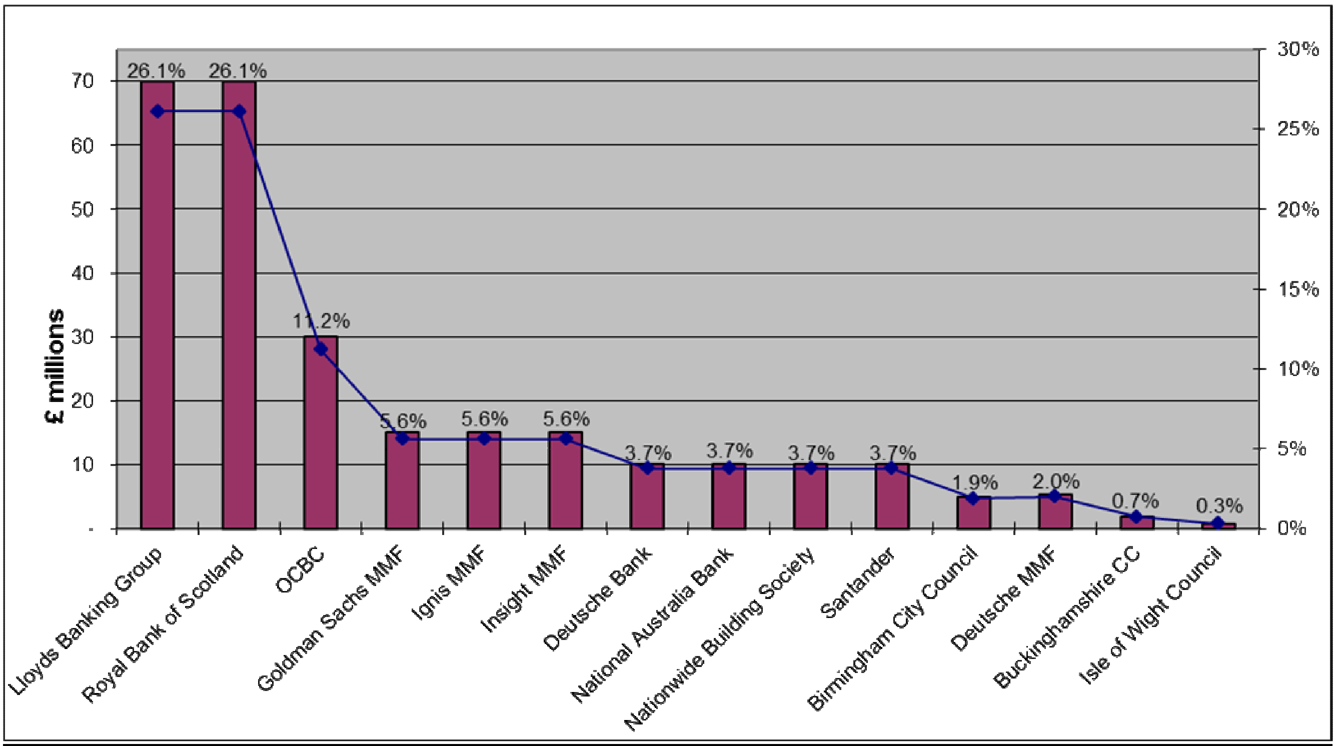
10.5 Current investment portfolio is as set out below.

Investment Portfolio at 31 August 2013



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 2013.

Maturity of Investment Portfolio as at 31 August 2013



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 £60.3m in overnight instruments, £50.3m 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 2013.

Counterparty Exposure as at 31 August 2013

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Santander		**Call**	10.00	0.55%
Overnight	Deutsche MMF		MMF	5.30	0.32%
Overnight	Goldman Sachs		MMF	15.00	0.37%
Overnight	Ignis		MMF	15.00	0.43%
Overnight	Insight		MMF	15.00	0.39%
	SUB TOTAL			**60.30**	
< 1 Month	Isle of Wight Council	30/08/2013	02/09/2013	0.75	0.50%
	Buckinghamshire CC	30/08/2013	02/09/2013	1.90	0.55%
	Lloyds Banking Group	04/12/2012	04/09/2013	5.00	1.15%
	OCBC	11/06/2013	11/09/2013	10.00	0.40%
1 - 3 Months	Lloyds Banking Group	07/01/2013	07/10/2013	5.00	0.95%
	Royal Bank of Scotland	09/01/2013	09/10/2013	10.00	0.67%
	Royal Bank of Scotland	11/04/2012	11/10/2013	5.00	2.00%
	Lloyds Banking Group	11/04/2013	11/10/2013	5.00	0.80%
	Nationwide Building Society	11/07/2013	11/10/2013	5.00	0.44%
	Society	16/04/2013	16/10/2013	5.00	0.52%
	OCBC	17/04/2013	17/10/2013	10.00	0.45%
	Lloyds Banking Group	29/10/2012	29/10/2013	5.00	2.25%
	Deutsche Bank	29/04/2013	29/10/2013	5.00	0.48%
	Deutsche Bank	02/08/2013	04/11/2013	5.00	0.40%
	OCBC	02/08/2013	04/11/2013	5.00	0.40%
	Lloyds Banking Group	13/02/2013	13/11/2013	5.00	0.95%
	Birmingham City Council	18-Feb-13	18-Nov-13	5.00	0.50%
3 - 6 Months	Lloyds Banking Group	04/12/2012	04/12/2013	5.00	1.50%
	Royal Bank of Scotland	12/06/2012	12/12/2013	5.00	2.00%
	Royal Bank of Scotland	09/01/2013	09/01/2014	10.00	0.85%
	Royal Bank of Scotland	11/01/2013	13/01/2014	5.00	0.89%
	Lloyds Banking Group	11/04/2013	13/01/2014	5.00	0.95%
	OCBC	12/08/2013	12/02/2014	5.00	0.40%
	Lloyds Banking Group	13/02/2013	13/02/2014	5.00	1.10%
6 - 9 Months	Lloyds Banking Group	04/03/2013	04/03/2014	5.00	1.10%
	Lloyds Banking Group	11/04/2013	11/04/2014	5.00	1.10%
	Lloyds Banking Group	15/04/2013	15/04/2014	5.00	1.10%
	Royal Bank of Scotland	16/04/2013	16/04/2014	5.00	0.73%
9 - 12 Months	Lloyds Banking Group	04/06/2013	04/06/2014	5.00	1.05%
	Royal Bank of Scotland	12/06/2013	12/06/2014	5.00	0.65%
	National Australia Bank	03/07/2013	03/07/2014	10.00	0.62%
	Lloyds Banking Group	04/04/2013	04/07/2014	10.00	1.01%
Over 12 Months	Royal Bank of Scotland	09/07/2013	09/01/2015	5.00	0.95%
	Royal Bank of Scotland	27/01/2012	27/01/2015	5.00	3.35%
	Royal Bank of Scotland	16/04/2013	16/04/2015	5.00	0.88%
	Royal Bank of Scotland	28/02/2013	26/02/2016	10.00	1.90% *
	SUB TOTAL			**207.65**	
	TOTAL			**267.95**	

* This is a structured deal, the terms of which could change during the duration of the deal.

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 0.83% compared to 1.24% average in 2012/13.

11.2 The Strategy approved at the 13 February 2013 Council allowed for more flexibility and the benefits of this Strategy is proving extremely valuable given the challenge of a counterparty list that continues to contract in the face of credit worthiness downgrades by the ratings agencies. The latest counterparty list is attached at Appendix 2.

11.3 The portfolio has outperformed the benchmark of LIBID + 0.25% in the first five months of the year and returns are significantly above the 7 day London Interbank Bid Rate (LIBID), which currently stands at 0.36%. Cash balances have fallen, with the average year to date falling to £293m and range of balances remained fairly wide at £267m to a high of £319m. Nevertheless, the average rate of return over the month of August (0.81%) was helped by reduced balances on the low paying Money Market Funds. Counterparty pressures have also eased in recent months.

11.4 Below is a table that details performance of investments. The table shows that performance has consistently exceeded benchmark (LIBID + 0.25%).

Performance Against Benchmark

Period	LBTH Performance	7 Day LIBID + 0.25%	(Under)/Out Performance
Full Year 2012/13	**1.24%**	**0.64%**	**0.60%**
April 2013	0.92%	0.62%	0.30%
May 2013	0.83%	0.61%	0.22%
June 2013	0.82%	0.61%	0.21%
July 2013	0.79%	0.61%	0.18%
August 2013	0.81%	0.61%	0.20%
Average for 2013/14	**0.83%**	**0.61%**	**0.22%**

12 DEBT PORTFOLIO

12.1 The table below sets out the Council's debt as at the beginning of the year and 31 August 2013.

£'000	31 March 2013 Principal	31 August 2013 Principal
Fixed Rate Funding:		
-PWLB	12,908	12,406
-Market	13,000	13,000
Total Fixed Rate Funding	25,908	25,406
Variable Rate Funding:		
-PWLB	-	-
-Market	64,500	64,500
Total Variable Rate Funding	64,500	64,500
Total debt	***90,408***	***89,906***
CFR	***225,849***	***225,849***
Over/ (under) borrowing	***(135,441)***	***(135,943)***

12.2 No borrowing has been undertaken to date in this financial year but the Council repaid £0.502m of PWLB loans. Total debt outstanding now stands at £89.906m, resulting in an under-borrowing of £135.94m against a CFR of £225.85m.

14. COMMENTS OF THE CHIEF FINANCIAL OFFICER

14.1. The comments of the Acting 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

Brief description of "background papers"	Name and telephone number of holder And address where open to inspection
August 2013 Investment Portfolio Analysis Report	*Oladapo Shonola Ext. 4733 Mulberry Place, 3rd Floor.*

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APPENDIX 1:

Definition of Credit Ratings

Support Ratings

Rating	
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

Short-term Ratings

Rating	
F1	**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.

APPENDIX 2

CREDIT RATINGS

Name	FITCH RATINGS Short Term	Long Term	Viability	Support	MOODYS RATINGS Short Term	Long Term	Fin Strength	S&P RATINGS Short Term	Long Term
Australia (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
Australia and New Zealand Banking Group	F1+	AA-	aa-	1	P-1	Aa2	B-	A-1+	AA-
Commonwealth Bank of Australia	F1+	AA-	aa-	1	P-1	Aa2	B-	A-1+	AA-
National Australia Bank Limited	F1+	AA-	aa-	1	P-1	Aa2	B-	A-1+	AA-
Westpac Banking Corporation	F1+	AA-	aa-	1	P-1	Aa2	B-	A-1+	AA-
Canada (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
Bank of Montreal	F1+	AA-	aa-	1	P-1	Aa3	C+	A-1	A+
Bank of Nova Scotia	F1+	AA-	aa-	1	P-1	Aa2	B-	A-1	A+
Canadian Imperial Bank of Commerce	F1+	AA-	aa-	1	P-1	Aa3	C+	A-1	A+
National Bank of Canada	F1	A+	a+	1	P-1	Aa3	C	A-1	A
Royal Bank of Canada	F1+	AA	aa	1	P-1	Aa3	C+	A-1+	AA-
Toronto-Dominion Bank	F1+	AA-	aa-	1	P-1	Aa1	B	A-1+	AA-
Denmark (Sovereign Rating)	F1+	AAA			P-1	Aaa		A-1+	AAA
Finland (Sovereign Rating)	F1+	AAA			P-1	Aaa		A-1+	AAA
Nordea Bank Finland	F1+	AA-		1	P-1	Aa3	C	A-1+	AA-
Pohjola Bank	F1	A+		1	P-1	Aa3	C-	A-1+	AA-
Germany (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	F1+	A+		1	P-1	A1	C-	A-1+	AA-
Deutsche Bank AG	F1+	A+	a	1	P-1	A2	C-	A-1	A
KfW	F1+	AAA		1	P-1	Aaa		A-1+	AAA
Landwirtschaftliche Rentenbank	F1+	AAA		1	P-1	Aaa		A-1+	AAA
Luxembourg (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
BGL BNP Paribas SA	F1	A+		1	P-1	A2	C	A-1	A+
Banque et Caisse d'Epargne de l'Etat					P-1	Aa1	C	A-1+	AA+
Clearstream Banking	F1+	AA	aa	1				A-1+	AA
Netherlands (Sovereign Rating)	F1+	AAA			P-1	Aaa		A-1+	AAA
Bank Nederlandse Gemeenten	F1+	AAA		1	P-1	Aaa	A	A-1+	AAA
ING Bank NV	F1+	A+	a	1	P-1	A2	C-	A-1	A+
Rabobank Group	F1+	AA	aa	1	P-1	Aa2	B-	A-1+	AA-
Norway (Sovereign)	F1+	AAA				Aaa		A-1+	AAA
DnB NOR Bank	F1	A+	a+	1	P-1	A1	C-	A-1	A+
Singapore (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
DBS Bank Ltd.	F1+	AA-	aa-	1	P-1	Aa1	B	A-1+	AA-
Oversea-Chinese Banking Corp	F1+	AA-	aa-	1	P-1	Aa1	B	A-1+	AA-
United Overseas Bank Limited	F1+	AA-	aa-	1	P-1	Aa1	B	A-1+	AA-
Sweden (Sovereign Rating)	F1+	AAA			P-1	Aaa		A-1+	AAA
Skandinaviska Enskilda Banken	F1	A+	a+	1	P-1	A1	C-	A-1	A+
Svenska Handelsbanken	F1+	AA-	aa-	1	P-1	Aa3	C	A-1+	AA-
Swedbank AB	F1	A+	a+	1	P-1	A1	C-	A-1	A+
Switzerland (Sovereign Rating)	F1+	AAA				Aaa		A-1+	AAA
Credit Suisse AG	F1	A	a	1	P-1	A1	C-	A-1	A
UBS AG	F1	A	a	1	P-1	A2	C-	A-1	A
United Kingdom (Sovereign Rating)	F1+	AA+				Aa1		A-1+	AAA
Bank of Scotland Plc	F1	A		1	P-1	A2	D+	A-1	A
Barclays Bank	F1	A	a	1	P-1	A2	C-	A-1	A
Co-operative Bank plc	B	BB-	bb-	5	NP	Caa1	E		
DMO									
Goldman Sachs International Bank	F1	A						A-1	A
HSBC Bank plc	F1+	AA-	a+	1	P-1	Aa3	C	A-1+	AA-
Lloyds TSB Scotland plc									
Local Authorities									
National Westminster Bank	F1	A		1	P-2	A3	D+	A-1	A
Nationwide Building Society	F1	A+	a+	1	P-1	A2	C	A-1	A
Prudential Plc	F1	A+			P-1	A2		A-1	A+
Royal Bank of Scotland	F1	A	bbb	1	P-2	A3	D+	A-1	A
Santander UK Plc	F1	A	a	1	P-1	A2	C-	A-1	A
Schroders Plc	F1	A+						A-1	A+
Standard Chartered Bank	F1+	AA-	aa-	1	P-1	A1	B-	A-1+	AA-
UBS Ltd	F1	A		1	P-1	A2		A-1	A
Ulster Bank Ltd	F1	A-	ccc	1	P-2	Baa2	D-	A-2	BBB+
Money Market Funds		AAA				Aaa			AAA

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