

AUDIT COMMITTEE

Tuesday, 22 March 2016 at 7.00 p.m.

Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

This meeting is open to the public to attend.

Members:

Chair: Councillor Candida Ronald
Vice-Chair: Councillor Sabina Akhtar

Councillor Clare Harrisson, Councillor Amina Ali, Councillor Andrew Wood, and 2
Councillor Vacancies (IG)

Deputies:

Councillor Dave Chesterton, Councillor Joshua Peck, Councillor Gulam Kibria
Choudhury and Councillor Muhammad Ansar Mustaqim

[The quorum for this body is 3 Members]

Contact for further enquiries:

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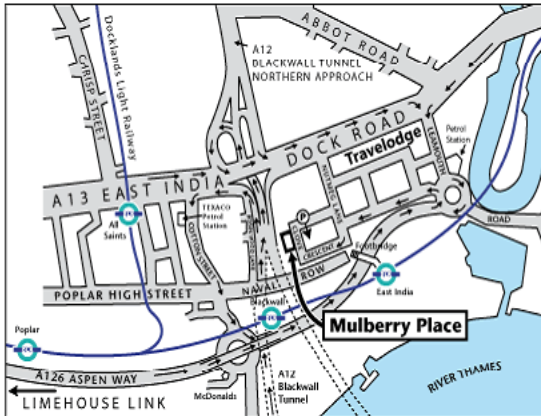
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APOLOGIES FOR ABSENCE

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS

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.

2. MINUTES OF THE PREVIOUS MEETING(S)

5 - 16

To confirm the minutes of the Audit Committee held on 8 December 2015.

3. KPMG ITEMS FOR CONSIDERATION

3.1 Report to Those Charged with Governance - ISA260 2014/15

Report to follow.

3.2 Annual Financial Report 2014/15 (Incorporating KPMG's Report to Those Charged With Governance 2014/15)

17 - 136

To consider the Authority's Annual Financial Report containing the Statement of Accounts for the financial year ending 31st March 2015 following the completion of the audit by KPMG.

3.3 Annual Report on Grants and Returns Work - 2014/15

Report to follow

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Treasury Management Activities Report for Quarter Ending 31 January 2016

137 - 152

To advise the Committee of the council's borrowing and investment activities during 2015/16 to 31 January 2016 and the Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2015/16.

4 .2 Annual Governance Statement 2014/15 **153 - 180**

To update Committee on the processes to review the governance arrangements of the Council since July 2015, as part of the process to produce the 2014/15 Annual Governance Statement.

4 .3 Quarterly Assurance Report **181 - 234**

To consider the assurance reports of each audit finalised in the period and the ratings assigned.

4 .4 Audit Plan for 2016/17 **235 - 294**

To consider the proposed Annual Internal Audit Plan for 2016/17.

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Agenda Item 1

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:-

Melanie Clay, Director of Law Probity and Governance 2017 364 4800

APPENDIX A: Definition of a Disclosable Pecuniary Interest

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

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

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.05 P.M. ON TUESDAY, 8 DECEMBER 2015

**MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT,
LONDON, E14 2BG**

Members Present:

Councillor Candida Ronald (Chair)
Councillor Sabina Akhtar
Councillor Clare Harrisson
Councillor Andrew Wood

Others Present:

Alan Bryce – (Chair of The European Institute for
Combating Corruption and Fraud)
Graeme Thomson – (Programme Manager Counter Fraud
and Error, Cabinet Office)
–

Officers Present:

Dr Somen Banerjee – (Director of Public Health, LBTH)
Simon Baxter – (Acting Service Head, Public Realm,
Communities Localities & Culture)
Kate Bingham – (Service Head, Children's and Adults
Resources)
Minesh Jani – (Head of Audit and Risk
Management, Resources)
Kevin Miles – (Chief Accountant, Resources)
Sajeed Patni – Children's and Adults Finance
Business Partner
Tony Qayum – (Anti-Fraud Manager, Risk
Management, Resources)
Keith Williams – (Head of Health Borough
Programme)
Liz Nelson – (Interim Head of Clean Green and
Highways)
Andrew Smith – (Auditor)
Antonella Burgio – (Democratic Services)

Apologies:

Councillor Amina Ali
Councillor Shahed Ali

Apologies from Zena Cooke, Director of Resources were also noted.

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Councillor Sabina Akhtar declared an interest in respect of agenda item 4.1 in that she was the Council's appointee to the board of Tower Hamlets homes.

2. MINUTES OF THE PREVIOUS MEETING(S)

The minutes of meetings held on 17 July and 23rd of September were presented.

The minutes of the meeting held 21st July 2016 were approved subject to the following revision at the third page 3 of these minutes "Many of issues that have resulted in the adverse opinion proposed in the ISA260 report before the Committee relating to 2013/14 would likely still be present into 2014/15 while organisational change was being implemented"

The minutes of the meeting held on 23 September 2015 were approved as a correct record of proceedings.

3. PRESENTATIONS

3.1 Household Composition

A presentation was given by Graeme Thomson, Programme Manager, Counter-Fraud and Error at the Cabinet Office.

Mr Thomson informed Members:

- That initiatives at the Cabinet Office (which was now responsible for National Fraud Initiative (NFI)) were being delivered to support a cross-issuing (??) across local authorities.
- Forthcoming initiatives would improve access to anti-fraud funding via new legislation, improving access to static data, improving new public services and improving funding.
- The Cabinet Office in its NFI, role aimed to open up access to data sets across local authorities and a consultation would be undertaken in January 2016 with the subsequent intention of placing a Bill before Parliament for approval.
- Mr Thomson had a two-fold role: to encourage more cross sharing across DWP and local authorities and concerning the banking sector.

- It is intended to implement Enhanced Payment Data which permitted certain additional data around payments to be shared with agencies for data-matching purposes.

Household Composition Work:

The Committee was informed that:

- Government wished to better use the large quantities of data held by local authorities.
- Tower Hamlets was involved in a project which enabled access to 140 new sets of data to achieve better data-matching and use for NFI purposes.
- Work was being done with Camden Council to bring datasets together to form a “golden dataset”. This would be employed with other datasets held by other agencies to improve fraud detection.
- Forthcoming primary legislation would enable local authorities to request data that was hitherto unavailable for data matching and corroboration across the whole landscape in order to better identify frauds.
- Local authorities would be able to determine how they wished to use these datasets and which types of data they wished to target.

Responding to Members’ questions, the following information was provided:

- A number of firms presently converted the data provided to local authorities and were looking at how to tailor data to suit the users’ requirements.
- The maturity of applications were the driver of development timescales.
- The DCLG was presently developing toolkits and working on how these can develop datasets for local authorities’ desired priorities. Once developed the applications would be widely available.
- Access to datasets was permissive; an agency could not be forced to share its data.
- The degree of mutual data exchange between DWP and local authorities, from a legislative viewpoint, depended on authorities and the DWP evaluations of working cooperatively. The platform was designed to work mutually.

The Chair thanked Mr Thomson for his comprehensive presentation.

3.2 Protecting the London Purse

The Committee received a presentation from Alan Bryce, Non-executive Chair of the European Institute for Combating Corruption and Fraud (TEICCAF)

The Committee noted:

- Tower Hamlets Council participated in the fraud detection scheme “Protecting the London Purse” which was administered through TEICCAF.
- The Council was able to use the outcomes of this benchmarking exercise to determine where it wished to target its resources to achieve the most effective antifraud activity.

The Committee was informed of the results of a range of benchmarking exercises relating to antifraud activities undertaken by London Councils and noted the following:

- Council Tax Fraud - typically comprised around 4-6% of claimants. Mr Bryce recommended that the council consider what deterrents are appropriate in terms of its Council Tax Fraud strategy. He suggested that the strategy be re-examined for this purpose and noted this was not the largest area of loss for the Council.
- Tenancy Fraud (sub-letting Council properties for profit). - This was the second largest area of financial loss to Councils and the most common type of fraud in London, accounting for around 4% of social housing fraud. Tower Hamlets was performing below benchmark in this area and encouraged the Council to continue to pursue this antifraud detection.
- Right to Buy Fraud. - Right-to-buy discounts had recently increased. In London boroughs the potential discount was up to £100,000 and therefore this type of fraud was attractive. Discounting was expected in the forthcoming two months and therefore more right-to-buy fraud headlines were also anticipated. Mr Bryce advised that the Council had taken the appropriate action of reconfiguring its attention towards right to buy fraud in the present circumstances relating to public sector housing. On average, around 3% of right to buy applications in London were fraudulent. Mr Bryce also advised that the Council take account that most housing associations had no facilities to tackle tenancy or right to buy fraud and noted that council's resources and expertise could be advantageous therefore.
- Blue Badge Fraud. – Tower Hamlets had the highest detection rate amongst London Boroughs in 2014-15. The average value per case was £500, however the value to the public in addressing this kind of fraud was at the heart of community values.
- Procurement Fraud -This was the largest single area loss to local authorities. Mr Bryce recommended that the council should continue to pursue detection of this type of fraud.
- No Recourse to Public Funds Frauds - This type of fraud related to migrants in specific circumstances and was the second largest area of fraud in London. In addition it was an area open to abuse by individuals and by organised crime. The average value of fraud was £25,000 per family and funds were sourced directly from local authorities' resources.

Mr Bryce recommended investigation of the following types of fraud to assess the significance of monies lost in the public purse:

- Social Care fraud

- Insurance fraud
- Grants fraud (economic and the third sector grants)
- Internal fraud (Mr Bryce recommended that this area should be investigated as the average value of these frauds represented around 12%, therefore potentially amounting to significant sums)

The Committee made the following comments:

- The deterrent fraud work carried out by councils should be advertised prominently and also the sums recovered publicised
- That fines are properly levied against frauds detected.

VARY ORDER OF BUSINESS

The Chair **moved** and it was resolved that the order of business be varied. Accordingly agenda item 4.5 was considered by the Committee after agenda item 4.3. Following this, Members returned to consider the remaining agenda items in the order published.

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Quarterly Assurance Report

The Head of Audit and Risk Management introduced the report which summarised the internal audit work undertaken in the period September - November 2015, and reported the assurance rating of each audit finalised in this period.

The Committee noted that:

- 16 audits had been completed, of which four had returned a limited assurance.
- Performance and outcomes of follow-up audits had improved.
- Appendix 3 reported 2 (priority 1) recommendations relating to monitoring mainstream grants for luncheon clubs which remained to be implemented at the date of the meeting. These data were provided in response to Members' requests at the previous meeting (23 September 2015)

Quarterly audits that returned a limited assurance

Monitoring of Public Health Contracts for smoking cessation, healthy start vitamins, and health trainers

The Head of Audit and Risk Management introduced the item informing members that the audit had returned a limited assurance because of the following issues:

- Generic monitoring arrangements were operated
- More focus was needed on outputs and outcomes monitoring
- Some contracts were unsigned
- Risk assessments were required to be better focused

The Director of Public Health responded to the issues raised and informed the Committee that:

- There had been some flux as the directorate was in the process of transitioning from NHS into the Council's processes
- A contracts check list had been developed to ensure compliance with the Council's contract processes
- A risk assessment framework for each contract with deadlines had been introduced. The deadline for responses was January 2016
- A performance scorecard had been introduced which was monitored quarterly
- All except 4 outstanding contracts had been signed

Responding to Members' questions the Director of Public Health also informed the Committee that:

- Quarterly meetings with Contracts Lead Officers were carried out to monitor compliance of contracts and to ensure that contract requirements were met
- Officers were tasked to ensure that contracts were kept up-to-date
- Strategies to ensure that Barts contracts compliant were being investigated
- Quarterly meetings with Contract Leads were used to monitor contracts and ensure that requirements had been met
- A monitoring timetable with deadlines was to be incorporated into the monitoring processes to ensure that expiring contracts were renewed without a need for interim extensions.

Highways Repairs and Maintenance Work

The Head of Audit and Risk Management introduced the item informing the Committee that a limited assurance had been returned as:

- Procedures needed to be updated
- There were software issues
- Some audit trails of chargeable works were incomplete
- Some KPI's were incomplete

The Interim Service Head Public Realm informed the Committee that:

- The issues highlighted had been addressed through a root and branch review of systems
- Some flaws in the reporting system remained because there was no integration between the reporting / monitoring systems and invoicing systems. He noted that this remained a risk until new improved software was installed
- Additional highways work was being undertaken to prevent personal accident insurance claims
- Responsive highways works were being undertaken

- Installation of improved audit software was awaited and, once installed; this would better indicate where works were taking place and associated costs.

Responding to Members' questions the Interim Service Head Public Realm informed the Committee that:

- The risk level of the non-integrated system was around 10% of the budget
- The issue of non-integration presently was lodged with the Corporate Directors for Resources and CLC to mitigate further risk
- A new processing system had been identified to oversee the value of jobs and contracts commissioned
- The outcomes of the audit had been utilised to add weight to the arguments and mitigations for the risks identified

Controlling and Monitoring of Cash Income and Disbursements

The Head of Audit and Risk Management introduced the item informing Members that the audit had returned a limited assurance because of the following issues:

- Returns submitted by collecting officers were late or had errors which delayed reconciliation
- There were delays in the allocation of funds to the appropriate ledgers
- There was a lack of means to control and monitor the logs

The Chief Accountant responded to the issues raised informing the Committee that:

- Since the audit, the backlog had been almost cleared
- Differences identified in the processing of incomes had been now escalated to different areas of the Finance Team
- The number of errors recorded was significantly reduced. Should errors recur, these will be escalated to the compliance team
- A streamlined system would be implemented

Responding to Members' questions the Chief Accountant informed the Committee that cash collection took place at across many Council locations therefore it was difficult to centralise cash payments.

Adults and Children Services Petty Cash

The Head of Audit and Risk Management introduced the item informing Members that the audit was a periodic audit of petty cash arrangements in the Council. A limited assurance had been returned because:

- There had been some reimbursements for ultra vires purposes such as travel
- Inconsistencies with the reporting of the petty cash float (unders and overs)
- Records were not reconverted to one value

The Finance Business Partner and Service Heads Children's and Adults' Resources responded to the issues raised informing the Committee that:

- The audit had identified staff training is an area of risk. This was being addressed
- The number of petty cash arrangements throughout the services would be reduced and those tasked to administer them retrained
- Messages around disciplined administration relating to petty cash arrangements would be promulgated.

Responding to their questions officers informed Members:

- That there would be a key contact for each petty cash account
- The number of petty cash accounts would be reduced
- Procedures around the locations of petty cash funds would be reviewed and appropriate security measures introduced
- The key contacts for the petty cash accounts would be instrumental in changing the culture around appropriate use of petty cash by asking those applying why the petty cash was needed.

RESOLVED

1. That the summary of audits undertaken in the actions reported by officers be noted
2. That the opinion assigned to the systems reviewed for the period be noted

4.2 Revised Audit Plan

The Head of Audit and Risk Management introduced the report which provided Members with the updated Internal Audit Plan 2015-16. The plan provides an update on changes from the original audit plan arising from changes in the Council's circumstances and areas of risk are of importance to the function of the Council. The updated plan was larger because of the Council's recent circumstances e.g. the Election Court and crime verification. It was noted that no recourse to public funds had been identified.

RESOLVED

1. That the changes proposed to the audit plan 2015-16 be noted
2. That the revised audit and 2015-16 be endorsed as attached at appendix 2
3. That the resources of the audit plan as detailed in fact paragraph 4.1 of the report be noted

4.3 Annual Schools Report

Auditor, Mr Hellary of Mazars presented the report which summarised in the annual audit work undertaken in relation to schools audits for the financial year 2014-15. The audit revealed three key areas of non-compliance/ risk:

- Governance
- Asset management
- Financial planning

Other areas of poor compliance identified were:

- lack of appropriate employment checks and
- variable clerking arrangements.

To remedy risks identified, the Committee was informed that Mazars would support schools to attain compliance by working with bursars and schools' governing bodies.

Members noted that:

- At present, OFSTED was focussed on governance matters and this offered an opportunity to further promote good governance practices
- Schools' clerks were supplied by the Council therefore the risks identified should be addressed through council training
- Some schools experienced problems accessing certain relevant contract information therefore work should be undertaken to obtain joined up information systems. The Service Head for Resources, Adults' and Children's Services informed Members that there were circumstances around schools that had engaged in PFI contracts which might cause difficulties when accessing contract information.

Responding to Members' questions the Committee was informed that

- Some lack of employment checks incorporated failure to carry out DBS checks in some circumstances and in most cases the checks carried out by the school did not have an audit.
- Since the audit had taken place, all applicants were required to demonstrate that they had a valid DBS check to prospective employers.

RESOLVED

1. That the report be noted
2. That the matters raised by the auditor in each of the 12 areas examined be noted

4.4 Quarter 2 Corporate Risk Register Update 2015/16

The Head of Audit and Risk Management introduced the report which provided the Committee with an update of corporate risks as at 30 November 2015 and a summary of the changes made to the Risk Register during the second Quarter 2015-16.

The report identified what the Council considered its corporate risks to be and invited Members to consider how these were being managed and which risks they wished to scrutinise.

The register currently contained one red-rated risk: the required decant of Mulberry Place by September 2019.

Councillor Woods also identified another significant risk concerning insufficient school places to meet demand for them in the borough. He asked for an assessment to be undertaken of the impact of the Council's schools places budget on the risk register.

Action by: Minesh Jani, Head of Audit and Risk Management

Councillor Harrison enquired whether there had been increased security risks relating to the Council's general risks and the Mayor's events. She asked for detailed feedback in order to verify whether the Council has completed its insurances.

RESOLVED

1. That the report be noted
3. That the risks around school places and Mayor's events be incorporated into the risk register
4. That relevant risk owners provide at the next audit committee meeting, a detailed update on the treatment and mitigation of identified risks relating to school places and Mayors events including impact on corporate objectives

4.5 Progress on the National Fraud Initiative (NFI) Exercise, 2014

The Anti-Fraud Manager presented the report highlighting the latest work on this initiative. These were:

- That the investigation of benefits fraud had been transferred from the Council to DWP
- A data-matching exercise was currently being undertaken relating to duplicated creditor payments
- Areas of fraud being investigated under the NFI 2014 initiative are:
 - housing benefit related fraud
 - pensions benefit related fraud
 - Council tax single person discount fraud
 - Housing tenancy fraud and
 - Blue Badge (disabled parking permits) frauds.

RESOLVED

1. That the report be noted

4.6 2014/15 Local Government Pension Fund Annual Report

The Chief Accountant presented the report informing Members that the statement of Pension Fund accounts had been prepared under the approved reporting standards. The Committee noted that external auditors KPMG had commended officers for the support given during the audit and for their cooperation to auditors' requests.

RESOLVED

1. That the pension fund annual report 2014-15 be noted
2. That the approved pension fund statement of accounts for this period be noted
3. That the auditors' ISA 260 report for the year 2014-15 be noted

4.7 Treasury Management Activities Report for Quarter Ending 31 October 2015

The Chief Accountant presented the report which informed the Committee of the Council's borrowing and investment activities during the Quarter 1 July 2015 – 31 October 2015. The Committee noted that there had been no new borrowing during this period.

RESOLVED

1. That the treasury management activities on performance against targets for the quarter ending 31 October 2015 be noted
2. That the Council's outstanding investments as set out in appendix 1 to the report be noted
3. That the balance outstanding as that 31st of October 2015 of the £422.7 million also incorporating includes £48.8 million Pension Fund cash awaiting investment be noted

4.8 Mid - Year Review For Treasury Management and Investment Strategy 2015/16

The Chief Accountant presented the report which provided a half-yearly review of the progress of the Council's current treasury management and investment strategy.

The Committee noted that:

- the Government had reduced its ownership share of Lloyds Bank and therefore this would balance the position when the Council's investment matured in 2017
- Lloyds Bank had passed the Government's stress test
- MiFID II arrangements soon to be implemented may limit the types of investment in which the Council will be able to engage in future.

RESOLVED

1. That the treasury management activities and performance against targets for the six months to 30 September 2015 be noted
2. That the current development and update for MiFID II impact on the LGPS and local authorities and also changes in credit rating methodology as set out in Section 4 of the report be noted
3. That the Council's investment balance of £421.3 million as at 30th September 2015 of which £40 million was invested in local authorities as set out in Appendix 1 to the report be noted
4. That the Council's position on prudential indicators as set out in Appendix 6 to the report be noted.


5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Nil items.

The meeting ended at 9.30 p.m.

Chair, Councillor Candida Ronald
Audit Committee

Agenda Item 3.2

Non-Executive Report of the: Audit Committee 22 March 2016	 TOWER HAMLETS
Report of: Zena Cooke – Corporate Director of Resources	Classification: Unrestricted
Annual Financial Report 2014/15 (Incorporating KPMG’s Report to Those Charged With Governance 2014/15)	

Originating Officer(s)	Kevin Miles – Chief Accountant
Wards affected	N/A

Summary

- This report presents the Authority’s Annual Financial Report containing the Statement of Accounts for the financial year ending 31st March 2015 following the completion of the audit by KPMG.
- This report was delayed as a result of concerns raised by PwC on the Best Value conclusion and this required KPMG to undertake additional work to provide assurance in these areas.
- The final version of the accounts is attached. Although there were some minor changes to the accounts, the Council’s overall financial position is unchanged from the draft circulated to Members in July 2015
- The auditors will also be presenting their final 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.

Recommendations:

The Audit Committee is recommended to:

- Approve the Annual Financial Report including the Statement of Accounts for the financial year ending 31st March 2015, having regard for the auditor’s Annual Governance Report

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit (England) Regulations 2011 require that the council produces and publishes a signed Statement of Accounts within statutory deadlines. These statements must then be audited and an opinion issued section 9 of the Audit Commission Act 1998.

2. ALTERNATIVE OPTIONS

- 2.1 The Council produces its Statement of Accounts in line with the appropriate guidance and legislation.
- 2.2 This report is produced to ensure that the correct approval process is followed and Members are kept informed of the Council's financial position as a result no alternative action is considered necessary beyond that included below.

3. BACKGROUND

- 3.1 In July 2015, officers presented the draft Statement of Accounts for 2014/15 to Audit Committee (including the pension fund accounts) which was subject to audit. These accounts are compliant with the requirements of International Financial Reporting Standards (IFRS). This report now presents the final set of accounts following the completion of the KPMG audit review.
- 3.2 To follow the 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. The audited accounts should have been published in September 2015; however due to concerns raised by PwC on the Best Value conclusion, our external auditors, KPMG, were required to undertake a significant amount of additional work to obtain the assurance needed to sign off the financial statements.
- 3.3 KPMG will be presenting their Annual Governance Report, the ISA260 on this agenda, 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. A draft version of the accounts was tabled in July 2015 and there are no significant changes to be reported.

4. STATEMENT OF ACCOUNTS 2014/15

- 4.1 The audited Statement of Accounts for 2014/15 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 2015, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund 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 The usable reserves of the Accounts are unchanged from the draft previously circulated and published on the Council website in June 2015 and tabled at the July Committee.
- 4.4.1 **Audit Opinion** – the external auditor has given an unqualified opinion on the accounts and that they give a true and fair view for the year ended 31st March 2015. There were no material changes to the draft accounts that affect the Council’s reported financial position or usable reserves.
- 4.4.2 **Addressing of audit risks** – officers liaised closely with auditors to ensure risk areas arising from Agresso, the new financial management system, were addressed. These risk areas covered the frequency of bank and payroll reconciliations. Officers are ensuring regular reconciliations are conducted throughout the year.
- 4.4.3 **ISA 260 Recommendations** – There are no new recommendations to be reported for the 2014/15 financial statements, although there are still some actions outstanding from the 2013/14 recommendations.
- 4.4.4 Of the 8 recommendations identified in the 2013/14 audit report, 4 recommendations have been completed and 1 has been superseded. Progress on the remaining 3 has been made and KPMG acknowledge that there has been limited time to implement these and that the nature of the recommendations will mean that it will take time to demonstrate that the approach has been effective.
- 4.4.5 The completed recommendations relate to:
- Completion of key recommendations – key control reconciliations for areas such as bank reconciliations and payroll are fully in place post Agresso implementation and are signed off by senior officers.
 - School bank recommendations – the schools finance team have provided reminders on bank reconciliation guidance to schools and conduct testing on the quality of reconciliations
 - Other Land & Building valuations – for the 2014/15 accounts, officers ensured Valuers considered upwards as well as downwards valuations in reviewing properties that weren’t subject to a full valuation that year (but are part of a five year valuation rolling programme).
 - 111-113 Mellish Street / Assets Allocated for Community Benefit - An initial report on the allocation and charging policy for the use of buildings was

reviewed and a new policy was approved by the Mayor in late 2015. A review of council owned community buildings is being conducted by the Corporate Property Department. As the letting of properties to the voluntary / third sector is now part of the Commissioner's monitoring remit, it is now covered by the best value action plans for property and grants.

- Mayoral expenses – systems are in place to ensure that sufficient supporting documentation is retained for Mayoral expenses.

The completed recommendations are detailed in appendix B

4.4.6 The remaining recommendations concern the value for money assessment and relate to:

- Governance Arrangements in School – officers have issued revised guidance and have offered additional support by the Council
- Declarations of Interest – policies procedures have been reviewed, a register is being compiled of organisations receiving financial assistance and members and officers have been advised to make appropriate declarations.
- S106 Arrangements – Grant Thornton are conducting a review of policies and procedures. Final report to be reported at June committee.

The progress on these matters at March 2016 is outlined in pages 20 to 22 of the Auditors report. Officers are working with Grant Thornton in finalising the auditor's report on management processes. Officers plan to report back to Audit Committee in June on the final report with an outline of required action. These matters do not impact upon the auditor's opinion on the statement of accounts.

4.4.7 Officers will continue to feedback on progress to this committee, and KPMG will monitor the outputs to ensure that the recommendations are fully met.

4.5 Objections by the public - As part of the Accounts inspection process, members of the community are able to raise objections to the Statement of Accounts with the external auditors. Four objections to the accounts have been received; 2 concerning parking enforcement income on housing estates: 1 relating to the legality of the Best Value Inspection Payment to DCLG; and 1 relating to the legality of LOBO bank loans. These are being investigated by KPMG, who are liaising with officers as appropriate, but these are not expected to prevent the publication of the accounts opinion, although the audit certificate cannot be issued until these are concluded.

4.6 Members are now requested to approve the Statement of Accounts for 2014/15. The auditors are required to complete and sign off the Whole of Government Accounts return as part of providing their opinion on the accounting statements.

4.7 **Value For Money Assessment** – Following the Value for Money assessment the auditors still have concerns over the council's ability to secure economy, efficiency and effectiveness. This largely stems from the limited timescale the authority had to implement the relevant controls since the publication of the

PwC BV inspection report in November 2014. As a result they are likely to issue an adverse opinion on similar grounds to the one issued for 2013/14.

- 4.8 The auditors do acknowledge the work undertaken to address these concerns and have reviewed the 7 Best Value action plans, but feel until these plans have had longer to bed in and influence the organisational culture they cannot gain the required level of assurance. They will monitor progress on the plans as part of future audits.
- 4.9 Section 11 – in addition to the recommendations made in the BV inspection report, comments within the mayoral election judgment, and via other matters raised with them, the auditor indicated that they considered that the governance had not always been effective.
- 4.10 As a result KPMG invoked a section 11 recommendation that the authority should review its governance procedures. In line with statutory guidance the authority called public meetings (Full Council on 20 January and General Purposes Committee on 27 January), at which the recommendation was accepted and the plan of action was agreed. The auditors will review this item as part of future audits to ensure the requirements of the section 11 recommendation are being met.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

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

6. LEGAL COMMENTS

- 6.1. The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit (England) Regulations 2011 ('the 2011 Regulations'). The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account. The statement must include notes: demonstrating that Dedicated Schools Grant has been deployed in accordance with regulations; of the number of employees in each £5,000 salary bracket starting at £50,000, not including senior employees; and of the remuneration and the Council's contribution to pension for each senior employee.
- 6.2. The 2011 Regulations 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 30th 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 30th 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 30th September along with any certificate,

opinion or report issued or given by the Auditor under section 9 of the Audit Commission Act 1998.

- 6.3. Section 11 of the Audit Commission Act requires the Council to consider the auditor's report or recommendations at a meeting within one month of receipt of the auditor's report, and decide whether to accept the recommendations and what, if any action to take. The auditor is able to extend this timescale if they are satisfied that this is reasonable. Notice of the meeting must be published in a local newspaper at least 7 days before the meeting, and the auditors notified of the outcome of the meeting.
- 6.4. The Local Audit and Accountability Act 2014 ('the Act') abolishes the Audit Commission and repeals the Audit Commission Act 1998. The Act and supporting regulations (which replace the 2011 Regulations) came into effect on 1 April 2015 and will apply from the 2015/16 financial year onwards and are therefore not relevant to the matters referred to in this report. The aim of the Act, as stated in DCLG guidance, is to give local bodies the freedom to appoint their own auditors from an open and competitive market and to manage their own audit arrangements, with appropriate safeguards to ensure independence. However, the new local arrangements for the appointment of auditors are expected to start after the Commission's current contracts with audit suppliers end in 2016-17, although this could be later if the contracts are extended to 2019-20.

7.1 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 had the right to inspect the accounts during July 2015 and local electors had the right to submit questions or objections to the accounts to the auditor. Details of these rights are published in local newspapers and the Council website at appropriate stages.

8. BEST VALUE (BV) IMPLICATIONS

- 8.1 KPMG will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 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.

Linked Reports, Appendices and Background Documents

Linked Report

- Draft Annual Financial Report 2014/15 – Audit Committee 30/06/2014
- Interim Report to those Charged with Governance (ISA260) 2014/15 – Audit Committee - 16/09/2014
- Annual Governance Statement 2014/15 – Audit Committee 21/07/2015

Appendices

Appendix 1 – Explanatory Foreword and draft Statement of Accounts for the year ended 31st March 2015 (subject to final audit opinion)
Appendix 2 - Completed ISA260 recommendations from 2013/14

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

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LONDON BOROUGH OF TOWER HAMLETS

ANNUAL FINANCIAL REPORT 2014-15



INVESTOR IN PEOPLE



ANNUAL FINANCIAL REPORT 2014-15

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EXPLANATORY FOREWORD

Overview by Corporate Director of Resources

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2014/15, 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 2014/15, 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

Although the UK economy has shown signs of improvement, 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.

Through sound financial management the Council's spend for the year is in line with the revenue budget and the level of general reserves increased by £6.5 million to £71.5 million. This increase is in line with the revised plan in the 2015/16 budget and is the result of unallocated contingencies for price increases that did not materialise and additional income from core grants.

This solid financial base has helped to underpin the delivery of the Council's key objectives, 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 2014/15 include:

1. Supporting delivery of over 600 affordable homes.
2. Bringing more than 3,000 homes up to the Decent Homes standard.
3. Improving our public realm, including new street lighting, undertaking a borough-wide deep clean and road resurfacing works.
4. Making our borough greener, including a programme of tree planting in streets, parks and open spaces.
5. Providing free school meals to all primary school children in the borough.
6. Continuing to raise attainment - Tower Hamlets' Key Stage 2 and GCSE results are better than the national average.
7. Reducing the number of young people not in education, employment or training.

8. Supporting more than 1,000 residents into jobs; the Borough's employment rate is now at its highest recorded level.

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.

The Council has continued to invest in its infrastructure with £137 million spent on its capital programme. The main areas of investment were in housing and schools, with £77 million of improvement works through the housing capital programme and £11.7 million through the Building Schools for the Future programme. Other major projects included the acquisition of sites for the new civic centre and a burial ground.

On 4th April 2014 DCLG appointed PricewaterhouseCoopers to carry out an inspection of compliance by the London Borough of Tower Hamlets with the requirements of Part 1 of the Local Government Act in relation to the authority's functions in respect of governance, particularly in respect of the authority's functions under Section 151 of the Local Government Act 1972 and as they relate to the following:

- The authority's payment of grants and connected decisions;
- Transfer of property to third parties;
- Spending and decisions in relation to publicity; and
- Processes and practices relating to entering of contracts.

Under the legislation the Council is required to pay for the inspection, and £1m has been provided in 2014/15 to re-imburse DCLG for the cost of PwC's work.

DCLG concluded that with regard to the processes and practices relating to entering of contracts the Council had not failed in its duty to deliver best value, as required by the local government act of 1999, but with regard to the other areas (grants, disposals and publicity), it had.

As a result, the Government has appointed Commissioners to oversee decision making and improvement in the areas affected, and furthermore take over the role of the Council in grant-making. The DCLG subsequently extended the scope of directions and appointed two further commissioners. Under the legislation, the council is required to pay the pay for the cost of the Commissioners and their reasonable expenses.

In addition, an Electoral Court, after being petitioned under the Representation of the Peoples Act 1983, declared the Mayoral Election held in May 2014 to be void.

The circumstances have been challenging for the Council, and improvement plans have been developed and agreed with the Commissioners, in parallel, the Council remains committed to focussing on the delivery of quality services that are valued by residents.

Looking forward the Council will continue to face significant financial challenges. The 2015-2018 Medium Term Financial Plan agreed by Full Council in March 2015 includes a £68m million savings programme in the years to 2017/18 and work is underway to deliver £28m of this target during 2015/16. This forms the basis of a balanced budget over the next three years, Major external challenges include the potential impact of government welfare reforms and changes to the way in which local authority services are funded. Following the outcome of the recent General Election, the next spending review is unlikely to be before Autumn 2015, but there are likely to be more austerity cuts announced. The Council is currently reviewing the Medium Term Financial Plan to 2018/19 with a view to developing longer term strategies to deliver savings.

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 there will need to be a further, more fundamental review of the way in which local services are delivered.

Review of the Year

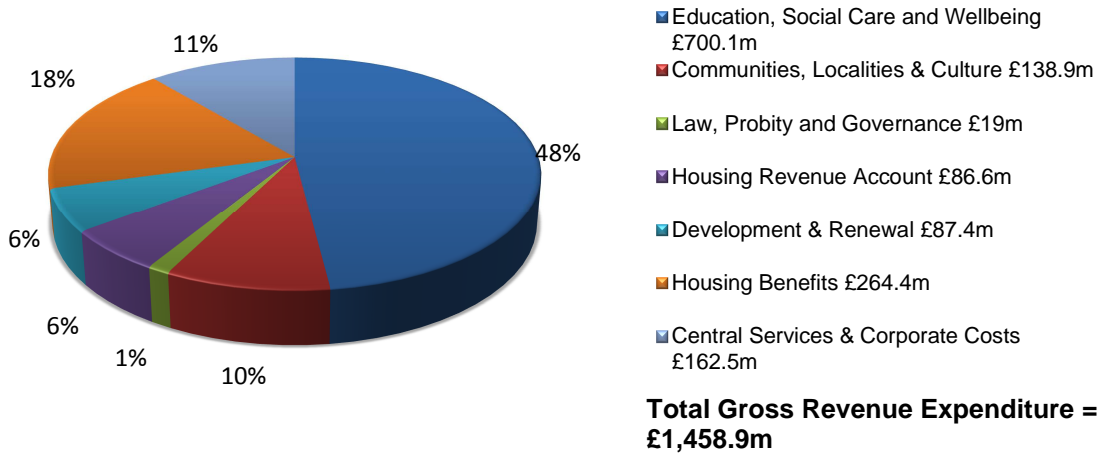
Revenue Income and Expenditure

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 was breakeven against the net General Fund budget of £293.9 million after the planned transfer of £6.4 million of unused contingencies to General Fund Reserves. The HRA account showed an additional surplus of some £2.9 million against budget.

The Council's gross expenditure on services, excluding accounting adjustments, was £1.5 billion (£1.4 billion in 2013/14). An analysis by directorate is shown in the following diagram.

Analysis of Gross Revenue Expenditure by Service Area

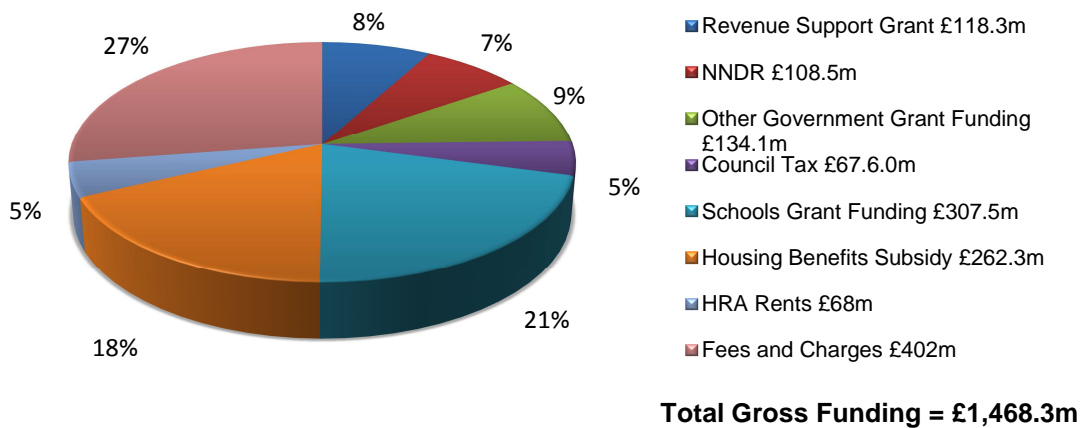


Revenue Funding

Government grants and subsidies continue to be the main sources of revenue funding (£0.64 billion).

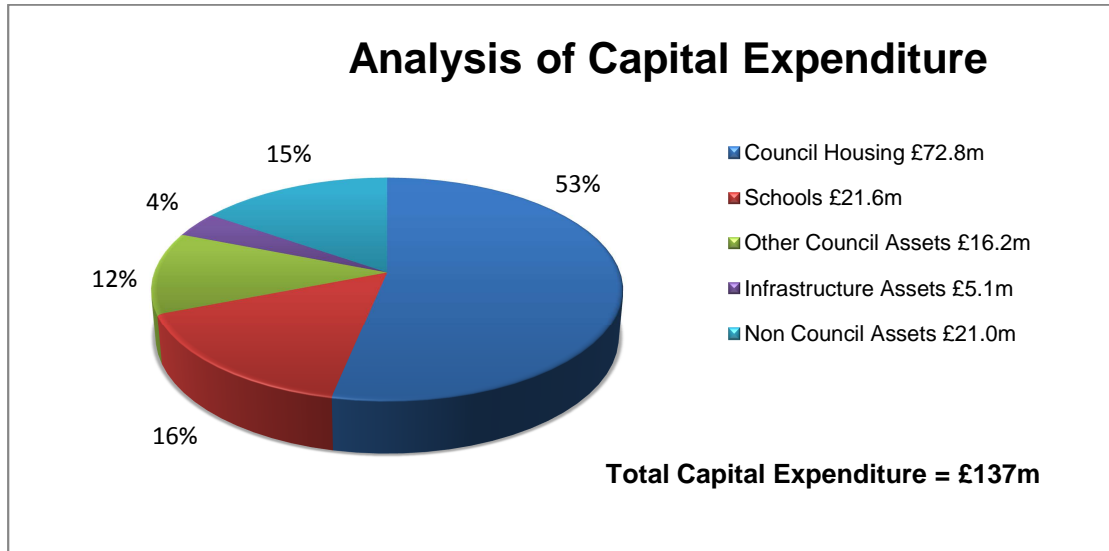
The main specific grant continues to be the Dedicated Schools Grant which can only be used to fund the education services and is largely 'passported' directly to the schools. An analysis of all the funding sources is shown in the diagram below.

Analysis of Revenue Funding Sources



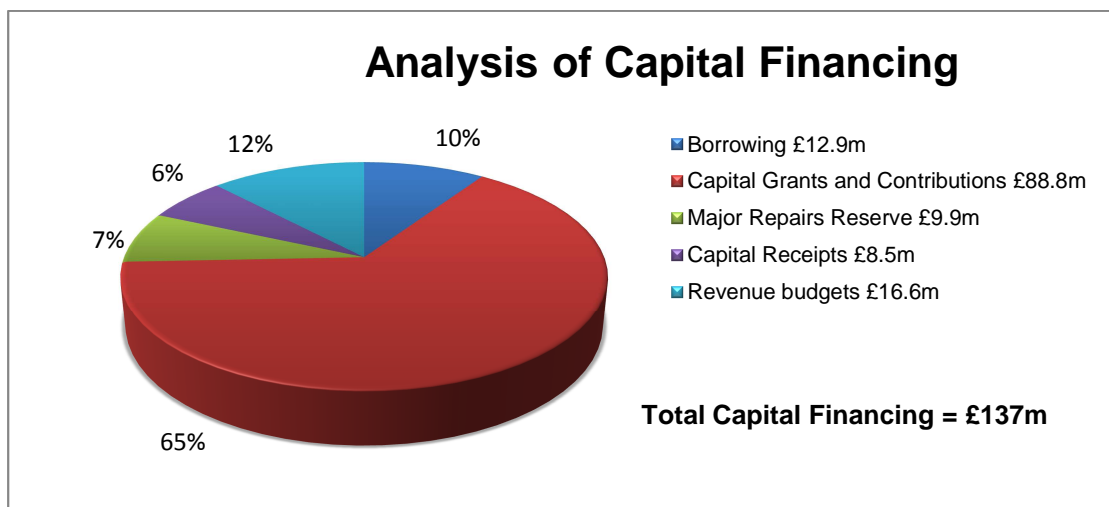
Capital Investment

The Council has continued to make considerable capital investment in its capital assets. The following table sets out the broad categories of investment during the year with the main areas of spending being on schools (primarily through the Building Schools for the Future Programme) and housing where the Council spent £72.8 million on its housing assets.



Investment shown as being in 'non-Council assets' includes £7.3 million of expenditure on schools and children centres not owned by the Council and £3.9m of expenditure on leaseholder properties.

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, £9.9 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 £89 million (£90 million 2013/14). This was reduced by PWLB loans that matured during the year.

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 2014/15 there was a net liability of £638 million (£496 million 2013/14). 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.

Though pension investments increased in value by £125m in the year, the IAS19 deficit increased as at 31 March 2015 compared to the value reported at 31 March 2014. This is principally due to the impact of unfavourable financial assumptions used at 31 March 2015. A significant increase in the net present value discount rate 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 took place at 31 March 2013 reporting a deficit of £365 million (LBTH only).

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

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

MOVEMENT IN RESERVES STATEMENT

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

	NOTES	USABLE RESERVES							UNUSABLE RESERVES							TOTAL AUTHORITY RESERVES	
		GENERAL FUND BALANCE £'000	EARMARKED GENERAL FUND RESERVES* £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	DEFERRED CAPITAL RECEIPTS £'000		TOTAL UNUSABLE RESERVES £'000
Balance as at 31 March 2013		38,060	135,153	16,233	12,364	20,642	55,701	278,153	324,685	1,153,640	(522,962)	1,588	1,032	(3,369)	110	954,724	1,232,877
Movement in reserves during 2013/14																	
Surplus or (Deficit) on the Provision of Services		20,382	0	61,812	0	0	0	82,194	0	0	0	0	0	0	0	0	82,194
Other comprehensive expenditure and income		0	0	0	0	0	0	0	32,686	0	44,724	0	0	0	0	77,410	77,410
Total Comprehensive Expenditure and Income		20,382	0	61,812	0	0	0	82,194	32,686	0	44,724	0	0	0	0	77,410	159,604
Adjustments between accounting basis and funding basis under regulations		13,197	0	(59,893)	4,032	306	(1,164)	(43,522)	(10,263)	72,615	(17,708)	(821)	(180)	(58)	(63)	43,522	0
Net Increase or Decrease before Transfers to Earmarked Reserves		33,579	0	1,919	4,032	306	(1,164)	38,672	22,423	72,615	27,016	(821)	(180)	(58)	(63)	120,932	159,604
Transfers to or from earmarked reserves	8	(3,800)	3,800	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves	8	(2,853)	2,853	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase or (Decrease) in 2013/14		26,926	6,653	1,919	4,032	306	(1,164)	38,672	22,423	72,615	27,016	(821)	(180)	(58)	(63)	120,932	159,604
Balance as at 31 March 2014 carried forward		64,986	141,806	18,152	16,396	20,948	54,537	316,825	347,108	1,226,255	(495,946)	767	852	(3,427)	47	1,075,654	1,392,481
Movement in reserves during 2014/15																	
Surplus or (Deficit) on the Provision of Services		(7,202)	0	258,213	0	0	0	251,011	0	0	0	0	0	0	0	0	251,011
Other comprehensive expenditure and income		0	0	0	0	0	0	0	(1,477)	0	(139,066)	0	0	0	0	(140,543)	(140,543)
Total Comprehensive Expenditure and Income		(7,202)	0	258,213	0	0	0	251,011	(1,477)	0	(139,066)	0	0	0	0	(140,543)	110,468
Adjustments between accounting basis and funding basis under regulations		28,511	0	(255,220)	5,778	28,188	947	(191,796)	(3,367)	202,316	(14,552)	7,280	(284)	439	(36)	191,796	0
Net Increase or Decrease before Transfers to Earmarked Reserves		21,309	0	2,993	5,778	28,188	947	59,215	(4,844)	202,316	(153,618)	7,280	(284)	439	(36)	51,253	110,468
Transfers to or from earmarked reserves	8	(13,581)	13,581	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers to or from school reserves	8	(1,264)	1,264	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase or (Decrease) in Year		6,464	14,845	2,993	5,778	28,188	947	59,215	(4,844)	202,316	(153,618)	7,280	(284)	439	(36)	51,253	110,468
Balance as at 31 March 2015		71,450	156,651	21,145	22,174	49,136	55,484	376,040	342,264	1,428,571	(649,564)	8,047	568	(2,988)	11	1,126,907	1,502,949

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.

Gross Expenditure	2013/14		Note	2014/15		Net Expenditure
	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	
£'000	£'000	£'000		£'000	£'000	£'000
Continuing Operations						
113,847	20,092	93,755	Adult Social Services	108,770	21,733	87,037
8,478	6,866	1,612	Central Services	6,193	5,035	1,158
562,042	461,430	100,612	Children's and Education Services	565,398	452,525	112,873
28,507	10,650	17,857	Corporate and Democratic Core	37,476	18,720	18,756
23,797	4,192	19,605	Cultural and Related Services	37,369	5,071	32,298
45,162	9,413	35,749	Environment and Regulatory Services	46,528	7,625	38,903
29,943	20,411	9,532	Highways and Transport Services	31,249	21,935	9,314
345,700	323,860	21,840	Housing Services	333,104	306,415	26,689
53,883	90,274	(36,391)	Local Authority Housing (Housing Revenue Account) ¹	(118,296)	89,126	(207,422)
0	1,023	(1,023)	Non-distributed Costs	38	0	38
26,748	15,283	11,465	Planning Services	22,084	13,544	8,540
30,279	32,369	(2,090)	Public Health	32,355	33,434	(1,079)
1,268,386	995,863	272,523	NET COST OF SERVICES	1,102,268	975,163	127,105
		14,201	Other Operating Expenditure			(1,533)
		34,018	Financing and Investment Income and Expenditure			28,660
		(402,937)	Taxation and Non-Specific Grant Income			(405,243)
		(82,195)	(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES			(251,011)
			Other Comprehensive Income and Expenditure			
		(32,686)	(Surplus)/Deficit on revaluation of non-current assets			1,477
		(44,724)	Actuarial (gains) or losses on pension assets and liabilities			139,066
		(77,410)	OTHER COMPREHENSIVE INCOME AND EXPENDITURE			140,543
(159,605) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				(110,468)		

¹ HRA gross expenditure includes reversal of previous valuation losses of £194m

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 2015.

31 March 2014 £'000		Notes	31 March 2015 £'000
	Long-term Assets		
1,839,299	Property, plant and equipment	12	2,042,623
9,310	Heritage Assets	43	9,310
590	Long Term Debtors	13	613
1,849,199	Total Long-term assets		2,052,546
	Current Assets		
185,636	Short-term investments	15	215,748
225	Assets held for sale	21	225
1,739	Inventories	16	0
128,136	Short-term debtors	19	115,248
138,111	Cash and cash equivalents	20	202,357
453,847	Total Current Assets		533,578
	Current liabilities		
1,984	Short-term borrowing	15	1,710
199,552	Short-term creditors	22	215,640
9,338	Provisions	23	4,741
210,874	Total Current liabilities		222,091
	Long Term Liabilities		
9,587	Provisions	23	7,340
88,892	Long-term borrowing	15	88,528
495,946	Liability related to defined benefit pension schemes	41	649,564
64,475	Capital grants receipts in advance	37	76,190
38,472	Deferred liabilities	40	37,509
2,318	Deferred Income - Receipt in Advance		1,947
699,690	Total Long-Term Liabilities		861,078
1,392,482	NET ASSETS		1,502,956
	Reserves		
	Usable Reserves		
64,989	General Fund		71,457
18,152	Housing Revenue Account		21,145
107,080	Earmarked reserves	8	120,663
34,724	Schools reserves	8	35,988
20,948	Capital receipts reserve		49,136
54,537	Capital grants unapplied		55,484
16,396	Major repairs reserve		22,174
316,826	Total Usable Reserves		376,047
	Unusable Reserves	25	
347,108	Revaluation Reserve		342,264
1,226,255	Capital Adjustment Account		1,428,571
767	Collection Fund Adjustment Account		8,047
852	Financial Instruments Adjustment Account		568
(495,946)	Pensions reserve		(649,564)
(3,427)	Accumulated Absences Account		(2,988)
47	Deferred capital receipts		11
1,075,656	Total Unusable Reserves		1,126,909
1,392,482	TOTAL RESERVES		1,502,956

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.

2013/14 £'000		Notes	2014/15 £'000
82,195	Net surplus or (deficit) on the provision of services		251,011
47,185	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>26A</u>	(43,815)
(62,227)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>26A</u>	(59,632)
67,153	Net cash flows from Operating Activities		147,564
(64,145)	Investing Activities	<u>27</u>	(81,972)
(893)	Financing Activities	<u>28</u>	(1,346)
2,115	Net increase or decrease in cash and cash equivalents		64,246
135,996	Cash and cash equivalents at the beginning of the reporting period		138,111
138,111	Cash and cash equivalents at the end of the reporting period	<u>20</u>	202,357

NOTE 1. STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31st March 2015. 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 2014/15 and the *Service Reporting Code of Practice (SeRCOP) 2014/15*, 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 2015 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 if material.
- 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 minimis threshold for revenue accruals of £10,000 below which items of income and expenditure are not required.

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 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 when 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:

Property, Plant and Equipment – The materiality level for assessing whether assets contain separately depreciable components has been reviewed and has changed from £0.5m to £1m. This threshold is considered appropriate as it encompasses 90% of the asset value for those assets subject to componentisation.

Future Changes in Accounting Policy - The Code of Practice on Local Council Accounting in the United Kingdom 2015/16 (the Code) has introduced several changes in accounting policies which will be required from 1st April 2015. If these had been adopted for the financial year 2014/15 there would be no material changes as detailed below.

A number of new and revised standards have been issued addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements in other entities. These include:

- **IFRS13 Fair Value Measurement (May 2011)** – This standard requires that valuations are based on transfer prices in principal or most advantageous markets.
- **IFRIC21 Levies** – This standard outlines how levies imposed by Government are to be recognised. This standard is unlikely to materially affect how the Council accounts for levies as disclosed in note 9 – Other Operating Expenditure
- **Annual Improvements to IFRSs (2011-2013 cycle)** – A cyclical review of IFRS standards clarifies some standards. The issues covered are as follows:
- **IFRS1 – Meaning of effective IFRSs** – this allows the early introduction of standards before they become mandatory.
- **IFRS3 – Scope exceptions for joint ventures** – this applies to accounts for joint ventures. There are no material joint ventures that apply to the Council at present.
- **IFRS13 – Fair Value Measurement** - This permits the netting off of related assets and liabilities in some cases.
- **IAS40 – Investment Property** - Clarifies the interrelationship of IFRS3, Business Combinations and IAS40, Investment Property when classifying property as investment property or owner occupied. At present the Council has no investment properties.

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 losses (general fall in prices across the board) and impairment losses (fall in price specific to an asset) on tangible non-current 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. The Minimum Revenue Provision (MRP) relating to non-housing assets has been calculated for 2014/15 in accordance with Option 1 (the Regulatory Method) set out in the statutory guidance on MRP.

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 contribution 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 2015.

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

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

b. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognized 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-ring-fenced 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 requires material heritage assets held by the Council to be disclosed.

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £9.3 million at 31 March 2015. 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 sculptures 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 the same artist to demonstrate values are clearly under materiality limits. 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 2014/15 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 an interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council but is not considered material and does not require group accounts to be prepared (a summary of this interest can be found in note 47). 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 Council as a Lessee

The Council has reviewed its leases in detail 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 Council 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 2014/15 (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 minimus 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, or the excess over the amount in the revaluation reserve, 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, or the excess over the amount in the revaluation reserve, is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Depreciation

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

Depreciation is calculated on the following bases:

- **dwelling**s - equivalent to the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation
- **other buildings** – straight-line allocation over the useful life of the property as estimated by the valuer
- **vehicles, plant, furniture and equipment** – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. For equipment, over five years
- **infrastructure** – straight-line allocation over 40 years

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

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

Any assets with a depreciable value below £1 million are not considered material for separating components. Separate components will be considered in an asset with a value

greater than £1 million if the component has a value of greater than 25% of the asset and the remaining life of the asset is materially different from the underlying asset.

Disposals and Non-Current Assets Held for Sale

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the 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, 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, Business Rate Supplements (BRS) and National Non-Domestic Rates (NNDR). This account receives income on behalf of the Council, Central Government and its other preceptor the Greater London Authority (GLA).

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

The Council's share of net cash collected from Council Tax & NNDR 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 Central Government & GLA or has been overpaid to the Central Government & GLA on the Balance Sheet date.

There are a number of NNDR appeals outstanding that date back to 2005. These are to be heard by the Government's external Valuation Office. A provision has been raised based on an estimate of the income from a lower valuation.

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 second phase which will last until 31 March 2015. 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 assumptions made in the medium term financial plan in 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.
- 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.
- National Non Domestic Rates appeals – NNDR bills are based on the valuation of properties. The accounts have been prepared on the basis of the valuations included within bills raised, however payers have the right to appeal against valuations. There are outstanding appeals going back to 2005. The Council has made provision to meet some of the potential revaluations.

3 Restated Accounting Statements

The split between creditor types in note 22 has been restated in 2013/14 figures to reflect a change of categorisation.

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 2015 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.

Valuations at 1st April 2014 are used to construct the balance sheet. However the Valuers have indicated that market values for housing properties have increased by roughly 12.5%, this would equate to £113m. The impact of these increases will be taken into account in a more detailed valuation exercise for the 2015/16 Accounts.

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 £1.2 million for every year that useful lives had to be reduced.

Heritage Assets - In valuing material heritage assets, valuations have been obtained from independent Valuers where practicable. Where a value has been given between a certain band, then the mid-point valuation is used. However, because of their unique nature the value of heritage assets is difficult to predict. There is a risk that the value of heritage assets is incorrectly stated, but this would only become apparent if the asset is sold. 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.

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 2015, the value of these creditors was £71.7 million (£76.9 million at 31st March 2014).

NNDR Appeals - There are over 5,400 NNDR (Business Rates) appeals that are yet to be heard by the Government's Valuation Tribunal. These appeals relate to both the 2005 and 2010 valuation lists. The Council has used its experience of the outcomes of previous appeals to calculate the provision for the possible outcome of the current appeals that are yet to be heard. The Council is satisfied that this is the most appropriate approach to assessing the provision but notes that there is a risk that the actual outcome for the current appeals may be different from the historic trends

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 2014/15, the Council's actuaries advised that the net pensions liability had increased by £153.6 million to £649.6 million mainly as a result of a lower discount factor used to calculate the net present value of future pension payments. This is despite investments increasing in value by £127 million in the year.

5 Material Items of Income and Expense

Current Year Items

Actuarial gain on pension fund - there was a £153.6 million actuarial loss on the pension fund mainly due to a lower discount factor used to calculate the net present value of future pension payments.

Revaluation of HRA dwellings - The valuation of property, plant and equipment as at 1st April 2014 resulted in an increase in the value of dwellings of £198m, of which £194m was credited to HRA gross expenditure as a reversal of previous revaluation losses.

6 Events After the Balance Sheet Date

There are no financial post balance sheet events that are not mentioned elsewhere in these Accounts.

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

	USABLE RESERVES							UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
2014/15	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account									
<u>Reversal of items debited or credited to the Comprehensive I&E</u>									
Charges for depreciation and impairment of non current assets	23,632	0	0	15,718	0	0	39,350	(39,350)	0
Revaluation losses on PPE (charged to SDPS)	31,911	0	(194,072)	0	0	0	(162,161)	162,161	0
Capital grants and contributions applied	(18,748)	0	(1,803)	0	0	(68,134)	(88,685)	88,685	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	16,951	0	4,044	0	0	0	20,995	(20,995)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	0	0	33,497	0	0	0	33,497	(33,497)	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(6,881)	0	0	0	0	0	(6,881)	6,881	0
Capital expenditure charged against the General Fund and HRA balances	(7,720)	0	(8,855)	0	0	0	(16,575)	16,575	0
Adjustments involving the Capital Receipts Reserve									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	0	0	(34,814)	0	34,814	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(8,549)	0	(8,549)	8,549	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,572	0	0	0	(1,572)	0	0	0	0
Unattached capital receipts	(681)	0	(2,778)	0	3,459	0	0	0	0
Deferred Capital Receipts	0	0	0	0	36	0	36	(36)	0
Adjustment involving the Major Repairs Reserve									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(9,940)	0	0	(9,940)	9,940	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	102	0	182	0	0	0	284	(284)	0
Adjustment involving the Pensions Reserve									
Reversal of items relating to retirement benefits debited or credited to the CIES	55,603	0	1,296	0	0	0	56,899	(56,899)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(39,814)	0	(2,533)	0	0	0	(42,347)	42,347	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	(7,280)	0	0	0	0	0	(7,280)	7,280	0
Adjustments involving the Unequal Pay Back Pay Adjustment Account									
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0
<u>Other adjustments include</u>									
Adjustments involving the Capital Grants Unapplied Account									
Capital grants and contributions unapplied credited to CIES when receivable	(19,697)	0	(49,384)	0	0	69,081	0	0	0
Adjustment between the Capital Adjustment Account and the Revaluation Reserve									
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0
Transfers from General Fund (as directed by Secretary of State)	0	0	0	0	0	0	0	0	0
Adjustments involving the Accumulated Absences Account									
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(439)	0	0	0	0	0	(439)	439	0
Total Adjustments	28,511	0	(255,220)	5,778	28,188	947	(191,796)	191,796	0

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2013/14	USABLE RESERVES							UNUSABLE RESERVES	
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account									
<u>Reversal of items debited or credited to the Comprehensive I&E</u>									
Charges for depreciation and impairment of non current assets	23,405	0	0	15,831	0	0	39,236	(39,236)	0
Revaluation losses on PPE (charged to SDPS)	374	0	(21,748)	0	0	0	(21,374)	21,374	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	(45,478)	0	0	0	0	(49,653)	(95,131)	95,131	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	29,010	0	1,994	0	0	0	31,004	(31,004)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	21,753	0	5,754	0	0	0	27,507	(27,507)	0
Capital receipts from Secretary of State used to repay debt in accordance with the HRA Settlement Determination	0	0	0	0	0	0	0	0	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(6,836)	0	0	0	0	0	(6,836)	6,836	0
Capital expenditure charged against the General Fund and HRA balances	(1,175)	0	(9,083)	0	0	0	(10,258)	10,258	0
Adjustments involving the Capital Receipts Reserve									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(5,870)	0	(10,189)	0	16,059	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(14,701)	0	(14,701)	14,701	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	1,807	0	0	0	(1,807)	0	0	0	0
Unattached capital receipts	(666)	0	(26)	0	692	0	0	0	0
Deferred Capital Receipts	0	0	0	0	63	0	63	(63)	0
Adjustment involving the Major Repairs Reserve									
Reversal of Major Repairs Allowance credited to the HRA	0	0	0	(11,799)	0	0	(11,799)	11,799	0
Use of the Major Repairs Reserve to finance new capital expenditure									0
Adjustments involving the Financial Instruments Adjustment									
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	101	0	79	0	0	0	180	(180)	0
Adjustment involving the Pensions Reserve									
Reversal of items relating to retirement benefits debited or credited to the CIES	53,378	0	3,480	0	0	0	56,858	(56,858)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(36,837)	0	(2,313)	0	0	0	(39,150)	39,150	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	821	0	0	0	0	0	821	(821)	0
Adjustments involving the Unequal Pay Back Pay									
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0
<u>Other adjustments include</u>									
Adjustments involving the Capital Grants Unapplied Account	(20,648)	0	(27,841)	0	0	48,489	0	0	0
Capital grants and contributions unapplied credited to CIES when receivable									
Adjustment between the Capital Adjustment Account and the	0	0	0	0	0	0	0	0	0
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0
Transfers from General Fund (as directed by Secretary of									
Adjustments involving the Accumulated Absences Account	58	0	0	0	0	0	58	(58)	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									
Total Adjustments	13,197	0	(59,893)	4,032	306	(1,164)	(43,522)	43,522	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 2014/15

	BALANCE AT 1 APRIL 2013 £'000	TRANSFERS OUT 2013/14 £'000	TRANSFE-RS IN 2013/14 £'000	BALANCE AT 31 MARCH 2014 £'000	TRANSFERS OUT 2014/15 £'000	TRANSFERS IN 2014/15 £'000	BALANCE AT 31 MARCH 2015 £'000
GENERAL FUND							
General Fund Reserve	38,060	0	26,929	64,989	0	6,467	71,456
EARMARKED RESERVES							
Corporate							
1 Improvement & Efficiency	9,412	(1,446)	4,527	12,493	(927)	5,351	16,917
2 Severance	7,000	0	4,000	11,000	0	4,000	15,000
3 Finance Systems	2,100	0	410	2,510	0	0	2,510
4 ICT Refresh	1,355	0	500	1,855	(676)	370	1,549
5 Olympic Legacy Schemes	711	(60)	0	651	0	0	651
6 Education Grant Reduction	2,569	(670)	194	2,093	(760)	0	1,333
7 Employment and other Corporate Initiatives	11,905	(5,656)	8,215	14,464	(3,366)	2,747	13,845
8 Other	2,135	(162)	1,491	3,464	0	70	3,534
Service Specific							
9 Homelessness	3,024	(449)	0	2,575	(361)	0	2,214
10 Parking Control	1,756	(1,383)	540	913	0	1,006	1,919
11 Development & Renewal Other	3,201	(415)	79	2,865	(100)	1,789	4,554
12 Communities, Localities & Culture	1,089	(209)	336	1,216	(88)	709	1,837
13 Children, Schools & Families	1,172	(380)	803	1,595	(402)	988	2,181
14 Adults, Health & Wellbeing	5,293	(4,493)	0	800	0	1,138	1,938
15 Chief Executives & Resources	464	0	100	564	0	0	564
Revenue Reserves - Other							
16 Insurance	23,108	(2,255)	58	20,911	(582)	2,736	23,065
17 Schools Balances	31,871	0	2,853	34,724	(2,148)	3,412	35,988
18 CSF - Early Intervention	4,969	(3,359)	706	2,316	0	146	2,462
19 Housing Revenue Account (HRA)	15,233	0	1,920	17,153	(1)	2,993	20,145
20 Housing Revenue Account - Future Housing Supply	1,000	0	0	1,000	0	0	1,000
Capital Reserves							
21 Capital Programme (General Fund)	22,019	(751)	3,527	24,795	(7,800)	7,593	24,588
Earmarked Reserve Total	151,386	(21,688)	30,259	159,957	(17,211)	35,048	177,794
Total Usable Reserve Total	189,446	(21,688)	57,188	224,946	(17,211)	41,515	249,250

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 Council's finance systems.
- 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.
- 11-15 Reserves held for service specific initiatives.

Revenue Reserves - Other

- 16 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.
- 17 Reserves held by schools under the scheme of delegation.
- 18 Reserve created from grant for Children, School & Families early intervention schemes.
- 19 The reserve balance on the ring-fenced Housing Revenue Account to be used for the provision of social housing in the Borough.
- 20 An earmarked HRA reserve to fund future housing projects.

Capital Reserves

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

9 Other Operating Expenditure

2013/14 £'000	Note	2014/15 £'000
Levies		
235	- Lee Valley Regional Park Authority	236
171	- Environment Agency	173
1,233	- London Pensions Fund Authority	1,261
1,639	Total Levies	1,670
1,807	Payments to Housing Capital Receipts Pool	1,572
11,447	Net (gain)/loss on disposal of non-current assets	(1,316)
(692)	Unattached capital receipts	(3,459)
14,201	Total	(1,533)

Nine burial subsidy payments totalling £2,250 were paid after the commissioners were appointed. As these payments have been considered grants and were not approved by the commissioners before paying, this expenditure is considered unlawful. As the Council does not have a cemetery within its boundaries, these subsidy payments are to assist with the cost of burials in three cemeteries in Redbridge and Newham. This expenditure is shown within the Central Services line of the CI&E.

10 Financing and Investment Income and Expenditure

2013/14 £'000		2014/15 £'000
13,186	Interest payable and similar charges	9,745
23,137	Pensions interest cost and expected return on pensions assets	21,175
(2,336)	Interest receivable and similar income	(2,254)
31	Surplus or deficit of trading operations	(6)
34,018	Total	28,660

11 Taxation and Non Specific Grant Income

2013/14 £'000		2014/15 £'000
(64,266)	Council Tax income	(67,576)
(96,259)	Non domestic rates	(108,528)
(172,749)	Non-ringfenced Government grants	(146,321)
(69,663)	Capital grants and contributions	(82,818)
(402,937)	Total	(405,243)

12 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2014/15	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRA-STRUCTURE ASSETS	COMMUNITY ASSETS	SURPLUS ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2014	905,913	974,232	23,414	143,975	49,677	24,588	0	2,121,799	270,854
Additions	69,969	32,881	762	5,055	3,900	285	2,840	115,692	7,167
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(10,338)	(16,748)	0	0	0	0	0	(27,086)	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	194,071	(31,919)	0	0	0	0	0	162,152	0
Derecognition - Disposals	(34,002)	0	0	0	0	0	0	(34,002)	0
Derecognition - Other	0	0	0	0	0	0	0	0	0
Assets Reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	0	0	0	0	0	0	0	0	0
At 31 March 2015	1,125,613	958,446	24,176	149,030	53,577	24,873	2,840	2,338,555	278,021
Accumulated Depreciation and Impairment									
At 1 April 2014	152,733	71,326	19,106	38,976	0	359	0	282,500	6,722
Depreciation charge	14,141	20,086	1,071	3,643	0	607	0	39,548	7,702
Depreciation written out to the Revaluation Reserve	(14,234)	(11,376)	0	0	0	0	0	(25,610)	0
Derecognition - Disposals	(506)	0	0	0	0	0	0	(506)	0
Derecognition - Other	0	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	0	0	0	0	0	0	0	0	0
At 31 March 2015	152,134	80,036	20,177	42,619	0	966	0	295,932	14,424
Net Book Value									
At 31 March 2015	973,479	878,410	3,999	106,411	53,577	23,907	2,840	2,042,623	263,597
At 31 March 2014	753,180	902,906	4,308	104,999	49,677	24,229	0	1,839,299	264,132

12 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPARATIVE MOVEMENTS IN 2013/14	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRASTRUCTURE ASSETS	COMMUNITY ASSETS	SURPLU S ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2013	856,007	929,231	22,629	138,660	49,381	16,537	4,206	2,016,651	250,283
Additions	48,260	47,247	785	5,315	296	0	0	101,903	27,282
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(14,223)	16,603	0	0	0	6,837	0	9,217	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	21,748	(3,660)	0	0	0	1,214	0	19,302	0
Derecognition - Disposals	(4,979)	(19,780)	0	0	0	0	0	(24,759)	(6,711)
Derecognition - Other	0	(515)	0	0	0	0	0	(515)	0
Assets Reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	(900)	5,106	0	0	0	0	(4,206)	0	0
At 31 March 2014	905,913	974,232	23,414	143,975	49,677	24,588	0	2,121,799	270,854
Accumulated Depreciation and Impairment									
At 1 April 2013	152,722	55,856	17,380	35,466	0	1,402	0	262,826	830
Depreciation charge	14,234	19,360	1,726	3,510	0	604	0	39,434	6,258
Depreciation written out to the Revaluation Reserve	(14,223)	(3,099)	0	0	0	(1,647)	0	(18,969)	0
Impairment losses/(reversals) recognised in the Revaluation Reserve								0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services								0	0
Derecognition - Disposals	0	(742)	0	0	0	0	0	(742)	(366)
Derecognition - Other	0	(49)	0	0	0	0	0	(49)	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	0	0	0	0	0	0	0	0	0
At 31 March 2014	152,733	71,326	19,106	38,976	0	359	0	282,500	6,722
Net Book Value									
At 31 March 2014	753,180	902,906	4,308	104,999	49,677	24,229	0	1,839,299	264,132
At 31 March 2013	703,285	873,375	5,249	103,194	49,381	15,135	4,206	1,753,825	249,453

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 2014/15, the council compared the MRA figure to a depreciation figure calculated based on figures from 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 £98.525 million at 31st March 2015 (£92.197 million at 31st March 2014).

	Committed sum £m	Costs to 31/3/2015 £m	2015/16 onwards £m	Contract End Date
Decent Homes Contract	175.000	76.475	98.525	31/03/2017
TOTAL	175.000	76.475	98.525	

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 2014/15, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2010'.

ANALYSIS OF ROLLING REVALUATION PROGRAMME	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	-	9,697	3,999	106,411	53,577	-	2,840	176,524
Valued at fair value in:								
2014/15	973,479	77,047	-	-	-	-	-	1,050,526
2013/14	-	66,667	-	-	-	23,907	-	90,574
2012/13	-	657,377	-	-	-	-	-	657,377
2011/12	-	25,411	-	-	-	-	-	25,411
2010/11	-	42,211	-	-	-	-	-	42,211
Value at 31 March 2015	973,479	878,410	3,999	106,411	53,577	23,907	2,840	2,042,623

13 LONG TERM DEBTORS

	1st April 2013 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2014 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2015 £'000
Mortgages on Right to Buy properties	128	5	(72)	61	4	(37)	28
Sundry Loans	544	154	(169)	529	183	(127)	585
	672	159	(241)	590	187	(164)	613

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 licences, not internally generated software. Since the provision of IT services transferred to the Council's partner organisation on 1st May 2012 there have been no intangible asset transactions.

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

Financial Instrument Categories	Long-Term		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2014	2015	2014	2015	2014	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Liabilities						
Borrowings at amortised cost	88,892	88,528	1,046	746	89,938	89,274
Deferred Liabilities (PFI)	38,472	37,509	938	964	39,410	38,473
Creditors - Financial Liabilities carried at contract amount	0	0	87,343	71,728	87,343	71,728
Total Liabilities	127,364	126,037	89,327	73,438	216,691	199,475
Financial Assets						
Loans and receivables	0	0	185,636	215,748	185,636	215,748
Debtors - financial assets carried at contract amounts	0	0	25,348	25,655	25,348	25,655
Cash held at bank and cash equivalents	0	0	138,111	202,357	138,111	202,357
Total Financial Assets	0	0	349,095	443,760	349,095	443,760

NOTES

1. Market loans (LOBOs) of £77.5 million have been included in long term borrowing.
2. Included in loans and receivables is £10m of deposits due to be settled within 1 and 3 years as at 31 March 2015.
3. The Authority's investment portfolio consists of fixed term deposits, callable deposits, two collar deposits, two call accounts and money market funds.
4. The terms of the collar deposits, referenced to 3 month LIBOR are: £5m from 10.01.2014 - 09.01.2017, with a floor of 1.74% and a cap of 2.50%; £5m from 20.03.2014 - 20.03.16, with a floor of 1.25% and a cap of 1.80%.
5. Balances in the money market funds and call accounts at 31 March 2015 are shown under 'cash and cash equivalent' in the balance sheet. Cash equivalents are highly liquid deposits which are readily convertible into cash at short notice. They include £165.9 million (£107.6 million as at 31st March 2014) of short-term deposits with banks and building societies excluded from loans and receivables.
6. The above long term figures are based on paragraph B9, Module 7 of the 2014/15 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.
7. 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:

	2013/14		2014/15	
	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	13,186	0	9,745	0
Interest income	0	2,336	0	2,254
TOTAL INTEREST AND INVESTMENT INCOME	13,186	2,336	9,745	2,254

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 2015.
- 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 2014	31 March 2014	31 March 2015	31 March 2015
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Public Works Loans Board	12,131	14,996	11,455	14,598
Lender's option, borrower's option loans	77,807	76,876	77,818	100,297
Deferred liabilities - Private Finance Initiatives (PFI)	39,410	39,410	38,473	38,473
Creditors - Financial Liabilities carried at contract amount	87,343	87,343	71,728	71,728
Financial Liabilities	216,691	218,625	199,474	225,096

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 2014	31 March 2014	31 March 2015	31 March 2015
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Fixed term deposits with banks and building societies	185,629	185,807	215,741	215,945
Equity Shares (not quoted in an active market)	7	7	7	7
Debtors - financial assets carried at contract amounts	25,348	25,348	21,615	21,615
Cash held at Bank	30,544	30,544	67,188	67,188
Cash equivalents (deposits with banks and other financial institutions)	107,567	107,567	135,169	135,129
Financial Assets	349,095	349,273	439,720	439,884

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.

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 transaction. The authority's minimum credit rating criteria is as detailed in the Treasury Management Strategy.

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 2014 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2014 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	40,549	0%	0%	0%
Money Market Funds	97,562	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	0%	0%	0%
3 - 6 months	25,056	0%	0%	0%
6 - 12 months	125,468	0%	0%	0%
Over 12 months	35,105	0%	0%	0%
TOTAL	323,740	0%	0%	0%

	Amounts at 31 March 2015 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2015 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	102,207	0%	0%	0%
Money Market Funds	100,150	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	0%	0%	0%
3 - 6 months	60,091	0%	0%	0%
6 - 12 months	145,621	0%	0%	0%
Over 12 months	10,029	0%	0%	0%
TOTAL	418,098	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 £6 million of the £75 million balance (2013/14 - £5.6 million of the £87.8 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 2014 £'000	31 March 2015 £'000
Three to six months	1,307	1,191
Six months to one year	1,104	1,496
More than one year	3,178	3,334
TOTAL	5,589	6,021

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

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

Loans outstanding	31 March 2014 £'000	31 March 2015 £'000
Public Works Loans Board	12,131	11,455
Market debt	77,807	77,818
PFI	39,410	38,473
TOTAL	129,348	127,746
Less than 1 year	1,984	1,710
Between 1 and 2 years	2,032	3,094
Between 2 and 5 years	8,626	9,590
Between 5 and 10 years	17,886	19,580
More than 10 years	98,820	93,772
TOTAL	129,348	127,746

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 less than one 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 2015, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2013/14 £'000	2014/15 £'000
Increase in interest payable on variable rate borrowings	706	775
Increase in interest receivable on variable rate investments	(4,140)	(3,909)
Impact on Income and Expenditure Account	(3,434)	(3,134)

Fair Value Movements	2013/14 £'000	2014/15 £'000
Decrease in fair value of fixed rate investments	861	956
Decrease in fair value of fixed rate borrowing liabilities	2,890	3,993
Impact on Income and Expenditure Account	3,751	4,949

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)

	2013/14 £'000	2014/15 £'000
The Tower Hamlets Local Education Partnership	7	7
Total	7	7

16 INVENTORIES

	Consumable Stores		Client Services Work in Progress		Total	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Balance outstanding at start of year	20	14	370	1,725	390	1,739
Purchases	0	0	1,664	0	1,664	0
Recognised as an expense in the year	(6)	(14)	(309)	(1,725)	(315)	(1,739)
Balance outstanding at year-end	14	0	1,725	0	1,739	0

Note: consumable stores consists of pre-paid postage rechargeable to services. Consumerable stores to be charged direct to revenue in future as not material. Work in progress charged to revenue in 2014/15.

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 2015 and concluded that there was no significant impairment to report.

19 DEBTORS

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	38,044	26,850
Other local authorities	0	5,851
Other entities and individuals	87,851	79,708
Payments in advance	2,241	2,839
Total	128,136	115,248

20 CASH AND CASH EQUIVALENTS

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

	31 March 2014 £'000	31 March 2015 £'000
Cash held by the Council	30,544	67,188
Short-term deposits with banks and building societies	107,567	135,169
Total Cash and Cash Equivalents	138,111	202,357

21 ASSETS HELD FOR SALE

As at the 31st March 2015, the Council has one property which is classified as Assets Held for Sale.

	Current		Non Current	
	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000
Value at 1st April	3,248	225	0	0
Assets newly classified as held for sale:				
Property, Plant and Equipment	0	0	0	0
Assets sold	(3,023)	0	0	0
Value at 31st March	225	225	0	0

22 CREDITORS

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	33,694	40,483
Other local authorities	10,638	10,407
Other entities and individuals	62,912	76,895
Accruals*	76,949	71,728
Receipts in advance	15,359	16,127
Total	199,552	215,640

The above creditors include provision for an external audit inspection of the Council undertaken by PricewaterhouseCoopers. This was an inspection of compliance under Part 1 of the Local Government Act in respect of governance, particularly in respect of the Authority's functions under Section 151 of the Local Government Act 1972 and as they relate to the Council's payment of grants and connected decisions; the transfer of property to third parties; spending and decisions on relation to publicity; and processes and practices relating to the entering of contracts. The DCLG notified the Council that £998,044 is to be charged to the Council.

23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 1 April 2013 £'000	Amounts used in 2013/14 £'000	Contributions in 2013/14 £'000	Balance at 31 March 2014 £'000	Amounts used in 2014/15 £'000	Contributions in 2014/15 £'000	Balance at 31 March 2015 £'000
(a) Single Status	329	(155)	0	174	0	0	174
(b) ICT provision and other corporate provisor	0	0	772	772	(195)	878	1,455
(c) Adoption Fees	40	0	0	40	(40)	0	0
(d) Redundancy provisions	117	(117)	0	0	0	0	0
(e) Carbon Reduction provision	333	(333)	0	0	0	0	0
(f) Contract disputes	102	(102)	102	102	0	0	102
(g) Business rates appeals provision	0	0	8,250	8,250	(7,040)	1,800	3,010
TOTAL	921	(707)	9,124	9,338	(7,275)	2,678	4,741

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

LONG-TERM PROVISIONS	Balance at 1 April 2013 £'000	Amounts used in 2013/14 £'000	Contributions in 2013/14 £'000	Balance at 31 March 2014 £'000	Amounts used in 2014/15 £'000	Contributions in 2014/15 £'000	Balance at 31 March 2015 £'000
(h) Insurance Fund	12,508	(4,112)	628	9,024	(2,247)	0	6,777
(i) Repayment of deposits	169	0	0	169	0	0	169
(j) Repayment of European funding	394	0	0	394	0	0	394
TOTAL	13,071	(4,112)	628	9,587	(2,247)	0	7,340

12,081

- (a) For additional costs resulting from the single status agreement which changed employees' conditions of service.
- (b) Provision for ICT licences and corporate provision.
- (c) Provision required in 2013/14 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 outstanding at 31st March 2015.
- (e) Provision created to cover the council's liability towards the Governments carbon reduction energy efficiency scheme.
- (f) Provision for contract disputes.
- (g) Council share of provision for NNDR business rates appeals.
- (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.

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 2014 £'000		31 March 2015 £'000
347,108	Revaluation Reserve	342,264
0	Available for Sale Financial Instruments Reserve	0
1,226,255	Capital Adjustment Account	1,428,571
852	Financial Instruments Adjustment Account	568
(495,946)	Pensions Reserve	(649,564)
767	Collection Fund Adjustment Account	8,047
(3,427)	Accumulating Compensated Absences Adjustment Account	(2,988)
47	Deferred Capital Receipts	11
1,075,656	Total Unusable Reserves	1,126,909

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.

2013/14 £'000		2014/15 £'000
324,686	Balance at 1 April	347,109
33,643	Upward revaluation of assets	14,170
(957)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(15,647)
<u>32,686</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(1,477)
(3,595)	Difference between fair value depreciation and historical cost depreciation	(3,228)
(6,668)	Accumulated gains on assets sold or scrapped	(139)
(10,263)	Amount written off to the Capital Adjustment Account	(3,367)
347,109	Balance at 31 March	342,265

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.

2013/14 £'000		2014/15 £'000
1,153,639	Balance at 1 April	1,226,254
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(39,236)	Charges for depreciation and impairment of non current assets	(39,350)
21,374	Revaluation losses and reversals on Property, Plant and Equipment	162,161
(31,004)	Revenue expenditure funded from capital under statute	(20,995)
(27,507)	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	(33,497)
(76,373)		68,319
10,263	Adjusting amounts written out of the Revaluation Reserve	3,367
(66,110)	Net written out amount of the cost of non current assets consumed in the year	71,686
	Capital financing applied in the year:	
14,701	Use of the Capital Receipts Reserve to finance new capital expenditure	8,549
11,799	Use of the Major Repairs Reserve to finance new capital expenditure	9,940
95,131	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	88,685
6,836	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	6,882
10,258	Capital expenditure charged against the General Fund and HRA balances	16,575
138,725		130,631
1,226,254	Balance at 31 March	1,428,571

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 2015 will be charged to the General Fund over the next 10 years.

2013/14 £'000		2014/15 £'000
1,032	Balance at 1 April	852
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in	
(180)	accordance with statutory requirements	(284)
852	Balance at 31 March	568

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.

2013/14 £'000		2014/15 £'000
(522,962)	Balance at 1 April	(495,946)
44,724	Actuarial gains or losses on pensions assets and liabilities	(139,066)
(56,858)	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	(56,899)
39,150	Employer's pensions contributions and direct payments to pensioners payable in the year	42,347
(495,946)	Balance at 31 March	(649,564)

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.

2013/14 £'000		2014/15 £'000
1,588	Balance at 1 April	767
	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	
(821)	accordance with statutory requirements	7,280
767	Balance at 31 March	8,047

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.

2013/14 £'000		2014/15 £'000
110	Balance at 1 April	48
(62)	Transfer to the Capital Receipts Reserve upon receipt of cash	(37)
48	Balance at 31 March	11

26a NOTE A TO THE CASH FLOW STATEMENT

2013/14 £'000		2014/15 £'000
82,195	Net Surplus or (Deficit) on the Provision of Services	251,011
	<u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u>	
39,235	Depreciation	39,349
(21,374)	Impairment and downward valuations	(162,161)
(244)	Adjustments for effective interest rates	57
(969)	Increase/Decrease in Interest Creditors	(602)
38,160	Increase/Decrease in Creditors	(13,290)
1,225	Increase/Decrease in Interest and Dividend Debtors	0
(57,651)	Increase/Decrease in Debtors	49,890
(1,349)	Increase/Decrease in Inventories	1,739
17,712	Pension Liability	14,550
4,933	Contributions to/(from) Provisions	(6,844)
27,507	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	33,497
47,185		(43,815)
	<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>	
(45,477)	Capital Grants credited to surplus or deficit on the provision of services	(20,551)
0	Premiums or Discounts on the repayment of financial liabilities	(808)
(16,750)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(38,273)
(62,227)		(59,632)
67,153	Net cash flows from operating activities	147,564

26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2013/14 £'000		2014/15 £'000
3,688	Interest received	2,311
(14,299)	Interest paid	(10,347)
(10,611)		(8,036)

27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2013/14 £'000		2014/15 £'000
(90,462)	Purchase of property, plant and equipment, investment property and intangible assets	(123,351)
(39,300)	Purchase of short-term and long-term investments	(30,112)
(159)	Other payments for investing activities	0
16,122	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	34,815
49,654	Proceeds from short-term and long-term investments	36,676
(64,145)	Net cash flows from investing activities	(81,972)

28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2013/14 £'000		2014/15 £'000
841	Billing Authorities - Council Tax and NNDR adjustments	808
	Other receipts from financing activities	(1,216)
(845)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	0
(889)	Repayments of short- and long-term borrowing	(938)
(893)	Net cash flows from financing activities	(1,346)

29 TRADING OPERATIONS

The following services are reported as trading activities

	2013/14			2014/15			Balance 31/03/2015 £'000
	Expenditure	Income	Surplus/ (Deficit)	Expenditure	Income	Surplus/ (Deficit)	
	£'000	£'000	£'000	£'000	£'000	£'000	
Street Trading	2,419	2,388	(31)	2,482	2,488	6	216
TOTAL TRADING ACCOUNTS	2,419	2,388	(31)	2,482	2,488	6	216

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 2014/15 this commission amounted to £820,555 (£788,521 in 2013/14).

31 POOLED BUDGETS

Under the terms of a Section 75 Agreement (National Health Service Act 2006), the Council entered into two Pooled Budget and Lead Commissioning agreements with the Clinical Commissioning Groups (CCG) (formally Primary Care Trusts). The Council will manage and deliver statutory functions, alongside the Clinical Commissioning Groups, in respect of the following:

- (a) Integrated Community Equipment Service (ICES)
- (b) Services for Adults with Learning Difficulties (LDSA)

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.

2014/15	ICES £'000	LDSA £'000
Income		
The Council	984	1,706
Barts and the London Trust health services	813	1,420
	1,797	3,126
Expenditure	1,961	3,126
Surplus/(Deficit) for the year	(164)	0

2013/14	ICES £'000	LDSA £'000
Income		
The Council	986	1,196
Barts and the London Trust health services	851	1,721
	1,837	2,917
Expenditure	1,723	3,016
Surplus/Deficit for the year	114	(99)

32 MEMBERS' ALLOWANCES

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

	2013/14 £'000	2014/15 £'000
Allowances	959	836
Total	959	836

Note - The number of Members in Tower Hamlets was reduced to 45 from the May 2014 election.

33 OFFICERS' REMUNERATION

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

2013/14	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr S Halsey - Head of Paid Service & Corporate Director CLC	160,915	0	0	25,004	0	185,919
Total Head of Paid Service	160,915	0	0	25,004	0	185,919
Corporate Directors						
Assistant Chief Executive (Legal Services) ¹	85,260	0	127,138	9,948	0	222,346
Resources (Acting)	122,100	0	0	18,866	0	140,966
Development and Renewal	143,054	0	0	22,116	0	165,170
Education, Health and Wellbeing ²	74,000	0	0	11,449	0	85,449
Children, Schools & Families (Acting) ³	13,043	0	69,341	434	0	82,818
Education, Social Care & Wellbeing (Acting) ⁴	58,859	0	0	8,051	0	66,910
Other						
Interim Monitoring Officer ⁶	22,295	0	0	3,523	0	25,818
Monitoring Officer ⁷	23,839	0	0	0	0	23,839
Public Health ⁵	89,786	0	0	12,570	0	102,356
	793,151	0	196,479	111,962	0	1,101,592

¹ Left 31/08/2013

² Commenced 01/10/2013

³ Left 07/04/2013

⁴ Ceased as Corporate Director of ESCW on 30/09/13

⁵ Director transferred to the authority from NHS PCT to form LBTH Public Health 01/04/2013

⁶ Commenced 18/09/2013, left 31/12/2013

⁷ Commenced 20/01/2014

2014/15	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr S Halsey - Head of Paid Service & Corporate Director CLC	161,329	0	0	25,004	0	186,333
Total Head of Paid Service	161,329	0	0	25,004	0	186,333
Corporate Directors						
Resources (Acting)	123,417	0	0	19,094	0	142,511
Education, Health and Wellbeing	148,000	0	0	22,898	0	170,898
Development and Renewal	142,086	0	0	21,963	0	164,049
Public Health	101,265	0	0	14,177	0	115,442
Other						
Monitoring Officer	119,840	0	0	0	0	119,840
	795,936	0	0	103,137	0	899,073

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

Remuneration band (£)	2013/14					2014/15				
	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff
50,000 - 54,999	201	(2)	82	(2)	283	220	(2)	97	(2)	317
55,000 - 59,999	134	(2)	43	(3)	177	135	(1)	42	(1)	177
60,000 - 64,999	48	(1)	40	(1)	88	64	0	52	(3)	116
65,000 - 69,999	31	0	23	0	54	31	0	21	(1)	52
70,000 - 74,999	23	0	26	0	49	28	0	31	(1)	59
75,000 - 79,999	17	0	5	(1)	22	16	0	5	(1)	21
80,000 - 84,999	8	0	4	0	12	11	(1)	3	0	14
85,000 - 89,999	3	0	8	(1)	11	6	0	4	(1)	10
90,000 - 94,999	8	(1)	3	(1)	11	4	0	1	0	5
95,000 - 99,999	4	(1)	6	(1)	10	4	0	7	(2)	11
100,000 - 104,999	2	0	7	0	9	4	0	7	(1)	11
105,000 - 109,999	1	0	1	0	2	1	0	4	(1)	5
110,000 - 114,999	1	0	2	(1)	3	1	0	0	0	1
115,000 - 119,999	1	0	0	0	1	1	0	0	0	1
120,000 - 124,999	1	0	0	0	1	1	0	0	0	1
125,000 - 129,999	0	0	0	0	0	1	0	0	0	1
135,000 - 139,999	2	0	0	0	2	0	0	0	0	0
140,000 - 144,999	1	0	0	0	1	3	0	0	0	3
170,000 - 174,999	0	0	1	(1)	1	0	0	0	0	0
	486	(7)	251	(12)	737	531	(4)	274	(14)	805

*2013/14 includes 12 higher paid staff that have transferred over from NHS PCT to form LBTH Public Health

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)	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
0 - 20,000	8	4	28	14	36	18	414	153
20,001 - 40,000	0	1	6	11	28	12	793	326
40,001 - 60,000	0	0	26	6	11	6	520	306
60,001 - 80,000	0	0	12	3	8	3	551	203
80,001 - 100,000	0	0	9	2	4	2	367	174
100,001 - 150,000	0	0	3	4	5	4	585	477
150,001 - 200,000	0	0	0	0	0	0	0	0
200,001 - 250,000	0	0	0	0	0	0	0	0
Total	8	5	84	40	92	45	3,230	1,639

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.

	2013/14 £'000	2014/15 £'000
Expenditure		
Property, Plant and Equipment	101,903	115,692
Intangible Assets	-	-
Heritage Assets	-	-
Revenue Expenditure Funded from Capital Under Statute	31,004	20,995
TOTAL	132,907	136,687
Sources of Finance		
Borrowing	1,018	12,939
Capital Grants and Contributions	95,131	88,685
Capital Receipts	14,701	8,548
Major Repairs Reserve	11,799	9,940
Direct Revenue Funding	10,258	16,575
TOTAL	132,907	136,687
	2013/14 £'000	2014/15 £'000
Opening Capital Financing Requirement	225,848	220,720
Capital investment		
Property, Plant and Equipment	101,903	115,692
Intangible Assets	-	-
Heritage Assets	0	0
Revenue Expenditure Funded from Capital under Statute	31,004	20,995
Sources of finance		
Capital grants and contributions	(95,131)	(88,685)
Capital receipts	(14,701)	(8,548)
Major repairs reserve	(11,799)	(9,940)
Sums set aside from revenue:		
• Direct revenue contributions	(10,258)	(16,575)
• Minimum Revenue Provision ¹	(6,146)	(6,142)
Closing Capital Financing Requirement	220,720	227,517
Explanation of movements in year		
Decrease in underlying need to borrow (supported by government financial assistance)	(5,493)	(2,842)
Decrease in underlying need to borrow (unsupported by government financial assistance)	365	9,639
Increase/(decrease) in Capital Financing Requirement	(5,128)	6,797

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.

	2013/14 £'000	2014/15 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	294	280
Addition fees payable to external Audit for inquiries relating to 2012/13 invoiced in 2013/14	12	0
Addition fees payable to external Audit for inquiries relating to 2013/14 invoiced in 2014/15	0	50
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	28	30
Fees payable in respect of other services provided by external auditors during the year	26	13
Fees to external auditor for grants not under PSAA	4	7
Total	364	380

The fees payable to the external auditors for other services comprise of NNDR - £2.6k, £50k for various audit work related to 2013/14 but completed in 2014/15 & fees relating to provision of VAT advice - £2.5k.

The Audit commission paid a rebate of £30.7k in 2014/15. This has the effect of reducing the overall cost to the Council.

The cost of the Best Value Inspection by PwC has been accounted for in 2014/15. The amount charged will be £998,440. This will impact upon the overall cost to the council.

36 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families, - the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately.

Notes	DSG Receivable for 2013/14	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2013/14 before Academy Recoupment	46,952	265,608	312,560
B	Academy figure Recouped 2013/14		(12,330)	(12,330)
C	Total DSG after Academy Recoupment 2013/14	46,952	253,278	300,230
D	Brought forward from 2012/13	5,554	0	5,554
E	Carry forward to 2014/15 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2013/14	52,506	253,278	305,784
G	In-year adjustments	428	0	428
H	Final budget distribution for 2013/14	52,934	253,278	306,212
I	Less actual central expenditure	(45,355)	0	(45,355)
J	Less actual ISB deployed to schools	0	(253,465)	(253,465)
K	Council contribution for 2013/14	0	0	0
L	Carry forward to 2014/15	7,579	(187)	7,392

A	DSG figure as issued by DfE in July 2013
B	Academy figure Recouped 2013-14
C	Total DSG after Academy Recoupment 2013/14
D	Figure brought forward from 2012/13
E	The amount which the Council decided after consultation with the schools forum to carry forward to 2014/15 rather than distribute in 2013/14
F	Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
G	Changes to Initial distribution in 2013/14
H	Budgeted distribution of DSG at year end
I	Actual amount of central expenditure items in 2013/14
J	Amount of ISB distributed to schools
K	Contribution from the Council in 2013/14 which substituted for DSG in funding the Schools Budget
L	Difference between budgeted distributions and actuals plus carry forward agreed in advance

Notes	DSG Receivable for 2014/15	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2014/15 before Academy Recoupment	46,023	270,351	316,374
B	Academy figure Recouped 2014/15	0	(16,249)	(16,249)
C	Total DSG after Academy Recoupment 2014/15	46,023	254,102	300,125
D	Brought forward from 2013/14	0	0	7,392
E	Carry forward to 2015/16 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2014/15	53,415	254,102	307,517
G	In-year adjustments		0	0
H	Final budget distribution for 2014/15	53,415	254,102	307,517
I	Less actual central expenditure	(50,680)	0	(50,680)
J	Less actual ISB deployed to schools	0	(252,742)	(252,742)
K	Council contribution for 2014/15	3,818	0	3,818
L	Carry forward to 2015/16	6,553	1,360	7,913

A	DSG figure as issued by DfE in March 2015
B	Academy figure Recouped 2014/15
C	Total DSG after Academy Recoupment 2014/15
D	Figure brought forward from 2013/14
E	The amount which the Council decided after consultation with the schools forum to carry forward to 2015/16 rather than distribute in 2014/15
F	Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum
G	Changes to Initial distribution in 2014/15
H	Budgeted distribution of DSG at year end
I	Actual amount of central expenditure items in 2014/15
J	Amount of ISB distributed to schools
K	Contribution from the Council in 2014/15 which substituted for DSG in funding the Schools Budget
L	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 2014/15:

	2013/14	2014/15
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Non-Ringfenced Government Grants		
Business Rate Related Grants	(4,981)	(7,025)
Council Tax Freeze Grant	(846)	(871)
Council Tax Related Grants	(788)	(209)
Education Services Grant	(1,889)	0
Local Service Support Grant	(135)	(135)
New Homes Bonus	(16,896)	(19,811)
Revenue Support Grant (Formula Grant)	(146,442)	(118,270)
RSG Capitalisation	(772)	0
Total Non-Ringfenced Government Grants	(172,749)	(146,321)
Capital Grants and Contributions		
Non-conditional grants:		
Schools-funded Capital Programme	(2,402)	(3,480)
Transport for London Funding	(2,781)	(2,992)
Major Works Contributions (cash received)	(2,716)	(3,384)
Capital Maintenance Grant	(3,554)	(3,095)
Basic Needs/New Pupil Places	(8,181)	(6,805)
Decent Homes Backlog Funding	(25,000)	(46,000)
Other Non-Conditional Grants Received	(2,334)	(1,138)
Conditional grants:		
Building Schools for the Future	(19,179)	(4,513)
Targeted Basic Need Grant	0	(4,383)
Other Conditional Grants Applied	(147)	(1,136)
Developers' Contributions	(3,369)	(5,892)
Total Capital Grants and Contributions	(69,663)	(82,818)
Credited to Services		
Capital Grants funding REFCUS	(19,933)	(4,868)
Developers' Contributions (capital) funding REFCUS	(4,370)	(1,947)
Developers' Contributions (revenue)	(1,249)	(2,350)
PFI Credits	(8,124)	(8,037)
School Sixth Form Grant	(16,619)	(17,589)
Pupil Premium Grant	(20,658)	(24,753)
Public Health Grant	(31,382)	(32,261)
Other Revenue Grants	(20,372)	(24,016)
Total Credited to Services	(122,707)	(115,821)
Total Grant Income in Comprehensive Income & Expenditure Account	(365,119)	(344,960)

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 2014 £'000	31st March 2015 £'000
Capital Grants Receipts in Advance		
Developers' Contributions	45,454	53,124
Building Schools for the Future	71	0
Major Works Invoices	8,546	8,485
National Affordable Housing Programme	6,265	6,265
Energy Efficiency Programme (DECC)	2,254	2,254
Targeted basic need programme	1,179	0
GLA Building the Pipeline Grant	0	5,100
Other capital grants and contributions	706	962
Total	64,475	76,190

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 2015 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. Details of Tower Hamlets Homes are within note 47.

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 2013/14 £'000	Payments by the Council over £10k 2014/15 £'000	Amounts due to Orgs. > £10k at 31/03/15 £'000
15billion	D Chesterton*	Member			
Aldgate and Allhallows Barking Foundation	S Islam	Council Representative			
	D Jones	Council Representative			
Balagonji Educational Trust	S Ali	Council Representative			
Bangladesh Youth Movement	A Khan	Employee		59	13
Bengali Educational Society	S Islam	Treasurer			
Bromley By Bow Centre	H Uddin	Employee	496	577	154
Central Foundation Girls School	M M Miah*	Governor		19	
Community Martial Arts Trust	A Miah*	Employee		16	
Developmental Council of Bangladeshis in the UK	K U Ahmed	Joint Treasurer			
Docklands Sailing & Watersports Centre	D Chesterton*	Member		21	
Eastside Books Ltd	D Jones	Director of bookshop that supplies books to LBTH schools			
East End Homes	H Uddin	Board Member	239	586	36
	G Robanni	Member			
Friends of Tower Hamlets Cemetery Park	R Blake*	Member		33	11
GMB	A M O Ahmed	Member	95	101	24
	K U Ahmed	Member			
	A Khan	Member			
	R Blake*	Member			
	J J Peck	Member			
	A Asad	Member			
	H Uddin	Member			
	M Francis	Member			
	S Haque	Member			
	S Khatun	Member			
	A Ali	Member			
Golapgonj Education Trust	A M O Ahmed	Trustee			
	S Khatun*	Member			
	A Miah*	Member			
Green Candle Dance Company	P Golds	Council Representative		26	
Heritage of London Trust	D Jones	Council Representative			
Hermitage Primary School	M Alam*	Governor			
Ian Mikardo High School	D Hassell*	Governor			
Island Homes Housing Association	M Miah	Resident Board Member - receives a monthly allowance			
Island Sports Trust	P Golds				
Isle of Dogs Community Foundation	D J Edgar	Council Representative			
John Scurr Primary School	S Islam	Governor			
Leaside Regeneration Ltd	D J Edgar	Council Representative			
Lee Valley Regional Park Authority	D Jones	Council Representative		20	
	S Ali	Deputy Member			
London Education Trust	M A Mustaqim*				
London Youth Games	L Pavitt	Council Representative (2013/14 only)	18		
Mile End Park Partnership Board	D Jones	Council Representative			
	J Peck	Member			
Mulberry Girls School	D Jones			13	
National Union of Teachers	D Hassell*	Member			
Old Ford Housing Association	M Francis	Board Director	63		
Olga Primary School	C Harrison*	Governor		28	
Gateway Housing Association	H Uddin	Employer has a Working Relationship with this Organisation	258	1,541	279
Poplar Harca	A M O Ahmed		1,155	2,854	404
Rich Mix Cultural Foundation	D Jones	Director			
Solander Gardens Community & Education	H Miah	Secretary			
Smithy Street Primary School	A Khan	School Governor			
Spitalfields Housing Association Ltd	A Mukit*	Board Member			
St Katherine & Shadwell Trust	S Haque	Deputy			
	D Jones	Council Representative (Ceased in Oct 2013)			
St Matthias Primary School	A Mukit*	School Governor			
St Peters Bengali Association	M A Mustaqim*			82	27
Sylhet Divisional Welfare Council	K U Ahmed	General Secretary			
The Childrens Society	A Whiteclock				
Tower Hamlets Cemetery	D J Edgar	Member			
Tower Hamlets Community Housing	G Robanni	Council Representative	150	205	59
Tower Hamlets Homes	G Robanni	Member	13,318	15,677	
	A Choudhury	Council Representative			
Trinity Buoy Wharf	D Jones	Director			
Unison	C Harrison*	Employee		467	119
	D Hassell*	Member			
Victoria & Albert Museum of Childhood	D Jones	Council Representative		11	
Wiltons Music Hall	D Jones	Trustee			

*New Member from May 2014

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 accommodation, 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	Vehicles Plant & Equipment	Land & Buildings	Vehicles Plant & Equipment
	31 March 2014	31 March 2014	31 March 2015	31 March 2015
	£'000	£'000	£'000	£'000
Adults Health and Wellbeing				
Not later than one year	164	0	150	0
Later than one year and not later than five years	654	0	601	0
Later than five years	1,992	0	1,678	0
Chief Executive's				
Not later than one year	0	0	0	164
Later than one year and not later than five years	0	0	0	80
Later than five years	0	0	80	0
Children Schools and Families				
Not later than one year	240	337	142	332
Later than one year and not later than five years	421	265	318	371
Later than five years	634	6	577	9
Communities Localities and Culture				
Not later than one year	0	654	0	649
Later than one year and not later than five years	0	1,775	0	1,452
Later than five years	0	651	0	410
Development and Renewal				
Not later than one year	2,896	6	2,895	0
Later than one year and not later than five years	11,579	0	11,579	0
Later than five years	7,818	0	2,136	0
Total				
Not later than one year	3,300	997	3,187	1,144
Later than one year and not later than five years	12,654	2,040	12,497	1,903
Later than five years	10,444	657	4,472	419
	26,398	3,694	20,156	3,467

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 2014 £'000	Vehicles Plant & Equipment 31st March 2014 £'000	Land & Buildings 31st March 2015 £'000	Vehicles Plant & Equipment 31st March 2015 £'000
Adults Health and Wellbeing				
Minimum Lease Payments	164	0	150	0
Chief Executive's				
Minimum Lease Payments	0	0	0	164
Communities Localities and Culture				
Minimum Lease Payments	0	809	0	673
Children Schools and Families				
Minimum Lease Payments	250	957	240	494
Development and Renewal				
Minimum Lease Payments	2,896	6	2,895	0
Total				
Minimum Lease Payments	3,310	1,772	3,285	1,331

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 economic 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 2014 £'000	31st March 2015 £'000
Not later than one year	(3,262)	(3,313)
Later than one year and not later than five years	(10,939)	(10,896)
Later than five years	(17,262)	(16,595)
	(31,463)	(30,804)

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 years 2029 and 2027 respectively. In accordance with International Financial Reporting Standards the assets are included on the Council's Balance Sheet, matched by a finance lease liability.

A third PFI contract was entered into in relation to the Barkantine Estate Combined Heat and Power scheme. There are no unitary payments made under this scheme as it is classed as a user pay arrangement. An asset was brought onto the balance sheet in 2010/11, matched by a deferred income balance and contract ends in 2026.

Movement on PFI Assets	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
Asset value at 31 March 2014	31,247	230,187	2,699	264,133
Depreciation	(757)	(6,642)	(303)	(7,702)
Revaluations	0	0	0	0
Enhancements	75	7,092	0	7,167
Derecognition	0	0	0	0
Asset value at 31 March 2015	30,565	230,637	2,396	263,598

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liabilities at 31 March 2014	6,715	30,126	2,570	39,411
Repayments	(237)	(503)	(198)	(938)
Liabilities at 31 March 2015	6,478	29,623	2,372	38,473
Consisting of:				
Long term liability	6,228	29,107	2,174	37,509
Short-term liability	250	516	198	964
Liability value at 31 March 2015	6,478	29,623	2,372	38,473

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liability				
Within 1 year	250	516	198	964
Within 2 - 5 years	1,332	3,901	791	6,024
Within 6 - 10 years	2,185	13,202	988	16,375
Within 11 - 15 years	2,711	12,004	395	15,110
	6,478	29,623	2,372	38,473
Interest				
Within 1 year	727	4,661	0	5,388
Within 2 - 5 years	2,583	17,568	0	20,151
Within 6 - 10 years	2,338	16,485	0	18,823
Within 11 - 15 years	777	3,501	0	4,278
	6,425	42,215	0	48,640
Service Charges				
Within 1 year	673	4,423	0	5,096
Within 2 - 5 years	2,694	9,115	0	11,809
Within 6 - 10 years	3,367	13,414	0	16,781
Within 11 - 15 years	2,694	7,200	0	9,894
	9,428	34,152	0	43,580

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	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Account						
Cost of Services						
Current service costs	32,829	35,148	397	329	33,226	35,477
Impact of settlements and curtailments	495	209	0	38	495	247
Total Service Cost	33,324	35,357	397	367	33,721	35,724
Interest income on plan assets	(38,328)	(38,519)	(1,670)	(2,218)	(39,998)	(40,737)
Interest cost on defined benefit obligation	60,790	59,382	2,345	2,530	63,135	61,912
Total Net Interest	22,462	20,863	675	312	23,137	21,175
Net Charge to the Comprehensive Income and Expenditure Account	55,786	56,220	1,072	679	56,858	56,899
Remeasurement of the Scheme Liabilities						
Changes in demographic assumptions	(5,312)	0	671	0	(4,641)	0
Changes in financial assumptions	7,868	209,109	(3,579)	7,006	4,289	216,115
Other experience	(32,938)	(13,659)	(826)	72	(33,764)	(13,587)
Return on plan assets excluding amounts included in net interest	(467)	(70,160)	0	(1,384)	(467)	(71,544)
Total remeasurements recognised in Comprehensive Income and Expenditure Statement	(30,849)	125,290	(3,734)	5,694	(34,583)	130,984
Movement in Reserves Statement - General Fund Balance						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(55,786)	(56,220)	(1,072)	(679)	(56,858)	(56,899)
Actual amount charged against the General Fund Balance for pensions in the year	38,357	41,554	793	793	39,150	42,347

In 2014/15 the Council paid £11.133 million into the Teachers Pension Scheme, representing 14.1% of pensionable pay. The figures for 2013/14 were £11.139 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 2013/14 and 2014/15 there were no added year payments by the Council.

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Account, actuarial losses of £ 139.066 million (£47.143 million in 2013/14) 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 £519.370 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	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
1st April	(1,453,831)	(1,503,100)	(67,336)	(61,951)	(1,521,167)	(1,565,051)
In-year adjustment to exclude/(incorporate) THH deficit	(19,959)	(19,172)	0	0	(19,959)	(19,172)
Current service cost	(32,829)	(35,148)	(397)	(329)	(33,226)	(35,477)
Interest cost	(60,790)	(59,382)	(2,345)	(2,530)	(63,135)	(61,912)
Contributions	(8,858)	(9,638)	(79)	(81)	(8,937)	(9,719)
Actuarial gains / (losses)	30,382	(195,450)	3,734	(7,078)	34,116	(202,528)
Benefits paid	43,280	44,494	4,472	3,598	47,752	48,092
Losses on curtailments	(495)	(209)	0	(38)	(495)	(247)
31st March	(1,503,100)	(1,777,605)	(61,951)	(68,409)	(1,565,051)	(1,846,014)

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

	The Council		LPFA		Total	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
1st April	947,684	1,012,951	50,521	56,154	998,205	1,069,105
In-year adjustment to exclude/(incorporate) THH deficit	22,537	11,090	0	0	22,537	11,090
Expected rate of return	38,328	38,519	1,670	2,218	39,998	40,737
Actuarial (losses) / gains	467	70,160	7,563	1,384	8,030	71,544
Members	8,858	9,638	79	81	8,937	9,719
Employer	38,357	41,554	793	793	39,150	42,347
Benefits paid	(43,280)	(44,494)	(4,472)	(3,598)	(47,752)	(48,092)
31st March	1,012,951	1,139,418	56,154	57,032	1,069,105	1,196,450

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 investments reflect long-term real rates of return experienced in the respective markets.

Scheme history

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Present value of liabilities:					
The Council	(1,042,983)	(1,214,784)	(1,453,831)	(1,503,100)	(1,777,605)
LPFA	(54,168)	(59,245)	(67,336)	(61,951)	(68,409)
Fair value of assets					
The Council	740,326	803,077	947,684	1,012,951	1,139,418
LPFA	48,135	48,405	50,521	56,154	57,032
Deficit in the scheme					
The Council	(302,657)	(411,707)	(506,147)	(490,149)	(638,187)
LPFA	(6,033)	(10,840)	(16,815)	(5,797)	(11,377)
Total deficit in the schemes	(308,690)	(422,547)	(522,962)	(495,946)	(649,564)

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 £649.5 million has a significant impact on the net worth of the Council as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The contributions expected to be made by the Council in the year to 31st March 2016 are £43.246 million to the Council's scheme and £0.824 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 schemes have been assessed by independent actuaries, based on the following main assumptions. Hymans Robertson LLP provide the LBTH report, Barnett Waddingham the LPFA report.

	The Council		LPFA	
	2013/14	2014/15	2013/14	2014/15
Long-term expected rate of return on assets in the scheme ¹	4.3%	4.3%	4.0%	4.0%
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	22.2 years	22.2 years	21.0 years	21.1 years
Women	24.2 years	24.2 years	24.4 years	24.4 years
Longevity at 65 for future pensioners:				
Men	24.3 years	24.3 years	23.4 years	23.5 years
Women	26.4 years	26.4 years	26.6 years	26.7 years
Rate of inflation			3.4%	3.0%
Rate of increase in salaries	4.1%	3.8%	4.4%	4.0%
Rate of increase in pensions	2.8%	2.4%	2.6%	2.2%
Rate for discounting scheme liabilities	4.3%	3.2%	4.2%	3.0%
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.

Major categories of assets as a proportion of total assets

The categories of assets are as follows.

	The Council		LPFA	
	2013/14	2014/15	2013/14	2014/15
Equities	65%	66%	53%	43%
Bonds	15%	17%	0%	0%
Property	10%	10%	3%	3%
Infrastructure	0%	0%	4%	5%
Commodities	0%	0%	1%	1%
Cash	1%	4%	3%	11%
Cash flow matching	0%	0%	6%	8%
Target return portfolio/other	9%	3%	30%	29%

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2014/15 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2015:

	2010/11	2011/12	2012/13	2013/14	2014/15
	%	%	%	%	%
The Council					
Experience gains and (losses) on assets	-8.88	-5.40	6.10	0.05	6.96
Experience gains and (losses) on liabilities	-16.98	5.98	9.89	-2.20	11.94
London Pensions Fund Authority					
Experience gains and (losses) on assets	17.75	-0.01	4.52	13.47	0.00
Experience gains and (losses) on liabilities	-1.58	8.19	12.05	-5.45	10.35

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 in July 2015 was as follows:

DIRECTORATE CI&E 2014/15	Directorate of Law, Probity & Governance £'000	Children, Schools and Families £'000	Communities, Localities and Culture £'000	Development and Renewal £'000	Resources £'000	Corporate & Others £'000	Housing Revenue Account £'000	TOTAL £'000
Fees, charges and other service income	(9,293)	(116,808)	(62,790)	(69,988)	(88,220)	(14,177)	(89,427)	(450,703)
Government grants	(143)	(359,943)	(3,951)	(295)	(266,260)	(61,203)	0	(691,795)
TOTAL INCOME	(9,436)	(476,751)	(66,741)	(70,283)	(354,480)	(75,380)	(89,427)	(1,142,498)
Employee expenses	5,603	345,959	41,429	23,955	29,294	17,548	368	464,156
Other service expenses	8,302	307,852	89,845	18,746	282,635	5,888	47,712	760,980
Support service recharges	5,165	47,915	16,124	43,936	50,468	0	38,528	202,136
TOTAL EXPENDITURE	19,070	701,726	147,398	86,637	362,397	23,436	86,608	1,427,272
NET EXPENDITURE	9,634	224,975	80,657	16,354	7,917	(51,944)	(2,819)	284,774

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

	£'000
Net expenditure in the Directorate Analysis	284,774
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	(137,643)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(20,026)
COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT	127,105

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 2014/15	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	(450,703)	147,520	(188)	(605)	(303,976)	0	(303,976)
Interest and investment income	0	0	0	2,254	2,254	(2,254)	0
Unattached capital receipts	0	0	0	0	0	(3,459)	(3,459)
Government grants and contributions - service specif	(691,795)	0	(1,061)	23,741	(669,115)	0	(669,115)
Income from Council tax	0	0	0	0	0	(67,576)	(67,576)
Government grants and contributions - non-service sp	0	0	0	0	0	(146,321)	(146,321)
Distribution from non-domestic rates pool	0	0	0	0	0	(108,528)	(108,528)
Capital Grants and Contributions	0	0	(6,815)	0	(6,815)	(82,818)	(89,633)
HRA Settlement Determination (including Premia)	0	0	0	0	0	0	0
(Surplus)/Deficit on Trading Activities	0	0	0	2,488	2,488	0	2,488
TOTAL INCOME	(1,142,498)	147,520	(8,064)	27,878	(975,164)	(410,956)	(1,386,120)
Employee expenses	464,156	0	(5,928)	0	458,228	0	458,228
Other service expenses	760,980	0	(123,651)	(39,500)	597,829	0	597,829
Support service recharges	202,136	(147,520)	0	0	54,616	0	54,616
Depreciation, amortisation and impairment	0	0	0	0	0	0	0
Interest payments	0	0	0	(4,252)	(4,252)	9,745	5,493
Precepts and levies	0	0	0	(1,670)	(1,670)	1,670	0
Payments to Housing Capital Receipts Pool	0	0	0	0	0	1,572	1,572
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	(1,316)	(1,316)
Pensions interest costs and expected return on pensi	0	0	0	0	0	21,175	21,175
HRA Settlement Determination (including Premia)	0	0	0	0	0	0	0
(surplus)/Deficit on Trading Activities	0	0	0	(2,482)	(2,482)	(6)	(2,488)
TOTAL EXPENDITURE	1,427,272	(147,520)	(129,579)	(47,904)	1,102,269	32,840	1,135,109
SURPLUS OR DEFICIT ON THE PROVISION OF SE	284,774	0	(137,643)	(20,026)	127,105	(378,116)	(251,011)

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 to be recorded in the report to Cabinet in July 2014 is as follows:

DIRECTORATE CI&E 2013/14 COMPARATIVE FIGURES	Directorate of Law, Probity & Governance £'000	Children, Schools and Families £'000	Communities, Localities and Culture £'000	Development and Renewal £'000	Resources £'000	Corp & Others £'000	Housing Revenue Account £'000	TOTAL £'000
Fees, charges and other service income	(9,401)	(109,742)	(61,930)	(71,710)	(41,515)	(68,265)	(90,345)	(452,908)
Government grants	(529)	(350,610)	(3,890)	(83)	(282,256)	0	0	(637,368)
TOTAL INCOME	(9,930)	(460,352)	(65,820)	(71,793)	(323,771)	(68,265)	(90,345)	(1,090,276)
Employee expenses	9,281	336,182	40,922	26,295	23,029	17,341	31,926	484,976
Other service expenses	4,113	240,021	47,648	47,148	248,195	2,661	51,223	641,009
Support service recharges	5,932	113,775	56,901	18,053	62,080	0	3,033	259,774
TOTAL EXPENDITURE	19,326	689,978	145,471	91,496	333,304	20,002	86,182	1,385,759
NET EXPENDITURE	9,396	229,626	79,651	19,703	9,533	(48,263)	(4,163)	295,483

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	295,483
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	(23,859)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	899
COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT	272,523

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 2013/14 COMPARATIVE FIGURES	Amounts not reported to Management						
	Directorate analysis £'000	Services & support services not in analysis £'000	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	(452,908)	117,137	(757)	0	(336,528)	0	(336,528)
Interest and investment income	0	0	0	2,336	2,336	(2,336)	0
Unattached capital receipts	0	0	0	0	0	(692)	(692)
Government grants and contributions - service specific	(637,368)	0	0	0	(637,368)	0	(637,368)
Income from Council tax	0	0	0	0	0	(64,266)	(64,266)
Government grants and contributions - non-service specific	0	0	0	0	0	(172,749)	(172,749)
Distribution from non-domestic rates pool	0	0	0	0	0	(96,259)	(96,259)
Capital Grants and Contributions	0	0	(24,303)	0	(24,303)	(69,663)	(93,966)
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 INCOME	(1,090,276)	117,137	(25,060)	2,336	(995,863)	(405,965)	(1,401,828)
Employee expenses	484,976	0	(5,371)	0	479,605	0	479,605
Other service expenses	641,009	0	6,572	7,826	655,407	0	655,407
Support service recharges	259,774	(117,137)	0	0	142,637	0	142,637
Depreciation, amortisation and impairment	0	0	0	0	0	0	0
Interest payments	0	0	0	(7,594)	(7,594)	13,186	5,592
Precepts and levies	0	0	0	(1,639)	(1,639)	1,639	0
Payments to Housing Capital Receipts Pool	0	0	0	0	0	1,807	1,807
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	11,447	11,447
Pensions interest costs and expected return on pensions assets	0	0	0	0	0	23,137	23,137
HRA Settlement Determination (including premia)	0	0	0	0	0	0	0
(Surplus)/Deficit on Trading Activities	0	0	0	(31)	(31)	31	0
TOTAL EXPENDITURE	1,385,759	(117,137)	1,201	(1,437)	1,268,386	51,247	1,319,633
SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	295,483	0	(23,859)	899	272,523	(354,718)	(82,195)

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 31st March 2013 £'000	2013/14 Acquisitions £'000	2013/14 Disposals £'000	2013/14 Revaluation £'000	Balance at 31st March 2014 £'000	2014/15 Acquisitions £'000	2014/15 Disposals £'000	2014/15 Revaluation £'000	Balance at 31st March 2015 £'000
Value of Heritage Assets held by Council									
(a) - Works of art	4,410	0	0	4,500	8,910	0	0	0	8,910
(b) - Civic Regalia	389	0	0	0	389	0	0	0	389
(c) - Local History Library and Archive Collections	0	0	0	0	0	0	0	0	0
(d) - Public Art (Middlesex Street)	11	0	0	0	11	0	0	0	11
TOTAL HERITAGE ASSETS	4,810	0	0	4,500	9,310	0	0	0	9,310

(a) The council holds a number of works of art. The council has three works of art with a material value - the council has received indications of value on these assets from art experts at auction houses.

There are 109 works of art across the borough for which the council has a duty of care. These include 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 were 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 1/4/2013	2013/14 Expenditure	2013/14 Income	Balance at 31/3/2014	2014/15 Expenditure	2014/15 Income	Balance at 31/3/2015
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) Welfare Savings / Client Financial Affairs	954	3,226	3,226	954	5,882	8,571	3,643
(b) Social Services Trust Funds - sundry other	1,630	91	5	1,544	1,792	315	67
(c) Tower Hamlets Further Education Trust	214	806	755	163	1,472	1,410	101
(d) Globe Town Picture Fund	160	0	0	160	0	0	160
(e) Sundry Other	39	0	15	54	40	0	14
TOTAL TRUST FUNDS	2,997	4,123	4,001	2,875	9,186	10,296	3,985

- (a) The fund represents monies held by Social Services on behalf of deputyship and appointeeship service users. It is held to protect the service users monies and 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 2015 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 2015 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.

47 TOWER HAMLETS HOMES

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.

In previous years, the Council produced Group Accounts to incorporate THH, however as the assets and liabilities of THH are not material compared to the Council, a summary of the ALMO's accounts are provided for information. 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.

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	Voting Rights
Council nominees	4	4
Housing tenants and leaseholders	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.

Below is a summary of Tower Hamlet's Homes Balance Sheet alongside the Council's.

The note reflects the following consolidated balances after eliminating intra-group transactions (transactions between Tower Hamlets Homes and the Council).

	The Council		THH		TOTAL	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Non-current assets - equipment	4,308	3,999	131	101	4,439	4,100
Inventories	1,739	0	0	0	1,739	0
Short-term debtors	128,136	78,238	(334)	(756)	127,802	77,482
Cash and cash equivalents	138,111	202,357	5,366	5,915	143,477	208,272
Short-term creditors	199,552	178,629	1,489	1,159	201,041	179,788
Pensions liability	495,946	649,564	0	0	495,946	649,564
Pensions reserve	(495,946)	(649,564)	0	0	(495,946)	(649,564)
Income and Expenditure Reserve	0	0	3,674	4,101	3,674	4,101

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	2013/14 £'000	2014/15 £'000
EXPENDITURE			
Repairs and maintenance		20,470	21,061
Supervision and management		31,946	32,098
Rents, rates, taxes and other charges		2,732	2,534
Depreciation of non-current assets	6		
On dwellings		14,234	14,141
On other assets		1,596	1,577
Revaluation losses (and reversals)		(19,676)	(194,063)
Debt management costs		73	73
Movement in the allowance for bad debts		514	239
Sums directed by the Secretary of State that are expenditure in accordance with the Code		1,994	4,044
TOTAL EXPENDITURE		53,883	(118,296)
INCOME			
Gross rental income			
Dwelling rents		66,530	67,966
Non dwelling rents		3,545	3,876
Charges for services and facilities		20,064	17,169
Contributions towards expenditure		135	115
TOTAL INCOME		90,274	89,126
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT		(36,391)	(207,422)
HRA services share of Corporate and Democratic Core		157	157
NET COST OF HRA SERVICES		(36,234)	(207,265)
HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account			
(Gain)/loss on sale of HRA non-current assets		(4,435)	(1,317)
Unattached capital receipts		(26)	(2,778)
Interest payable and similar charges	12	3,312	3,338
Interest and investment income		(69)	(300)
Pensions interest cost and expected return on pension assets	7	3,481	1,296
Capital grants and contributions receivable		(27,841)	(51,187)
DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES		(61,812)	(258,213)

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	2013/14		2014/15	
		£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward			(15,234)		(17,153)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		(61,812)		(258,213)	
Net additional amount required by statute to be credited to the HRA balance for the year		59,893		255,220	
Decrease (Increase) in the HRA Balance			(1,919)		(2,993)
Transfers to or (from) reserves			0		0
Balance on the Statutory HRA Carried Forward			(17,153)		(20,146)

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2013/14		2014/15	
	£'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	(1,994)		(4,044)	
Capital grants and contributions	27,841		51,187	
Gain or loss on sale of HRA non-current assets	4,435		1,317	
Unattached capital receipts	26		2,778	
Reversal of revaluation losses on non-current assets	21,748		194,072	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	(79)		(182)	
Net charges made for retirement benefits in accordance with IAS19	(1,167)		1,237	
Transfers from General Fund (as directed by Secretary of State)	<u>0</u>	50,810	<u>0</u>	246,365
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	9,083		8,855	
Other adjustments (transfer to capital receipts reserve)	<u>0</u>	9,083	<u>0</u>	8,855
Net additional amount required by statute to be debited to the HRA Balance for the year		59,893		255,220

2 HOUSING STOCK

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

	2013/14	2014/15
Low-rise flats (1-2 storeys)	265	262
Medium-rise flats (3-5 storeys)	7,282	7,115
High-rise flats (6 or more storeys)	4,089	3,927
Houses and bungalows	789	781
TOTAL AT 31st MARCH	12,425	12,085

3 NON-CURRENT ASSETS

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

	2013/14 £'000	2014/15 £'000
Dwellings	753,180	973,479
Other Land and Buildings	57,641	57,087
Surplus Assets Not Held for Sale	1,753	1,690
Assets Under Construction	0	2,840
Assets Held for Sale	225	225
TOTAL	812,799	1,035,321

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 Under Construction £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 1 st April 2013	703,285	54,224	1,264	0	525	759,298
Additions, disposals, transfers and revaluations	49,895	3,417	489	0	(300)	53,501
Total value at 31 st March 2014	753,180	57,641	1,753	0	225	812,799
Additions, disposals, transfers and revaluations	220,299	(554)	(63)	2,840	0	222,522
TOTAL VALUE AT 31st MARCH 2015	973,479	57,087	1,690	2,840	225	1,035,321

The vacant possession value of dwellings within the Council's HRA was £3,700 million in 2014/15 (£2,878 million in 2013/14). 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

	2013/14 £'000	2014/15 £'000
Balance at 1st April	12,364	16,396
Transfer from Capital Adjustment Account - depreciation	15,831	15,718
Financing of capital expenditure	(11,799)	(9,940)
Balance at 31st March	16,396	22,174

5 CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	2013/14			2014/15		
	Dwellings £'000	Other £'000	Total £'000	Dwellings £'000	Other £'000	Total £'000
Expenditure	49,061	1,194	50,255	72,810	4,044	76,854
Sources of finance						
Borrowing	0	0	0	0	144	144
Capital Receipts	4,356	0	4,356	7,620	0	7,620
Capital Grants and Contributions	25,016	0	25,016	48,409	0	48,409
Major Repairs Reserve	10,605	1,194	11,799	6,040	3,900	9,940
Direct Revenue Financing	9,083	0	9,083	10,741	0	10,741
TOTAL CAPITAL FINANCING	49,060	1,194	50,254	72,810	4,044	76,854

(ii) Capital Receipts

Capital receipts (gross) in 2014/15 from the disposal of non-current assets within the HRA amounted to £34.813 million (£10.277 million in 2013/14) as follows:

	2013/14 £'000	2014/15 £'000
Dwellings	9,247	34,813
Other land and buildings	1,030	0
TOTAL CAPITAL RECEIPTS	10,277	34,813

6 DEPRECIATION

The total depreciation charge for the year was £15.718 million (£15.831 million in 2013/14), made up of £14.141 million (£14.234 million in 2013/14) in respect of council houses and £1.577 million (£1.596 million in 2013/14) 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.

	2013/14 £'000	2014/15 £'000
Dwellings	14,234	14,141
Other Land and Buildings	1,596	1,577
TOTAL DEPRECIATION	15,830	15,718

7 PENSION COSTS

These figures represent the cost of pensions attributable to the HRA. Further details of the treatment of pensions costs are shown in note 41 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note. The following transactions have been made in the account for the year.

Income and Expenditure Account	The Council		LPFA		Total	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Net Cost of Services						
Current service costs	2,029	0	12	0	2,041	0
Net Operating Expenditure						
Interest cost	3,756	3,665	71	76	3,827	3,741
Settlements / Curtailments	31	0	0	0	31	0
Expected return on assets in the scheme	(2,368)	(2,378)	(50)	(67)	(2,418)	(2,445)
Past Service Costs	0	0	0	0	0	0
Net Charge to the Income and Expenditure Account	3,448	1,287	33	9	3,481	1,296
Statement of Movement in the HRA Balance						
Reversal of net charges made for retirement benefits in accordance with IAS19	(3,448)	(1,287)	(33)	(9)	(3,481)	(1,296)
Employer's contribution to scheme	2,307	2,533	7	0	2,314	2,533

8 RENT ARREARS

	2013/14 £'000	2014/15 £'000
Gross rent arrears at 31 st March	3,407	3,877
Arrears as % of rent receivable	5.1	5.7
Provision made for bad debts	2,478	2,869

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 2014/15.

10 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	2013/14 £'000	2013/14 £'000	2014/15 £'000	2014/15 £'000
INCOME					
Council Tax (net of benefits)	2	86,556		92,504	
Transfers from General Fund - Council Tax Benefits			86,556		92,504
Distribution of prior year deficit on Collection Fund			0		0
National Non-Domestic Rates	3	352,905		369,804	
- Transitional Protection		449	353,354	1,364	371,168
Business Rate Supplement			12,026		12,156
TOTAL INCOME			451,936		475,828
EXPENDITURE					
Council Tax					
Precepts and demands					
London Borough of Tower Hamlets		63,342		66,395	
Greater London Authority		21,674	85,016	22,419	88,814
Increase in provision for Council Tax bad debts	5		292		2,111
Distribution of prior year Council Tax surplus on Collection Fund			2,212		0
National Non-Domestic Rates					
Interest		0		10	
Transitional Protection		1,264		0	
Cost of collection allowance		944	2,208	946	956
National Non-Domestic Rates Precepts & Demands					
London Borough of Tower Hamlets		96,361		102,429	
DCLG		160,602		170,714	
Greater London Authority		64,241	321,204	68,286	341,429
Distribution of Prior Year Surplus on NNDR Collection Fund					
London Borough of Tower Hamlets		0		2,085	
DCLG		0		3,474	
Greater London Authority		0	0	1,390	6,949
Business Rate Supplement	4				
Payment to Greater London Authority		12,000		12,065	
Cost of collection allowance		26	12,026	22	12,087
National Non-Domestic Rates Provision For Bad Debt					
London Borough of Tower Hamlets		835		736	
DCLG		1,392		1,226	
Greater London Authority		557	2,784	491	2,453
National Non-Domestic Rates Provision For Appeals					
London Borough of Tower Hamlets		8,250		1,800	
DCLG		13,750		3,000	
Greater London Authority		5,500	27,500	1,200	6,000
TOTAL EXPENDITURE			453,242		460,799
INCREASE/(DECREASE) IN FUND BALANCE			(1,306)		15,029
COLLECTION FUND BALANCE					
Balance at the beginning of the year			2,139		833
(Deficit)/Surplus for the year			(1,306)		15,029
BALANCE AT END OF YEAR	1		833		15,862

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 Council Tax surplus on the Fund (£2.754m) is attributable to the Council (£2.059m) and the Greater London Authority (£0.695m). The latter amount is carried as a creditor in the Council's Balance Sheet.

Under the NNDR collection arrangements, there was a surplus of £13.039m in 2014/15 (deficit of £0.342m during 2013/14). Of this 30%, £3.911m (30%) is attributable to the Council, £2.608m (20%) to the GLA and £6.520m (50%) to the CLG.

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 2014/15 Council Tax was set the position was as follows:

Band	2013/14 No. of Properties	2013/14 Council Tax Base	2014/15 No. of Properties	2014/15 Council Tax Base
A	2,356	752	3,005	628
B	25,738	16,271	25,897	16,634
C	35,703	27,674	36,342	28,666
D	22,837	20,085	23,643	21,032
E	17,094	18,485	17,631	19,228
F	7,969	10,365	8,108	10,627
G	3,129	4,704	3,179	4,817
H	458	1,226	469	858
Total	115,284	99,562	118,274	102,490

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:

	2013/14		2014/15		Increase / (Decrease)	
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000	£	%
Tower Hamlets	885.52	63,342	885.52	66,395	0	0
Greater London Authority	303.00	21,674	299.00	22,419	-4.00	-1.32%
TOTAL	1,188.52	85,016	1,184.52	88,814	-4.00	-0.34%

3. NATIONAL NON-DOMESTIC RATES (NNDR)

NNDR, or business rates, collected by local authorities are the way that those who occupy non-domestic property contribute towards the cost of local services. Under the business rates retention arrangements introduced from 1st April 2013, authorities keep a proportion of the business rates paid locally. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2014/15 was 48.2p in the £ (47.1p in the £ in 2013/14). The total rateable value in the borough as at 31 March 2015 was £827.6 million (£815.6 million at 31 March 2014). A periodic revaluation of business properties took place in April 2010. At March 2015 there were over 5,400 NNDR appeals that are yet to be heard by the Government's Valuation tribunal. An estimated provision has been created to contribute towards recent valuation appeals that were upheld.

4. CROSSRAIL BUSINESS RATE SUPPLEMENT

The Greater London Authority (GLA) introduced a business rate supplement (BRS) in 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 2014/15 financial year are set out below.

The Crossrail BRS will be used to finance £3.5 billion worth of GLA borrowing and the repayment of this sum after Crossrail is completed. A further £0.6 billion of BRS revenues will be used to finance the construction works directly.

The Crossrail BRS multiplier for 2014/15 is 2p per pound of rateable value. Reliefs for the Crossrail BRS will apply on the same basis and at the same percentage rate as for your National Non Domestic Rates (NNDR) bill, although no transitional relief is provided for the BRS.

www.london.gov.uk/crossrail-brs

2013/14 £'000		2014/15 £'000
13,431	Non Domestic Rates Due	12,467
	Less Allowances and Other Adjustments	
632	Mandatory & Discretionary Relief	376
772	Provision for Bad Debts	0
26	Cost of Collection	26
12,001	Collectable from Business Rate Supplement Payers	12,065

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 2014/15 the Council Tax bad debt provision was increased by £0.045 million (increased by £0.292 million in 2013/14) and £2.066 million of irrecoverable debts were written off (£1.949 million in 2013/14).

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2013/14 £'000	2014/15 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	42,401	46,135
From members	3	9,982	11,031
Transfers in			
Transfers in from other pension funds	4	3,527	1,719
Benefits			
Pensions	4	(35,681)	(37,265)
Lump sum benefits	4	(8,178)	(8,055)
Payments to and on account of leavers			
Refunds of contributions		(3)	(125)
State scheme premiums		(3)	(132)
Transfers out to other pension funds		(2,778)	(7,263)
Administrative expenses	13	(1,087)	(803)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		8,180	5,242
RETURN ON INVESTMENTS			
		2013/14 £'000	2014/15 £'000
Investment income	11	11,540	16,581
Taxes on Income		(410)	(329)
Change in market value of investments			
Realised		22,195	23,292
Unrealised	10	46,918	82,933
Investment management expenses	13	(2,364)	(2,450)
NET RETURN ON INVESTMENTS		77,879	120,027
Net increase in the Fund during the year		86,059	125,269
Add: Opening net assets of the scheme		926,871	1,012,930
CLOSING NET ASSETS OF THE SCHEME		1,012,930	1,138,199
NET ASSETS STATEMENT AS AT 31ST MARCH			
		2014 £'000	2015 £'000
Investments Assets			
Equities		230,998	244,335
Pooled Investment Vehicles			
Unit Trusts		566,768	628,744
Property		102,073	116,945
Other		91,918	101,303
Derivative Contracts			
Forward Foreign Exchange Contracts		238	0
		991,995	1,091,327
Cash deposits	6	5,292	5,414
Other investment balances	5	817	978
Investments Liabilities			
Forward Foreign Exchange Contracts	10	(647)	0
Other investment balances	5	0	(223)
Current Assets			
	5	16,954	42,154
Current Liabilities			
	5	(1,481)	(1,451)
TOTAL NET ASSETS		1,012,930	1,138,199

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 Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (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 2015. 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 contributions, 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 it relates. Any amount due in the year but unpaid will be classified as a current 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 2015.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2015.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2015.
- (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 2015. 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.

NOTES TO THE PENSION FUND ACCOUNTS

2 ACCOUNTING POLICIES Cont...

Fund account - expense items

(f) Management Expenses

The Code of Practice does not require any breakdown of pension fund administrative expenses. However in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance on accounting for LGPS management costs.

Administrative Expenses

Staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight & Governance Costs

Staff costs relating to oversight and governance are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment 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

Financial Assets

- (h) 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

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 are no items in the authority's net asset statement as at 31st March 2015 which constitute a significant risk of material adjustment in the forthcoming financial year.

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 12.5% 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 2015 range from 15.9% to 41.4% of pensionable pay. The Council paid an agreed additional monetary contribution of £18.5m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2013/14 £'000	2014/15 £'000
Members normal contributions		
Council	8,849	9,731
Admitted bodies	222	221
Scheduled body	911	1,079
Total members	9,982	11,031
Employers		
Normal contributions		
Council	21,210	22,356
Admitted bodies	1,064	1,015
Scheduled bodies	2,505	3,484
Deficit funding contributions		
Council	16,500	18,500
Other contributions		
Council	1,122	780
Total employers	42,401	46,135
Total contributions	52,383	57,166

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2014/15 employees made contributions of £60,530.28 (£26,465.94 in 2013/14) into the AVC Scheme operated by Aviva (Norwich Union) and £9,455.96 to Equitable Life (£6,444.33 in 2013/14). 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 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.

	2013/14				2014/15			
	Council	Admitted Bodies	Scheduled Bodies	Total	Council	Admitted Bodies	Scheduled Bodies	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pensions	(33,852)	(968)	(861)	(35,681)	(35,259)	(1,126)	(880)	(37,265)
Lump sum retirement benefits	(6,817)	(31)	(288)	(7,136)	(6,027)	(307)	(379)	(6,713)
Lump sum death benefits	(990)	0	(52)	(1,042)	(1,232)	(42)	(68)	(1,342)
Total Pensions and Benefits	(41,659)	(999)	(1,201)	(43,859)	(42,518)	(1,475)	(1,327)	(45,320)
Transfer Values Received	3,527	0	0	3,527	1,719	0	0	1,719
Transfer Values Paid	(2,778)	0	0	(2,778)	(7,263)	0	0	(7,263)
Total	(40,910)	(999)	(1,201)	(43,110)	(48,062)	(1,475)	(1,327)	(50,864)

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.

	2013/14 £'000	2014/15 £'000
Debtors		
Other Investment Balances		
Investment sales	27	8
Dividends receivable	514	583
Tax recoverable	276	387
	<u>817</u>	<u>978</u>
Current Assets		
Contributions due from admitted bodies	86	101
London Borough of Tower Hamlets Pension Fund	62	230
	<u>148</u>	<u>331</u>
Total Debtors	965	1,309
Creditors		
Other Investment Balances		
Investment purchases	0	223
Current Liabilities		
Unpaid benefits	1,171	1,138
Administrative expenses	263	313
London Borough of Tower Hamlets Pension Fund	47	0
	<u>1,481</u>	<u>1,451</u>
Total Creditors	1,481	1,674
Net Debtors	(516)	(365)

6. CASH

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

	2013/14 £'000	2014/15 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	3,803	2,930
Schroders: Multi Asset Portfolio	14	15
Schroders: Property Portfolio	1,465	2,458
London Borough of Tower Hamlets Pension Fund	16,806	41,823
TOTAL CASH	22,098	47,236

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

As Tower Hamlets Council is the Administering Authority for the Fund, 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 which is published as part of the Local Government Pensions Scheme Annual Report was approved by the Council's Pensions Committee on 14th November 2014.

9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March 2015

	2014	2015
London Borough of Tower Hamlets		
Active Members	6,158	6,249
Pensioners	4,043	4,131
Deferred Pensioners	6,332	6,434
Dependants	959	993
	17,492	17,807
Admitted & Scheduled Bodies		
Active Members	634	611
Pensioners	203	221
Deferred Pensioners	332	352
Dependants	16	18
	1,185	1,202

The following bodies have been admitted into the Fund:

Admitted Bodies

Agilysis
 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
 Culloden Primary School
 London Enterprise Academy
 Old Ford Primary School
 Sir William Burrough School
 Solebay Academy
 St. Pauls Way Community School
 Tower Hamlets Homes Limited

10. INVESTMENTS

The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

Manager

Baillie Gifford Life Ltd.
 GMO UK Ltd.
 Investec Asset Management
 Legal & General Investment Management
 Ruffer LLP
 Schroders Asset Management Property Fund

Mandate

Global Equity, Diversified Growth
 Global Equity
 Absolute Return Bonds
 UK Equity, Index Linked Gilts
 Diversified Growth
 Property

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

	2014		2015	
	£ million	%	£ million	%
Baillie Gifford Life Ltd - Diversified Growth	46.9	4.7	50.7	4.6
Baillie Gifford Life Ltd - Equities	183.1	18.4	217.7	19.8
GMO UK Ltd.	261.3	26.2	274.3	25.0
Investec Asset Management	97.5	9.8	99.6	9.1
Legal & General Investment Management - Equities	211.6	21.2	225.7	20.1
Legal & General Investment Management	49.0	4.9	59.4	5.9
Ruffer LLP	45.0	4.5	50.6	4.6
Schroders Asset Management Property Fund	103.1	10.3	119.5	10.9

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 2014 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2015 £'000
Baillie Gifford Life Ltd - Diversified Growth	46,889	72	0	3,724	50,685
Baillie Gifford Life Ltd - Equities	183,066	2,004	0	32,600	217,670
GMO UK Ltd.	256,678	196,511	(184,536)	1,984	270,637
Investec Asset Management	97,502	0	0	2,129	99,631
Legal & General Investment Management	260,556	0	0	24,585	285,141
Ruffer LLP	45,030	0	0	5,588	50,618
Schroders Asset Management Property	101,628	12,757	(9,762)	12,322	116,945
	991,349	211,344	(194,298)	82,932	1,091,327

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2014 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2015 £'000
UK Investment Assets					
Quoted	734,671	14,833	(9,762)	80,948	820,690
Overseas Investment Assets					
Quoted	257,087	196,511	(184,536)	1,575	270,637
Unquoted	(409)	0	0	409	0
	991,349	211,344	(194,298)	82,932	1,091,327

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2013/14 £'000	2014/15 £'000
Dividends from overseas equities	7,886	10,617
Net rents from properties	3,427	5,234
Interest on cash deposits	58	170
Foreign tax	169	231
TOTAL	11,540	16,252

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 2013 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £365 million and the funding level to be 72%. This compares to a deficit at the previous revaluation in 2010 of £305 million and a corresponding funding level of 71%.

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
2014/15	18.50
2015/16	20.50
2016/17	22.00

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 2013 determined that this would require a contribution (additional to the future contribution rate) of 15.2% of members' pensionable pay equivalent to £18.5 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 2013/14 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 2016 and the recommendations implemented from 1st April 2017.

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 2013. The main actuarial assumptions used in revaluation and applied during the intervaluation period were as follows:

Financial Assumptions	Nominal	Real
Price inflation (CPI)	2.5%	
Pay increases	3.8%	1.3% Real rates are nominal rates
Funding basis discount rate	4.6%	2.1% adjusted for inflation

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	22.2	24.2
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	24.3	26.4

Actuarial Value of Promised Retirement Benefits

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose the actuarial assumptions and methodology should be based on IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1.783 million (£1,503 million in 2013/14).

13. MANAGEMENT EXPENSES

	2013/14 £'000	2014/15 £'000
Administration costs	906	714
Investment management expenses	2,364	2,450
Oversight & governance	160	69
Audit fees	21	21
	3,451	3,254

14. INVESTMENT EXPENSES

	2013/14 £'000	2014/15 £'000
Management fees	2,278	2,357
Custody fees	86	93
	2,364	2,450

15. 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 Fitch credit rating 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 2014 and 31st March 2015 is set out below.

Interest Rate Risk	As At 31st March 2014	As At 31st March 2015
Asset Type	£'000	£'000
Cash and cash equivalents	5,292	5,414
Cash balances	16,954	42,154
Fixed interest securities	146,517	159,079
Total	168,763	206,647

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2015	Change in year in net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Asset Type			
Cash and cash equivalents	5,414	54	(54)
Cash balances	42,154	422	(422)
Fixed interest securities	159,079	(1,591)	1,591
Total change in net assets available	206,647	(1,115)	1,115

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 2014	Change in year in net assets available to pay benefits	
		+100 BPS £'000	-100 BPS £'000
Asset Type			
Cash and cash equivalents	5,292	53	(53)
Cash balances	16,954	170	(170)
Fixed interest securities	146,517	(1,465)	1,465
Total change in net assets available	168,763	(1,242)	1,242

15. RISK MANAGEMENT (continued)

Currency risk

The Fund invests in financial instruments denominated in currencies other than Sterling and as a result is exposed to exchange rate risk. 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 6.3%. 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 2015 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2014 £'000	As At 31st March 2015 £'000
Overseas quoted securities	238,710	245,548
Overseas unit trusts	5,949	3,808
Cash	13	14
Total overseas assets	244,672	249,370

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2015 £'000	Change in year in net assets available to pay benefits	
		+6.3%	-6.3%
Asset Type	£'000	£'000	£'000
Overseas quoted securities	245,548	261,018	230,078
Overseas unit trusts	3,808	4,048	3,568
Cash	14	15	13
Total change in net assets available	249,370	265,081	233,659

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2014 £'000	Change in year in net assets available to pay benefits	
		+5.8%	-5.8%
Asset Type	£'000	£'000	£'000
Overseas quoted securities	238,710	252,555	224,865
Overseas unit trusts	5,949	6,294	5,604
Cash	13	14	12
Total change in net assets available	244,672	258,863	230,481

The percentage change in the year of 6.3% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

Other Price risk

To mitigate the risk of a loss owing to a fall in market prices the Fund maintains a diverse portfolio of investments. Diversification ensures that the Fund has a balance of investments that offer different levels of risk and return.

The Fund employs a number of investment managers, with differing but complementary styles, to mitigate the risk of underperformance of any single manager and to ensure that any fall in market prices should not affect the Fund as a whole.

Manager performance and asset allocation policy is regularly reviewed by the Pensions Investment Panel. The Fund also uses certain derivative instruments as part of efficient portfolio management.

Other price risk - sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2014/15 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	Potential Market Movements (+/-)
Asset Type	
UK equities	10.1%
Global equity	10.0%
Total fixed interest	3.4%
Alternatives	4.1%
Cash	0.0%
Pooled Property Investments	2.4%

15. RISK MANAGEMENT (continued)

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value as at 31 March 2015 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	47,236	0.0%	47,236	47,236
Investment portfolio assets				
UK equities	225,693	10.1%	248,488	202,898
Global equity	488,307	10.0%	537,138	439,476
Total fixed interest	159,079	3.4%	164,488	153,670
Alternatives	101,303	4.1%	105,456	97,150
Pooled Property Investments	116,945	2.4%	119,752	114,138
Net derivative assets	0	0.0%	0	0
Investment income due	978	0.0%	978	978
Amounts receivable for sales	0		0	0
Amounts payable for purchases	(223)	0.0%	(223)	(223)
Total assets available to pay benefits	1,139,318		1,223,313	1,055,323

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 2014 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	22,098	0.0%	22,098	22,098
Investment portfolio assets				
UK equities	211,541	12.1%	237,074	186,008
Global equity	440,153	11.9%	492,311	387,995
Total fixed interest	146,517	2.8%	150,678	142,356
Alternatives	91,919	4.4%	95,963	87,875
Pooled Property Investments	101,628	1.9%	103,518	99,738
Net derivative assets	(409)	0.0%	(409)	(409)
Investment income due	817	0.0%	817	817
Amounts receivable for sales	0		0	0
Amounts payable for purchases	0	0.0%	0	0
Total assets available to pay benefits	1,014,264		1,102,050	926,478

Refinancing risk

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

16. FINANCIAL INSTRUMENTS DISCLOSURES

The net assets of the Fund are made up of the following categories of financial instruments:

	Long-term		Current	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Financial Assets				
Loans and receivables	0	0	17,709	42,902
Financial assets at fair value through profit or loss	991,757	1,091,327	5,592	5,593
Total Financial Assets	991,757	1,091,327	23,301	48,495
Financial Liabilities				
Payables	0	0	(1,481)	(1,674)
Financial liabilities at fair value through profit or loss	0	0	(647)	0
Total Financial Liabilities	0	0	(2,128)	(1,674)

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

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 2015.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	244,335	0	0	244,335
Pooled Funds				
Unit Trusts	628,744	0	0	628,744
Property Unit Trust	116,945	0	0	116,945
Other	101,303	0	0	101,303
Derivative Contracts				
Forward Foreign Exchange Contracts	0	0	0	0
Cash and bank Deposits	47,467	0	0	47,467
Current Assets	1,079	0	0	1,079
Current Liabilities	(1,674)	0	0	(1,674)
	1,138,199	0	0	1,138,199

During the year ended 31st March 2015 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2014 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	230,998	0	0	230,998
Pooled Funds				
Unit Trusts	566,768	0	0	566,768
Property Unit Trust	102,073	0	0	102,073
Other	91,918	0	0	91,918
Derivative Contracts				
Forward Foreign Exchange Contracts	0	(409)	0	(409)
Cash and bank Deposits	22,160	0	0	22,160
Current Assets	903	0	0	903
Current Liabilities	(1,481)	0	0	(1,481)
	1,013,339	(409)	0	1,012,930

16. FINANCIAL INSTRUMENTS DISCLOSURES

Net gains and losses on financial instruments

	Long-term	
	2013/14 £'000	2014/15 £'000
Financial Assets		
Loans and receivables		180
Financial assets at fair value through profit or loss	69,645	106,225
Total Financial Assets	69,645	106,405
Financial Liabilities		
Payables		
Financial liabilities at fair value through profit or loss	(532)	409
Total Financial Liabilities	(532)	409

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 £669k (£680k 2013/14) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £18.5m (£16.5m 2013/14) 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 2015, the Fund held an average investment of £24.8m (£6.0m 31st March 2014), earning interest of £180k (£62k in 2013/14).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.5m (£2.3m 2013/14) from this company.

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

	2013/14 £'000	2014/15 £'000
Fund Administration Expenses		
Payroll / HR Support	374	370
Corporate Finance	306	299
	680	669

Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2015 include:

Chief Accountant

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

	2013/14 £'000	2014/15 £'000
Short term benefits	18	20
Long term/post retirement benefits	4	4

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 2014/15 there were no Members of the Pension Fund Committee who had involvement with other organisations.

Compensation of key management - It was not practical to include costs relating to key management personnel within the Pension Fund Accounts, principally as they are charged to the Council's Accounts and have not been charged to the Pension Fund. All costs are disclosed within note 33 of the Council's main accounts.

18. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2015.

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 2014/15 impairment losses were nil (impairment losses in 2013/14 were also nil).

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

To Follow – 3 pages

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 2014/15 will be considered for approval by the Council's Audit Committee on 22nd March 2016.

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 2014/15 presents fairly the financial position of the Council at 31st March 2015 and its income and expenditure for the year.

Zena Cooke

Corporate Director of Resources

22nd March 2016

Annual Governance Statement 21 Pages

This will be included in the draft financial statements after it has received approval by Audit Committee.

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. The most recent valuation was in 2013.

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 intangible 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.

Benchmarking - the analysis of selected activities and processes, and their comparison with similar analyses for other organisations.

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.

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 assets, the value is based on the original cost of the asset less any depreciation, amortisation or impairment costs made against the asset. It is the amount to be recognised on the Balance Sheet.

Cash Equivalents – Highly liquid and safe investments that can easily be converted into cash.

Chartered Institute of Public Finance and Accountancy (CIPFA) – A professional accountancy body, that specialises 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, and 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 (CDC) - This includes corporate policy making, activities that relate to the corporate management of the Council and all other member-based activities. Under the terms of SeRCOP, all support costs are allocated to services except for CDC 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 - Income that is received in instalments over agreed periods of time. They arise from mortgages on sales of Council houses and repayments from loans.

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.

Direct Revenue Funding (DRF) – The use of revenue monies to pay for capital expenditure. Also referred to as Revenue Contributions to Capital Outlay (RCCO).

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 - 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 (PWL) debt.

General Fund (GF) - The Council's main revenue account from which the cost of providing most of the Council's services is met.

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 and/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 values 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

Materiality - the level (usually expressed in financial terms but not usually expressly stated) below which accountants, auditors, or their clients or employers, consider risks or problems not to be significant.

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 are collected by the Council. From 1st April 2013 the Council keeps 30%, gives the GLA 20% and the other 50% is passed over to the DCLG.

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) – Instead of providing and owning the assets needed for their services, public authorities arrange for private sector bodies (usually formed from consortia) to provide and own them. These other bodies' then make the assets available under operating leases to enable public authorities to deliver the services required.

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 (PPE) – The land and building assets under the council's control or ownership.

Assets under the control or owned by the Council that have a physical existence and are expected to be used for a period exceeding one year form PPE. Important components of PPE include land and land improvements, buildings, plant and machinery, vehicles and equipment where material.

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 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, that 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 (RTB) - 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 Level Agreements - agreements between operational units, which state the price and specifications of the support service by one to another.

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/BRS) – 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.

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
CDC	Corporate and Democratic Core
CFR	Capital Financing Requirement
CIES	Comprehensive Income and Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Consumer Price Index
CRR	Capital Receipts Reserve
DCLG	Department of Communities and Local Government
DEFRA	– Department for Environment, Food and Rural Affairs
DfE	Department for Education
DRF	Direct Revenue Funding
DSG	Dedicated Schools Grant
DWP	Department for Work and Pensions
EIR	Effective Interest Rate
GAAP	Generally Accepted Accounting Principles
GF	General Fund
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
MTFP	Medium Term Financial Plan
NBV	Net Book Value
NCS	Net Cost of Services
NDC	Non Distributed Costs
(N)NDR	(National) Non-Domestic Rates
NPV	Net Present Value
NRV	Net Realisable Value

PBC Prepared By Client
PCT Primary Care Trust
PFI Private Finance Initiative
PPA Prior Period Adjustment
PPE Property, Plant and Equipment
PWLB Public Works Loans Board
RCCO Revenue Contributions to Capital Outlay
REFCUS Revenue Expenditure Funded by Capital Under Statute
RICS Royal Institute of Chartered Surveyors
RPI Retail Price Index
RR Revaluation reserve
RSG Revenue Support Grant
RTB Right To Buy
SBR Supplementary Business Rates
SDPS Surplus or Deficit on the Provision of Services
SeRCOP Service Reporting Code of Practice
SLAs Service Level Agreements
SORP Statement of Recommended Practice (now Code of Practice on Local Authority Accounting)
TH Tower Hamlets
THH Tower Hamlets Homes
VFM Value For Money
WDA Waste Disposal Authority
WGA Whole of Government Accounts

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ISA260 Recommendations 2013/14 Completed Issues

KPMG issued two ISA260's, the first draft was issued in September 2014 and contained four recommendations, all of which are complete (items 1-4 listed below). In September 2015 the final version was issued and included a further four of which 1 (no. 8) is complete, and three are on track to be completed and fully reviewed shortly.

Number	Risk	Issue, Recommendation & Responsible Officer	Original Management Response	Latest Management Response	Status
1	1	<p>Completion of key reconciliations</p> <p>At the time of our interim audit we identified that a reconciliation had not been carried out for the main Authority bank account during 2013/14 since the implementation of Agresso. Although the 31 March 2014 reconciliation was completed by the Authority, this involved a considerable amount of time and effort from Authority officers as it covered the whole year in one go.</p> <p>At the time of our final audit visit we identified that a payroll reconciliation had not been carried out for the main Authority payroll during 2013/14.</p> <p>These are both key controls which are required to be in place through-out the year in order to maintain a robust control environment.</p> <p>Recommendation</p> <p>The Authority should implement a process whereby going forward each of these reconciliations is completed on a monthly basis. The Authority is required to implement a review process by which non completion of key reconciliations is escalated to the relevant Service Head</p> <p>Responsible Officer : Danny Warren / Kevin Miles</p> <p>Due Date: March 2015</p>	<p>Initial Response as at October 2014</p> <p>It is agreed that the scale of implementation of a new financial system led to delays in continuing the main bank reconciliation from 31st March 2013 and this was not finalised until the 2013/14 year end. This process has now been fully implemented and is now running monthly.</p> <p>Payroll reconciliations were completed for year end. During the year reconciliations of net pay and tax were reconciled monthly to the BACS payments, and payroll interfaces to the general ledger were reconciled to the payroll system at regular intervals. 3rd party deductions were however only reconciled at year end. A revised procedure is now being implemented to cover all payroll reconciliations monthly.</p> <p>In addition a key controls report is now produced monthly for all key financial controls, and is reviewed by relevant service heads, and any key control which has not been completed or is out of tolerance is now flagged each month for corrective action.</p>	<p>Latest Position as at December 2015 -</p> <p>Key reconciliations are now in place for the Bank reconciliation, the payroll and a number of other key reconciliations. These are reviewed and signed off by senior officers. Procedure notes have been prepared and an audit on the payroll reconciliation has been undertaken. No problems were encountered and no issues are anticipated when the report is issued.</p> <p>The Bank Reconciliation was the subject of an Internal Audit in August and this was given 'Substantial Assurance'</p>	Complete


Number	Risk	Issue, Recommendation & Responsible Officer	Original Management Response	Latest Management Response	Status
2	2	<p>School bank reconciliations</p> <p>During our review of the school bank reconciliation, we noted that for two schools, Sir John Cass and Olga there were outstanding reconciling items at the year end which had been initially entered into the ledger several years ago.</p> <p>It is noted that schools are provided with copies of the close down procedures at the year end, which does suggest reviewing transactions / cheques over six months old. In the case of these schools these transactions had not been cancelled.</p> <p>Recommendation</p> <p>The Schools Finance Team, during their review of the reconciliations completed by individual schools, should challenge schools which submit reconciliations containing transactions which are over six months old.</p> <p>Schools should be required to submit justification for the inclusion of any aged items within their reconciliations.</p> <p>Responsible Officer : Sailesh Patel</p> <p>Due Date: March 2015</p>	<p>Initial Response as at November 2014</p> <p>As stated by the auditor, the schools finance team issue all maintained schools accounting guidance which recommends schools review cheques older than six months and reverse in their finance system where applicable. As part of planning for the 2014/15 accounts closure, the school finance team will include further guidance on un-reconciled items in the schools newsletter. The school finance team will also sample a number of schools to ensure any cheques older than 6 months are challenged and appropriate action is taken.</p> <p>Compliance testing will take place in Jan/Feb 2015.</p>	<p>Latest Position as at December 2015</p> <p>Procedures were recirculated to each school in the finance newsletter and reiterated in the closedown guidance. The schools' Business Manager discussed the 'over 6 month reconciling items report' with Bursars from all primary and secondary schools.</p> <p>A sample of 25 school returns were tested, of which 3 were returned pending further work or additional explanations.</p> <p>All these measures were undertaken by the due date of March 2015.</p> <p>It is intended to repeat the training and sampling each year.</p>	<p>Complete</p> <p>Continuous testing ongoing</p>

Number	Risk	Issue, Recommendation & Responsible Officer	Original Management Response	Latest Management Response	Status
3	2	<p>Other Land and buildings valuations</p> <p>During our review of Property, Plant and Equipment valuations, we noted that it was not straightforward to identify that the Valuer had looked at upward trends as well as impairments when completing the formal valuations for 2013/14 (even though the Authority expressly requested this). We also noted that the Valuer only commented about price movements for the last 12 months, but the Authority has a minority of assets that were last valued between 2 and 4 years ago.</p> <p>Recommendation</p> <p>The Authority should continue to work with the Valuer to ensure that the report received explicitly covers all of the elements that it has requested. Also the Authority needs to ensure that there is appropriate consideration of assets that have not been valued in the last 12 months to ensure that the values disclosed remain materially accurate between valuations.</p> <p>Responsible Officer : Kevin Miles</p> <p>Due Date: March 2015</p>	<p>Initial Response as at October 2014</p> <p>For the 2014/15 property valuation, officers have asked Valuers to consider upward trends as well as impairments in conducting the valuations. The Valuers have also been asked to consider material changes in valuations for asset classes valued more than 12 months ago. Officers will work with Valuers to minimise additional valuation costs from this work, for example with the use of valuation indices as part of a desk top valuation exercise.</p>	<p>Latest Position as at December 2015</p> <p>Officers have specifically requested that the Valuers consider movements in property value in either direction not just downward / impairment. A full desktop valuation has been commissioned and for 2015/16 the schools portfolio will be considered in its entirety as an 'asset category'.</p>	Complete

Number	Risk	Issue, Recommendation & Responsible Officer	Original Management Response	Latest Management Response	Status
4	3	<p>111 –113 Mellish Street</p> <p>During our review of what happened in relation to a Member enquiry about the above site we noted that: the time period available for considering and auctioning the letting of the site was relatively short; there were areas where the documentation supporting the decisions could be improved – particularly the use of an SLA approach, which allowed for reductions in the rental income; and the procedures for allocating properties were written and established in August 2010, since when there have been a number of changes in the process.</p> <p>Recommendation</p> <p>We have therefore recommended to the Authority that:</p> <ul style="list-style-type: none"> •It considers the nature, size and complexity of arrangements being planned for community use/letting and ensure that the timeframes reflect this appropriately to help ensure the Council receives a good selection of quality applications. •The importance of evidencing the basis of decisions is reiterated and, as necessary incorporated in relevant procedural documentation. •Procedures are revised to reflect the updated process and include guidance on the documentation to be retained to support decisions. <p>Responsible Officer : Ann Sutcliffe</p> <p>Due date : October 2014</p>	<p>Initial Response as at November 2014</p> <p>The Corporate Property and Capital Delivery Service Plan will review and update the procedures for allocating properties. This will require the input of the third sector team, specifically in relation to properties that are let for community use as this might require slightly different processes in light of the fact that many community organisations won't have the commercial experience and resources compared to properties let on the open market.</p> <p>The review will include timescales for considering and auctioning the letting of the site, as well as the level of documentary evidence to back up the decisions that are made.</p>	<p>Latest Position as at December 2015</p> <p>The Mayor considered and approved an initial report on the Community Buildings: Allocation and Charging Policy in December 2015.</p> <p>A comprehensive review of all the council-owned community buildings is being undertaken and all tenants in council-owned community buildings will be provided with a lease or other appropriate form of tenancy. The review will also ensure the council's buildings are well utilised, generating income and are let on agreements which provide security and certainty for both the council and tenant.</p> <p>The methodology for assessing and quantifying the value of community benefits provided by voluntary and community sector organisations in council owned buildings is being devised and consulted on as part of the Voluntary and Community Sector Strategy that will be considered by the Mayor in Cabinet in April 2016.</p> <p>The criteria and method for calculating community benefit will take account of the consultation feedback and formal procedures and guidance notes will be produced that will set out the basis on which applications will be assessed and the evidence required to support the application. The procedures will also set out how decisions are made, documented and reported."</p>	Complete

Number	Risk	Issue, Recommendation & Responsible Officer	Original Management Response	Latest Management Response	Status
8	1	<p>Mayoral expenses</p> <p>Our testing of Mayoral expenses identified that the supporting documentation retained was limited and in some cases did not enable us to determine whether the expenditure was appropriately borne by the Authority.</p> <p>Recommendation</p> <p>The Authority should ensure that sufficient documentation is retained for all expenses including Mayoral expenses. This should be sufficient to evidence that expenditure is appropriate to be borne by the Authority by, for example, including the reasons for the expenditure and precise details of service provided and in relation to functions the nature of the function and attendees.</p> <p>Responsible officer: Melanie Clay</p> <p>Due Date: December 2015</p>	<p>Initial Response – October 2015</p> <p>Agreed -The council will ensure that sufficient supporting documentation is retained for all expenses.</p>	<p>Latest Position – December 2015</p> <p>Systems are in place to ensure that sufficient supporting documentation is retained</p>	Complete

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Non-Executive Report of the: Audit Committee 22 March 2016	
Report of: Zena Cooke, Corporate Director of Resources	Classification: Unrestricted
Treasury Management Activities Report for Quarter Ending 31 January 2016	

Originating Officer(s)	Bola Tobun, Investment & Treasury Manager
Wards affected	All wards

Summary

This report advises the Committee of the council's borrowing and investment activities during 2015/16 to 31 January 2016. The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2015/16 were approved by the council on 25 February 2015 as required by the Local Government Act 2003.

The report also provides information on the economic conditions prevailing in the third quarter of 2015/16. The report also provides a summary of the prudential indicators, treasury management indicators and a summary of the credit criteria adopted by the Corporate Director, Resources for the reporting year and the projected investment returns.

The Council earned an average return of 0.78% on its lending, outperforming the actual rolling average 7 day LIBID rate of 0.35%.

No long-term or short-term borrowing has been raised since the commencement of this financial year 2015/16 to reporting period.

Over the reporting period, all treasury management activities have been carried out in accordance with the approved limits and the prudential indicators set out in the Council's Treasury Management Strategy statement. The outturn report of the Treasury Management Strategy will be presented to the council at its September 2016 meeting.

Recommendations:

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for quarter ending 31 January 2016
- note the Council's outstanding investments as set out in Appendix 1. The balance outstanding as at 31 January 2016 was £431.3m which includes £48.8m, pension fund cash awaiting investment.

1. REASONS FOR THE DECISIONS

- 1.1 This report updates on both the borrowing and investment decisions made by the Director of Resources under delegated authority in the context of prevailing economic conditions and considers Treasury Management performance measured against the benchmark 7 day LIBID rate.
- 1.2 Treasury management is defined as “the management of the council’s investments and cash flows; its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 1.3 Legislation requires that regular reports be submitted to Council/Committee detailing the council’s treasury management activities.
- 1.4 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.

2. ALTERNATIVE OPTIONS

- 2.1 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.
- 2.2 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.
- 2.3 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.

3. DETAILS OF REPORT

- 3.1 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.
- 3.2 These reports are in addition to mid-year and annual treasury management outturn reports that should be presented to the council midway through the financial year and at year end respectively.

3.3 TREASURY MANAGEMENT STRATEGY 2015/16

- 3.3.1 The council's Treasury Management Strategy was approved on 25 February 2015 by Full Council. The Strategy comprehensively outlines how the treasury function would operate throughout the financial year 2015/16 including the limits and criteria for selecting institutions to be used for the investment of surplus cash and the council's policy on long-term borrowing and limits on debt.
- 3.3.2 The council complied with the strategy from the onset to reporting period, 31 January 2016. And all investments were made to counterparties within the council's approved lending list.
- 3.3.3 The Pension Fund cash awaiting investment has been invested in accordance with council's Treasury Management Strategy agreed by Full council on the 25 February 2015, under the delegated authority of the Corporate Director, Resources and is being managed in-line with the agreed parameters. The Pensions Committee is updated on Pension Fund investment activity on a quarterly basis.

3.4 ECONOMIC COMMENTARY

- 3.4.1 The February Bank of England (BoE) Inflation Report highlighted that the Monetary Policy Committee (MPC) intends to focus policy on ensuring that growth and employment is sustained in order to meet the 2% inflation target. The outlook for inflation looks unlikely to surpass 1% in 2016, with CPI predicted to exceed 2% after 2 years, as drags from energy prices and cheap imports unwind. The MPC also stated that Bank Rate is likely to rise at a more gradual rate compared to recent cycles given the persistent headwinds weighing on the economy.
- 3.4.2 The MPC voted to keep interest rates at their record low of 0.5% in its February meeting. The vote was unanimous after Ian McCafferty dropped his call to raise rates. The Bank's decision was influenced by a darker global outlook amidst significant risks in emerging markets and the continuation of sharp falls in oil prices.
- 3.4.3 The headline inflation figure, the consumer price index (CPI), rose to 0.3% year-on-year in January; however the rate fell by 0.8% on the month. This was mainly a result of post-Christmas discounts and a drop in airfares.
- 3.4.4 The preliminary estimate for Q4 GDP 2015 revealed a small increase to 0.5% quarter-on-quarter from 0.4% in Q3. On the year, GDP fell to 1.9% in Q4 from 2.1% in Q3, the weakest end-of-year reading in nearly three years. This was due to the global economic slowdown adversely affecting the UK economy.
- 3.4.5 The UK unemployment rate remained at 5.1% in the three months to December, its lowest rate since mid-2005. British wage growth, including bonuses, rose by 1.9% in the three months to December, from November's upwardly revised figure of 2.1%. Excluding bonuses, growth in average weekly earnings in December picked up to 2%. With wage growth slowing, alongside a weaker outlook for inflation, expectations for the BoE to raise rates any time soon have also slowed.
- 3.4.6 House prices published by Nationwide in January fell short of expectations and slowed to an increase of 0.3% month-on-month after hitting an eight-month high of 0.8% in December. Year-on-year, house prices were 4.4% higher in January.

According to Halifax, in January, house prices increased by 9.7% on a yearly basis, and by 1.7% on a monthly basis.

US

- 3.4.7 The preliminary reading of Q4 GDP in the US revealed a slowdown to 0.7% at an annualised rate, from 2% in Q3. This was due to an inventory glut, a strengthening in the dollar and weak global demand affecting exports.
- 3.4.8 In January 2016, the Fed kept interest rates unchanged at 0.25%-0.50% after raising them the previous month for the first time since 2006. The Fed's decision was anticipated after the recent plummet in world equities raised fears of a sudden global slowdown. However, the Fed kept an optimistic outlook of the U.S economy and stated it was "closely monitoring" economic and financial developments around the world.
- 3.4.9 Non-farm payrolls rose by less than expected, coming in at 151,000 in January, compared to December's revised figure of 262,000. The unemployment rate was 4.9% in January, the lowest its been for eight years.

EU

- 3.4.10 The first estimate of Q4 Eurozone GDP revealed that the currency area grew by 0.3% quarter-on-quarter, the same level of growth as Q3. This was mainly a result of a slowdown in industrial production in December. Year-on-year, the Eurozone grew by 1.5%. The main factor behind growth was greater household spending and increased inventories, which counterbalanced the negative effect experienced by trade.
- 3.4.11 Following the European Central Bank's (ECB) meeting in January, its interest rate remained unchanged at 0.05%. Previously, the ECB cut their deposit rates by 10bps to -0.30% in December. The ECB announced their Quantitative Easing (QE) programme in January 2015 and began the programme in March 2015. They initially planned to inject €1.1trn into the economy by purchasing private and public assets worth €60bn per month. In December 2015, this program was extended for an additional 6 months to March 2017 with €1.5trn now expected to be injected.
- 3.4.12 The decision to leave the cost of borrowing unchanged was widely expected after the ECB cut rates to rock-bottom levels a year ago and repeatedly said they had hit "the lower bound".

China

- 3.4.13 China's annual GDP growth slowed as expected to 6.8% in Q4 2015 from 6.9% in the previous quarter, the slowest pace of growth since the financial crisis. The People's Bank of China has lowered the reserve requirement ratio by a further 50bps to 17.5% in October 2015 and is under pressure cut rates further.
- 3.4.14 In an attempt to boost its slowing economy, China surprised markets and devalued the Yuan after a run of poor economic data. It is intended to help combat the large falls seen in exports.

3.5 INTEREST RATE FORECAST

3.5.1 The council's treasury advisor, Capita Asset Services, has provided the following forecast:

Capita Asset Services' Interest Rate View													
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate Forecast	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%
3 month LIBID Forecast	0.50%	0.50%	0.50%	0.60%	0.80%	0.90%	1.00%	1.10%	1.30%	1.30%	1.60%	1.80%	1.90%
6 month LIBID Forecast	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.20%	1.40%	1.60%	1.70%	1.80%	2.00%	2.20%
12 month LIBID Forecast	1.00%	1.00%	1.00%	1.10%	1.20%	1.30%	1.50%	1.70%	1.90%	2.00%	2.10%	2.30%	2.40%

UK Interest Rate Forecast

Rate														
	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%
Global Economics	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	-	-	-	-	-
WLB Rate														
	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services	1.59%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%
Global Economics	1.59%	2.10%	2.20%	2.50%	2.55%	2.80%	2.80%	3.05%	3.05%	-	-	-	-	-
PWLB Rate														
	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services	2.27%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.30%	3.40%	3.50%	3.60%
Global Economics	2.27%	2.55%	2.55%	2.80%	2.80%	3.05%	3.05%	3.30%	3.30%	-	-	-	-	-
PWLB Rate														
	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services	3.13%	3.20%	3.20%	3.30%	3.30%	3.50%	3.50%	3.60%	3.60%	3.70%	3.70%	3.70%	3.80%	3.80%
Global Economics	3.13%	2.85%	2.85%	3.10%	3.10%	3.30%	3.30%	3.45%	3.45%	-	-	-	-	-
PWLB Rate														
	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services	2.95%	3.00%	3.00%	3.10%	3.10%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.60%	3.70%	3.70%
Global Economics	2.95%	2.90%	2.90%	3.15%	3.15%	3.35%	3.35%	3.50%	3.50%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

3.5.2 Capita Asset Services undertook a review of its interest rate forecasts; this latest forecast includes a change in the timing of the first increase in Bank Rate to quarter 1 of 2017 from quarter 2 of 2016. With CPI inflation now likely to be at or near zero for most of early 2016, it is currently very difficult for the MPC to make a start on increasing Bank Rate. In addition, the Inflation Report forecast was also notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. Despite average weekly earnings excluding bonuses hitting 2.5% in quarter 3, this has subsided to 1.9% and is unlikely to provide ammunition for the MPC to take action to raise Bank Rate soon as labour productivity growth would mean that net labour unit costs are still only rising by less than 1% y/y.

- 3.5.3 The significant appreciation of Sterling against the Euro in 2015 has also acted to dampen UK growth while volatility in financial markets since the Inflation Report has resulted in volatility in equity and bond prices and bond yields (and therefore PWLB rates). But CPI inflation will start sharply increasing around mid-year 2016, once initial falls in fuel and commodity prices fall out of the 12 month calculation of inflation; this will cause the MPC to take a much keener interest in the forecasts for inflation over their 2-3 year time horizon from about mid-year.
- 3.5.4 The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only just starting a significant recovery as a result of recent increases in the rate of wage inflation, though some consumers will not have seen that benefit come through for them.

3.6 INVESTMENT STRATEGY

- 3.6.1 The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, it outlines the council's investment priorities as being:
- Security of capital;
 - Liquidity; and
 - Yield.
- 3.6.2 The council aims to achieve the optimum return (yield) on investments equivalent with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months.
- 3.6.3 The approved limits within the Annual Investment Strategy were not breached during the financial year to period ended 31st January 2016.
- 3.6.4 The portfolio Investment returns are likely to remain relatively low for the rest of 2015/16 and beyond.
- 3.6.5 Borrowing interest rates have been highly volatile during 2015 as alternating spells of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels, so far this year. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when the council will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.
- 3.6.6 There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Investment performance for financial year to 31st January 2016

Benchmark	Benchmark Return	LBTH Performance	Over/(Under) Performance
Full Year 2014/2015	0.35%	0.73%	0.38%
Quarter 1 (Apr-Jun)	0.36%	0.76%	0.41%
Quarter 2 (Jul-Sep)	0.36%	0.78%	0.43%
Quarter 2 (Oct-Dec)	0.36%	0.79%	0.44%
Year to Date	0.36%	0.78%	0.43%

3.6.7 As illustrated above, the council outperformed the benchmark by **43bps** for financial year to date. The council's budgeted investment return for 2015/16 is **£2.45m**, and performance for the year to date is £0.44m above budget.

3.6.8 Investment rates available in the market have been broadly stable during the period and have continued at historically low levels as a result of the ultra-low Bank Rate. The average level of funds available for investment purposes during the reporting period was **£457.6m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

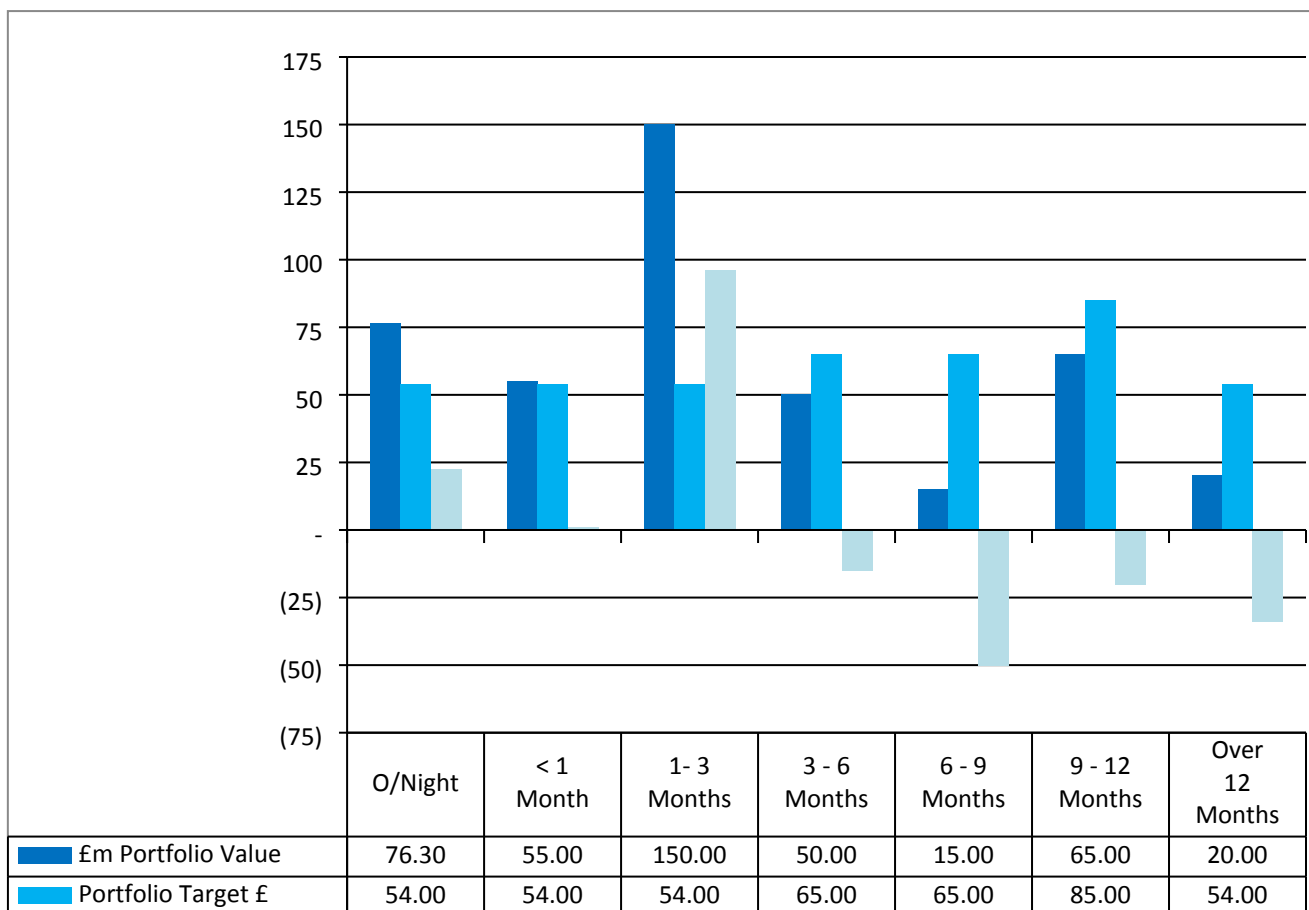
3.7 Investments Outstanding & Maturity Structure

3.7.1 The chart below illustrates the maturity structure of deposits as at 31 January 2016; we have £76.3m as overnight deposits, and this is basically all Money Market Funds.

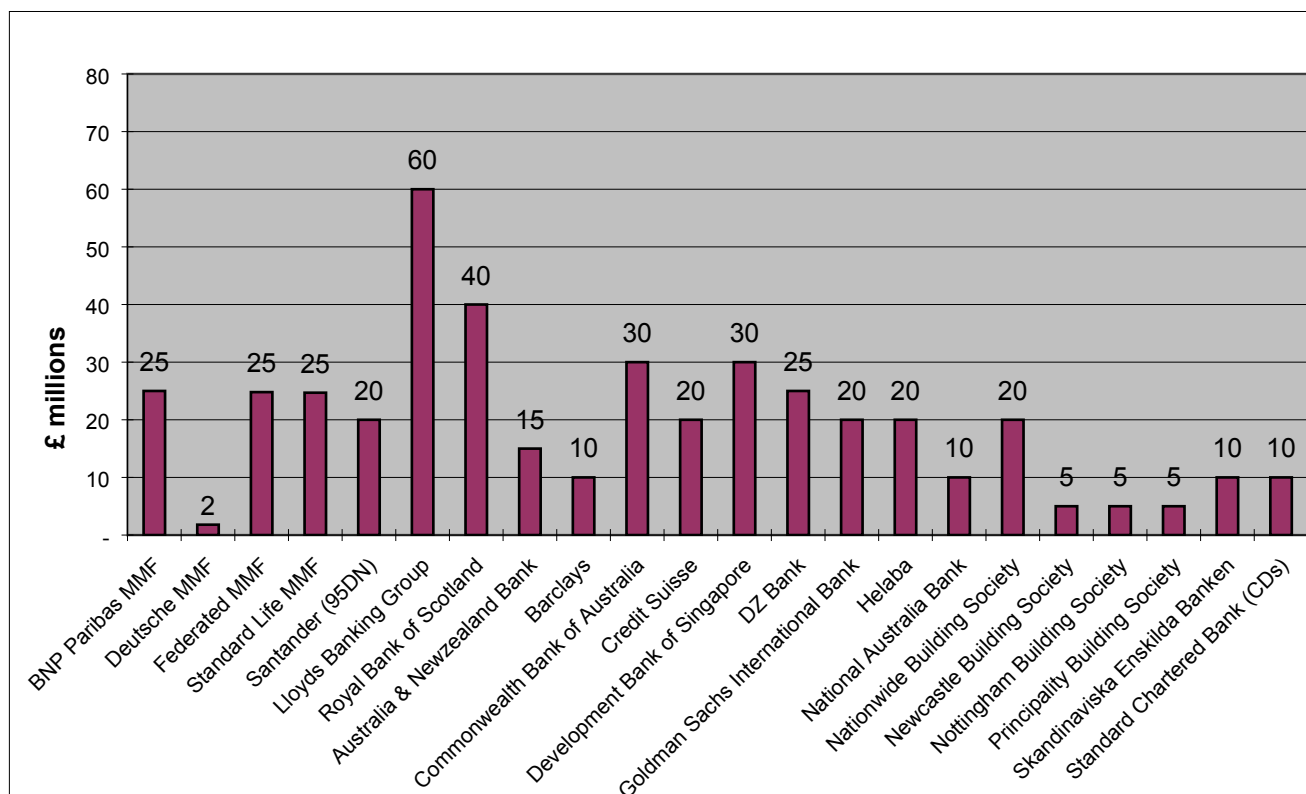
3.7.2 The Weighted Average Maturity (WAM) for outstanding investment (excluding MMF) is 142 days for the month of January and 183 days for last month. This is the average number of outstanding days to maturity of each deal from 31 January 2016.

3.7.3 The outstanding investments of £431.3m include Pension Fund surplus cash of some £48.8m which is being invested and will continue to be invested in accordance with the Council's Treasury Management Strategy agreed by Full Council, under the delegated authority of the Corporate Director Resources to manage within agreed parameters. £45m of this surplus cash will be transferred to a fund manager before the end of this financial year.

Maturity of Investment Portfolio as at 31 January 2016



Counterparty Exposure as at 31 January 2016



3.7.4 The above graph shows the deposits outstanding with authorised counterparties as at 31st January 2016, of which 9.3% were with part-nationalised banks (RBS Groups). Lloyds banking group has been removed from part nationalised bank and this institution current credit ratings based on the council credit worthiness policy can only permit us to invest a monetary limit of £20m for a maximum time limit of 6 months. The council currently has £60m of investment outstanding with the group, as listed below:

Amount	Maturity	Amount	Maturity
£5m	Feb-16	£35m	Apr-16
£15m	Mar-16	£5m	Aug-16

3.7.5 The above investments were undertaken prior to the change, that is, they were transacted when the bank met the council's treasury adviser criteria for classifying the institution as a part nationalised bank with monetary limit of £70m and time limit of 2 years.

3.7.6 No more transactions are being carried out with Lloyd's group. All outstanding deposits are less than one year to maturity; the outstanding investments would be managed down to the council's monetary and time limits, which is currently £20m and 6 months duration. As of today, by the end of March 2016, the council would have £40m of outstanding investments with less than 5 months to maturity and by the end of April 2016 the council would only have £5m outstanding with less than 4 months to maturity.

3.8 DEBT PORTFOLIO

3.8.1 The council's Treasury Management Strategy Report approved in February 2015 outlined the council's long term borrowing strategy for the year.

3.8.2 The table below sets out the council's debt as at the beginning of the financial year and as at 31 December 2015. The overall debt fell by £0.56m from £89.222m at the start of the year. Total debt outstanding, stands at £88.662m, against estimated CFR of £220.549m for 2015/16, resulting in an under-borrowing of £131.887m

	31 March 2015 Principal	Loans raised	Loans repaid	31 December 2015 Principal
	£'000	£'000	£'000	£'000
Fixed Rate Funding:				
-PWL B	11,722	-	0.560	11,162
-Market	13,000	-	-	13,000
Total Fixed Rate Funding	24,722		0.560	24,162
Variable Rate Funding:				
-PWL B	-	-	-	-
-Market	64,500	-	-	64,500
Total Variable Rate Funding	64,500			64,500
Total Debt	89,222		0.560	88,662
CFR	227,517			220,549
Over/ (under) borrowing	(138,295)			(131,887)

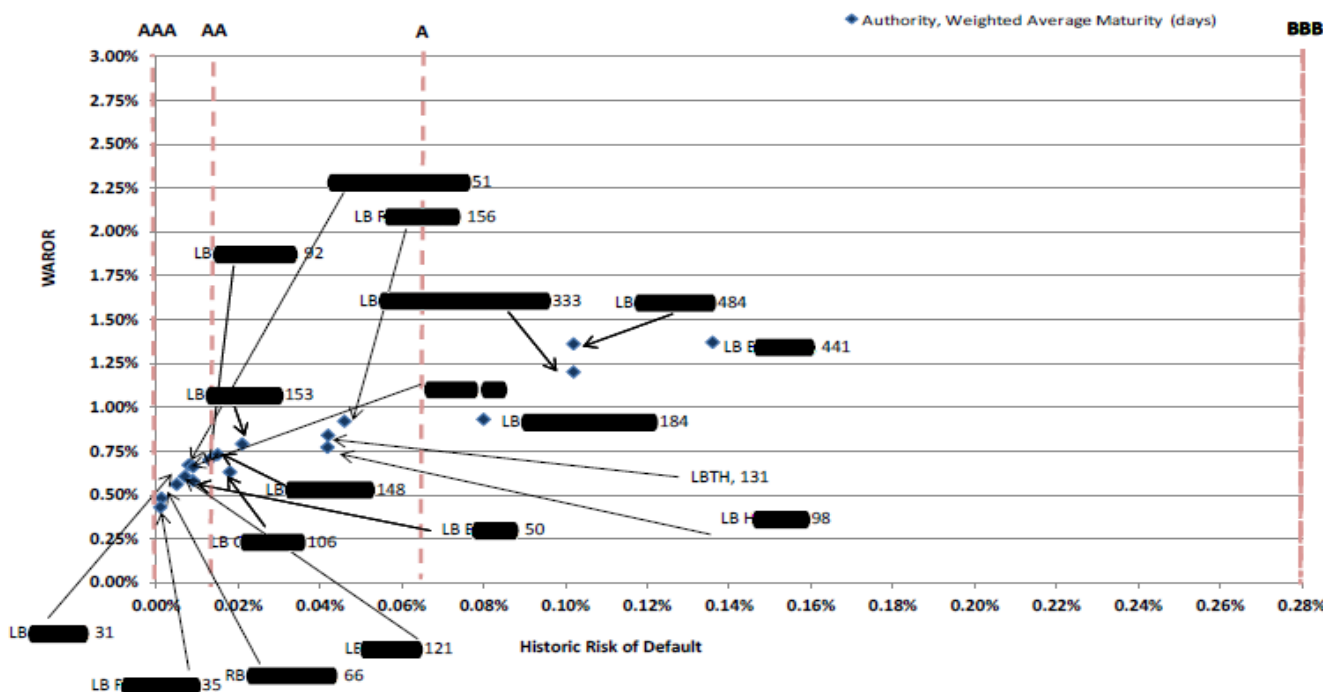
3.8.3 No borrowing has been undertaken in this financial year to date. Also no debt rescheduling opportunities have arisen during this financial year to reporting period as the cost of premiums outweighs savings that could be made from the lower PWLB borrowing rates.

3.9 INVESTMENT BENCHMARKING CLUB

3.9.1 LBTH participates in a benchmarking club to enable officers to compare the council's treasury management / investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 31 December 2015. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 20 local authorities. Tower Hamlets lies close to the expected return given the council's portfolio risk profile, which is placing deposits with institutions with the sovereign rate of AAA.

Security, Liquidity or Yield

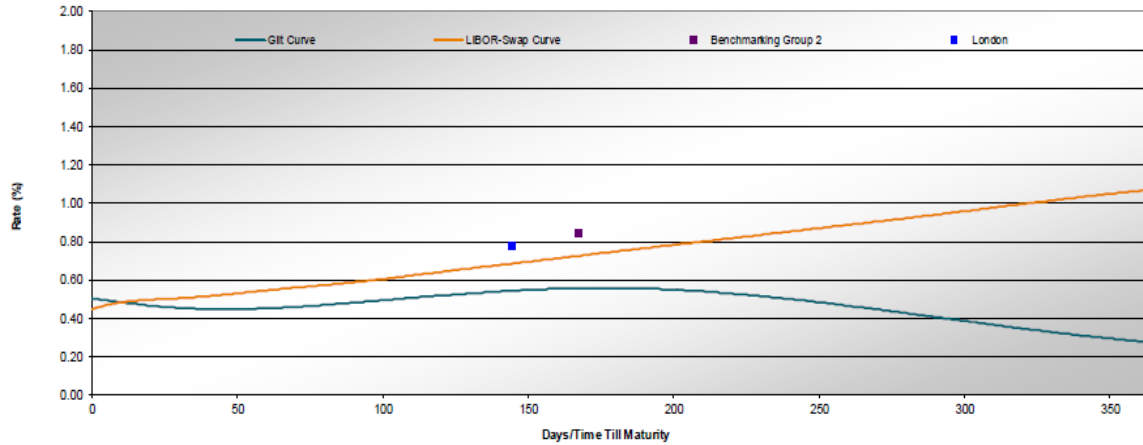
Weighted Average Rate of Return vs Historic Risk of Default



3.9.3 The above chart shows the credit quality range of investments held as at 31st December 2015 by club members. The council's investment portfolio for this period exhibits characteristics of investments held to be of investment credit quality of AA to A.

3.9.4 The weighted average rate of return (WARoR) for Tower Hamlets as shown below was 0.84%, in-line with the average group performance as shown below. The return on LBTH investment is commensurate with the council's risk appetite as set out in the Investment Strategy.

Returns Comparable Against the Risk-Free Rate and LIBOR Curve



	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference		Model Bands	Performance
							Gilt	LIBOR-Swap		
Benchmarking Group 2	0.84%	168	328	3.6	0.56%	0.72%	0.28%	0.11%	0.74% - 0.85%	Inline
London	0.77%	144	278	3.4	0.54%	0.68%	0.23%	0.09%	0.68% - 0.80%	Inline

Summary Positions – December 2015

	London Borough	London Borough	London Borough	London Borough	London Borough	London Borough	London Borough	London Borough
WARoR	1.20%	1.37%	0.63%	0.79%	0.56%	0.77%	0.73%	0.70%
WA Risk	3.4	3.2	3.2	3.7	3.3	3.8	2.3	3.5
WAM	333	441	106	153	31	98	148	92
WA Tot. Time	544	815	191	328	90	288	324	181
Performance	Above	Above	Inline	Inline	Inline	Below	Inline	Inline

	London Borough	London Borough	London Borough	London Borough of Tower Hamlets	London Borough	London Borough	London Borough
WARoR	1.36%	0.92%	0.43%	0.84%	0.93%	0.67%	0.66%
WA Risk	3.1	4.5	2.4	3.9	4.7	4.5	4.0
WAM	484	156	35	131	184	73	51
WA Tot. Time	927	307	57	285	382	133	65
Performance	Inline	Above	Below	Inline	Inline	Inline	Above

1	1.25	1.5	2	3	4	5	6	7
60 months	24 Months	12 Months	12 Months	6 Months	100 Days	0 Months		

- 1 Highest credit quality ratings e.g. Gilts, Treasury Bills and MMFs
- 1.25 Enhanced Money Market Funds
- 1.5 Enhanced Money Market Funds
- 2 High credit rated institutions
- 3 Part Nationalised Banks e.g. RBS Group
- 4
- 5
- 6
- 7 Weaker credit rated institutions

3.10 INVESTMENT UPDATE

- 3.10.1 Full Council approved the Investment Strategy on 25 February 2015. Officers continue to look for ways to maximise returns on cash balances within the constraints of the Investment Strategy. The Investment Strategy was developed based on an improving outlook in the money markets.
- 3.10.2 The councils have deposit of £100m outstanding with the part nationalised banking groups (Royal Bank of Scotland (£40m) and Lloyds banking group £60) and the challenge ahead will be to address the decline in the Government holding in Lloyds Banking Group and the impact that this could have on the counterparty limit that the council currently applies to this entity.
- 3.10.3 The council treasury adviser (Capita) has removed Lloyds group from part nationalised classification as the Government stakes have been reduced to less than 15%. However based on Lloyds banking group current credit ratings the monetary and time limits that applied to this establishment based on the council credit worthiness policy are a monetary limit of £20m and a maximum time limit of 6 months. The council currently has £60m of investment outstanding with the group. No more transactions are being carried out with the group. All deposits are less than one year to maturity; these investments would now be managed down to the council's current monetary and time limits for the institution.
- 3.10.4 Barclays Bank S&P Long Term rating was lowered to A- which leaves it one notch below that set in the council's Investment Strategy for 2015/16. The outlook is Stable, which suggests that there is no risk of a further downgrade in the near term. This should offer comfort to the council that the bank is not an immediate risk. We have been advised by Capita that this change is not a reflection of a worsening position of the bank, but the re-assessment of the manner in which the agency treats sovereign support. This is being applied to all UK and global institutions and is not unique to Barclays. The council's remaining investment with the bank matures on 5th April 2016. This was undertaken prior to this change; deal was transacted when the bank met the council's criteria.
- 3.10.11 Investments over 1 year is standing at £20m and were all invested with Royal Bank of Scotland for two years duration.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The comments of the Corporate Director, Resources are incorporated in the report.

5. LEGAL COMMENTS

- 5.1 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.

- 5.2 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.
- 5.3 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.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 Interest on the Council’s cash flow has historically contributed significantly towards the budget.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 Assessment of value for money is achieved through:
- Monitoring against benchmarks
 - Operating within budget
- 7.2 For example, investment returns exceeded the LIBID benchmark up to January 2016 and the treasury function operated within budget year to reporting period.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There are no Sustainable Actions for A Greener Environment implications.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 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.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents
Linked Report

- NONE

Appendices

- Appendix 1 - Investments Outstanding as at 31st January 2016.

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- Capita January 2016 Investment Portfolio Analysis Report

Officer contact details for documents:

- Bola Tobun Ext. 4733
- Mulberry Place, 3rd Floor.


Appendix 1
Investments Outstanding as at 31 January 2016

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	BNP Paribas MMF		MMF	25.00	
	Deutsche MMF		MMF	1.80	
	Federated MMF		MMF	24.80	
	Standard Life MMF		MMF	24.70	
	SUB TOTAL			76.30	
< 1 Month	Commonwealth Bank of Australia	03/09/2015	03/02/2016	5.00	0.58%
	Lloyds Banking Group	04/02/2015	04/02/2016	5.00	1.00%
	Development Bank of Singapore	10/08/2015	10/02/2016	10.00	0.61%
	National Australia Bank	16/02/2015	16/02/2016	10.00	0.61%
	Development Bank of Singapore	17/08/2015	17/02/2016	5.00	0.61%
	Royal Bank of Scotland	27/02/2013	26/02/2016	10.00	1.15%
	Helaba	26/05/2015	26/02/2016	5.00	0.86%
	DZ Bank	26/08/2015	26/02/2016	5.00	0.66%
	SUB TOTAL			55.00	
1 - 3 Months	Commonwealth Bank of Australia	03/09/2015	03/03/2016	5.00	0.62%
	Lloyds Banking Group	04/03/2015	04/03/2016	5.00	1.00%
	Lloyds Banking Group	05/03/2015	07/03/2016	10.00	1.00%
	Australia & New Zealand Bank	14/12/2015	14/03/2016	10.00	0.52%
	Commonwealth Bank of Australia	14/09/2015	14/03/2016	10.00	0.64%
	Royal Bank of Scotland	20/03/2014	20/03/2016	5.00	1.25%
	Standard Chartered Bank (CDs)	01/04/2015	30/03/2016	10.00	0.86%
	Development Bank of Singapore	04/01/2016	04/04/2016	10.00	0.60%
	Development Bank of Singapore	06/01/2016	06/04/2016	5.00	0.60%
	Lloyds Banking Group	07/04/2015	07/04/2016	5.00	1.00%
	Lloyds Banking Group	10/04/2015	08/04/2016	5.00	1.00%
	Lloyds Banking Group	13/04/2015	12/04/2016	5.00	1.00%
	Nationwide Building Society	13/04/2015	12/04/2016	10.00	0.90%
	Australia & New Zealand Bank	13/01/2016	13/04/2016	5.00	0.52%
	Lloyds Banking Group	15/04/2015	14/04/2016	5.00	1.00%
	Nationwide Building Society	16/04/2015	15/04/2016	5.00	0.90%
	Barclays	16/04/2015	15/04/2016	10.00	0.92%
	Lloyds Banking Group	17/04/2015	15/04/2016	10.00	1.00%
	Nationwide Building Society	24/04/2015	22/04/2016	5.00	0.90%
	Nottingham Building Society	29/04/2015	28/04/2016	5.00	1.00%
	Newcastle Building Society	29/04/2015	28/04/2016	5.00	1.10%
Lloyds Banking Group	29/04/2015	29/04/2016	5.00	1.00%	
SUB TOTAL			150.00		
3 - 6 Months	Santander (95DN)		Call - 95N	20.00	1.10%
	Helaba	01/05/2015	03/05/2016	10.00	0.94%
	DZ Bank	04/01/2016	04/05/2016	10.00	0.60%
	DZ Bank	04/01/2016	04/07/2016	10.00	0.69%
	SUB TOTAL			50.00	
6 - 9 Months	Commonwealth Bank of Australia	05/08/2015	05/08/2016	5.00	0.84%
	Lloyds Banking Group	13/08/2015	12/08/2016	5.00	1.00%
	Skandinaviska Enskilda Banken	05/10/2015	05/10/2016	5.00	0.92%
	SUB TOTAL			15.00	
9 - 12 Months	Goldman Sachs International Bank	23/10/2015	24/10/2016	10.00	1.00%
	Helaba	12/11/2015	11/11/2016	5.00	1.04%
	Principality Building Society	11/11/2015	11/11/2016	5.00	1.08%
	Goldman Sachs International Bank	12/11/2015	14/11/2016	10.00	0.95%
	Credit Suisse	20/11/2015	18/11/2016	10.00	1.03%
	Credit Suisse	25/11/2015	25/11/2016	10.00	1.00%
	Skandinaviska Enskilda Banken	07/12/2015	07/12/2016	5.00	0.85%
	Commonwealth Bank of Australia	15/12/2015	15/12/2016	5.00	0.91%
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74%
	SUB TOTAL			65.00	
> 12 Months	Royal Bank of Scotland**	05/05/2015	05/05/2017	5.00	1.42%
	Royal Bank of Scotland**	08/05/2015	08/05/2017	5.00	1.42%

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20%
	Royal Bank of Scotland	30/04/2015	30/04/2018	5.00	0.90%
	SUB TOTAL			20.00	
	TOTAL			431.30	

* This is a structured deal, the terms of which could change during its tenor.

** This is certificate of Deposits

Non-Executive Report of the: Audit Committee 22 March 2016	 TOWER HAMLETS
Report of: Zena Cooke - Corporate Director - Resources	Classification: <i>Unrestricted</i>
Annual Governance Statement 2014/15	

Originating Officer(s)	<i>Minesh Jani, Head of Audit and Risk Management</i>
Wards affected	<i>All wards</i>

1. Summary

- 1.1 This report updates the Audit Committee on the processes to review the governance arrangements of the Council since July 2015, as part of the process to produce the 2014/15 Annual Governance Statement (AGS).
- 1.2 Section 3 of this report provides a background and outline of the work undertaken to review and refresh the earlier governance statement and informs the Audit Committee why further work has been required before the statement can be formally signed off. Subsequently, sections 4 provides an overview of all significant issues raised since 2013/14, their current status and future planned actions.
- 1.3 The updated draft version of the 2014/15 AGS is attached as Appendix 1.

2. Recommendation

- 2.1 The Audit Committee is asked to: -
 - Note the actions taken since July 2015 and the reasons for further work on the statement; and
 - Agree the updated draft AGS for the financial year 2014/15 at Appendix 1.

3. Background

- 3.1 The Accounts and Audit Regulations 2011 require the Council to conduct an annual review of its governance arrangements and to publish an AGS with the published financial statements. The Statement of Recommended Practice 2011 requires that the AGS be approved by the committee approving the accounts, which is the Audit Committee.
- 3.2 The draft 2014/15 AGS was presented to the Audit Committee for approval in July 2015, to comply with the statutory deadlines regarding statement of accounts, the process could not however be formally concluded and be signed off by the then Head of Paid Service and the Mayor until the External Auditors had concluded their audit work on the 2014/15 accounts. The External Auditors are nearing concluding their audit for the financial year 2014/15. Ordinarily, the 2014/15 accounts and the accompanying AGS would be signed off by September 2015.
- 3.3 It should be noted completion of the 2013/14 accounts audit was also the reason that the 2013/14 AGS was not signed off until September 2015 and when signed off four significant issues were added that arose out of the External Auditors work these accounts. These issues at that point also became relevant to the 2014/15 AGS.
- 3.4 Since July 2015 further work to ensure all significant governance issues have been identified and reported and that the AGS is current at the time of sign off, has been undertaken. The Head of Internal Audit and Risk Management has considered the work completed prior to July to ensure no developments need to be reported and meetings have been held with directors to seek their input.
- 3.5 The table in section 4 of this report captures all significant governance issues raised in 2013/14 and 2014/15 and provides details of actions taken; the status of the governance issue and further actions planned, if any.

4. 2014/15 Annual Governance Statement (July 2015)

- 4.1 The 2014/15 AGS presented to CMT and Audit Committee in June and July 2015 respectively contained nine significant governance issues; these being:
- Payments to third sector organisations outside of the main grant process;

- A comprehensive review of the management arrangements for the control and monitoring of grants;
- Strengthen controls over the disposal of assets;
- Publicity Expenditure Controls;
- Suitable appointments to the three statutory officer roles;
- Update the constitution to expand wording to clarify certain issues with the General Purposes Committee;
- Election and pre-election period;
- Enhance contract management and contract letting process; and
- Governance Arrangements in Schools.

4.2 Since July, a further four significant have been added as a result of the closure of the 2013/14 accounts audit. These are:

- Review, and where necessary, enhance arrangements around declarations of interests;
- Review Council's S106 arrangements;
- Strengthen Internal Controls for Mayoral Expenses; and
- Governance of the Council.

4.3 The draft 2014/15 AGS has been revised in light of these additional significant governance issues and the updated AGS is attached at Appendix 1 of this report. Appendix 2 sets out all governance issues raised since April 2013, and their current status and future planned actions.

5. Comments of the Chief Financial Officer

5.1 This report sets out the framework for reviewing and reporting on the Council's system on internal control and governance arrangements as required by regulation 4(2) of the Accounts and Audit Regulations 2011. The purpose of the review is to provide assurance that the accounts are underpinned by adequate governance arrangements.

5.2 The Chief Financial Officer comments are contained within the body of this report.

6. Legal Comments

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

7. One Tower Hamlets

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

8. Risk Management Implications

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

9. Sustainable Action for a Greener Environment (SAGE)

9.1 There are no specific SAGE implications.

10. Crime and Disorder Reduction Implications

10.1. By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

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Draft Annual Governance Statement 2014/15

London Borough of Tower Hamlets Council (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 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 2011.

This statement relates the financial year 2014/15. The Annual Government Statement for 2013/14 was formally signed on 23 September 2015 and the governance issues raised in that statement have been reviewed as part of the review of effectiveness the Council's governance arrangements for 2014/15 and where relevant, captured in the 2014/15 statement.

Background

On the 4th April 2014 the Department of Communities and Local Government (DCLG) appointed PricewaterhouseCoopers LLP (PwC) to carry out an inspection of compliance by the London Borough of Tower Hamlets with the requirements of Part 1 of the Local Government Act 1999 '*in relation to the Authority's functions in respect of governance, particularly in respect of the authority's functions under Section 151 of the Local Government Act 1972*' and as they relate to the following:

- The authority's payment of grants and connected decisions;
- Transfer of property to third parties;
- Spending and decisions in relation to publicity; and
- Processes and practices relating to entering of contracts.

PwC's final report was published by the DCLG on 4th November 2014. In their report, PwC reported the Authority was not achieving Best Value in the following areas:

- The authority's payments of grants and connected decisions;
- The transfer of property to third parties; and
- Spending and the decisions of the authority in relation to publicity.

In respect of processes and practices relating to entering of contacts, PwC reported the Authority was complying with its Best Value duty but highlighted areas where the Authority could improve.

The Secretary of State for Communities and Local Government (CLG) considered the PwC report and representations from the Authority and issued Directions on 17 December 2014. Further directions were issued on 6 May 2015 in respect of the appointment of statutory officers. More information about the directions issued by the Secretary of State for CLG to the Authority and the actions to comply are included within this statement.

Full details of the directions can be found at <https://www.gov.uk/government/news/secretary-of-state-sends-in-commissioners-to-tower-hamlets>.

Tower Hamlets was required to produce in total, seven best value improvement plans, including actions arising from the electoral court judgement in respect of the Mayoral election in May 2014, as detailed below: -

- Procurement Action Plan
- Grants Action Plan
- Property and Disposal Action Plan
- Communications Action Plan
- Organisational Culture Action Plan
- Recruitment of statutory officers
- Elections

The Authority is co-operating fully with the Commissioners to ensure it complies with the directions issued by the Secretary of State for CLG and the matters raised in the PwC report, and address the issues raised as soon as possible.

A Best Value Programme Review Board has been established to monitor the progress towards implementation of the actions contained within the various improvement plans. The first public meeting of the Board was on 15 July 2015 and was chaired by the then Head of Paid Service. Subsequent quarterly meetings have been chaired by the Mayor.

The directions required the Authority to respond to the Secretary of State for CLG within three months, by developing action plans that had to be agreed with the Commissioners. Further, the directions require, the Authority provide six monthly reports to the Secretary of State for CLG. The first report was submitted on 17 September 2015, details of which can be found at

[http://www.towerhamlets.gov.uk/News_events/News/september_2015/tower_hamlets_getting_back_on.a_spx](http://www.towerhamlets.gov.uk/News_events/News/september_2015/tower_hamlets_getting_back_on_a_spx). Following its submission, the Secretary of State for CLG welcomed the progress the Authority had made. Further, the Secretary of State for CLG allowed the directions raised on 6 May 2015 to lapse on 31 October 2015, in light of the progress the Authority had made and the assurances received from the Commissioners. The full response can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/472377/151023_-_Response_from_the_SoS_to_the_Mayor_of_Tower_Hamlets.pdf.

The second report will be provided to the Secretary of State for CLG on 17 March 2016.

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 was most recently endorsed in June 2014.

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 2011 in relation to the publication of the Annual Governance Statement.

2. The Purpose of the Governance Framework

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

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an 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 2015 and up to the date of approval of the statement of accounts.

3. The Governance Framework

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

3.1 Vision and Priorities

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

The Council is part of the Tower Hamlets Partnership with a vision to 2020 set out in the borough's Sustainable Community Strategy, known as the Community Plan. The Community Plan has four main 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 and contains more detailed priorities and objectives for the Authority to deliver against. More information about the council's performance against the Plan and achievements in 2014/15 is available on the website and the 2015/16 Strategic Plan is located at http://www.towerhamlets.gov.uk/ignl/community_and_living/community_plan/strategic_plan_2015-16.aspx.

The Strategic Plan is informed by the Mayor's key priorities including:

- Housing delivery and performance
- Regeneration and the creation of Sustainable Communities;
- Creating Jobs and supporting the growth of the Local Economy;
- Young People and Schools;
- Older People and Health;
- Community Safety and Community Cohesion;
- Environment and Public Realm; and
- Arts, Heritage, Leisure and Culture.

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 was significant consultation with local people to develop 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 the Tower Hamlets Community Plan 2011. The Plan has been refreshed and takes the Borough through to 2020. [Details of the plan can be found at http://www.towerhamlets.gov.uk/ignl/community_and_living/community_plan/community_plan.aspx](http://www.towerhamlets.gov.uk/ignl/community_and_living/community_plan/community_plan.aspx)

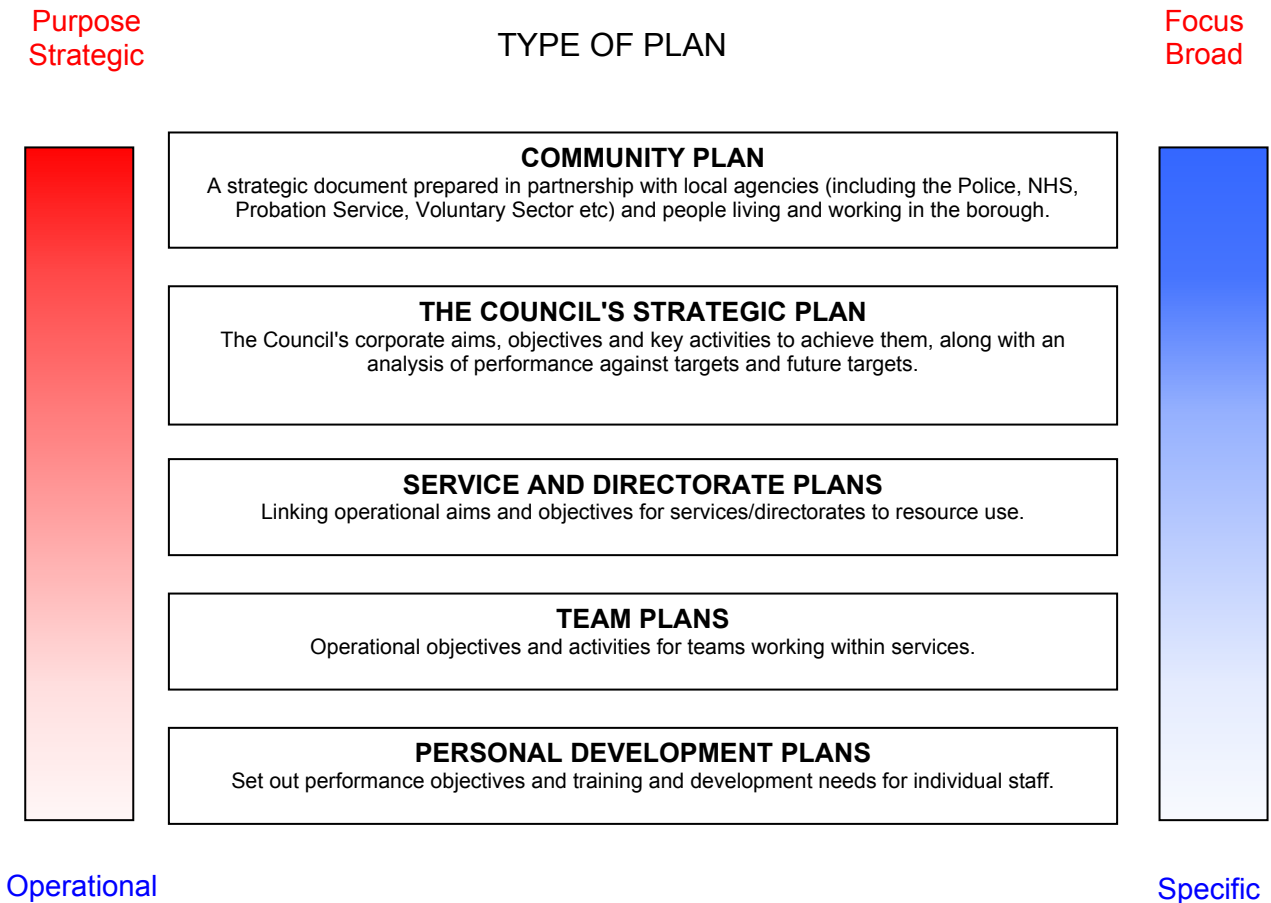
The vision, themes and priorities of the Community Plan are delivered through the Tower Hamlets Partnership structures which comprise the Partnership Executive, the Community Plan Delivery Groups (CPDGs), and localised governance structures.

The Community Plan falls 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. The Plan is 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 and is structured around the themes, priorities and objectives of the Community Plan.

The Strategic Plan is refreshed each year through Cabinet, at which time it is also reviewed by Overview and Scrutiny. 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 (PDPs). This ensures that there is a "golden thread" that runs from the Community Plan to each individual employee's work. This helps ensure that the vision, priorities and objectives are communicated to and delivered at all levels of the organisation. Further communication of core values and key initiatives 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.

There is a mechanism by which all Council strategic performance indicators are challenged, annually risk assessed and a sample selected for testing by the performance management team supported by internal audit.

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. The Cabinet and the Overview and Scrutiny Committee receive regular reports highlighting Council performance.

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;
- the role of overview and scrutiny;
- the role and responsibilities of the Audit Committee;
- codes of conduct for councillors and employees;
- the whistleblowing arrangements; 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.

There was a review of the constitution during 2013/14 which indicated that the constitution is fit for purpose and conforms to statute and best practice. The review has indicated that there are some areas of the constitution where we have options to expand or amend wording to clarify certain issues. A verbal update on the work of the Constitutional Working Party was given by the Monitoring Officer to the General Purposes Committee in September 2014. The Monitoring Officer continues to work with the General Purposes Committee to complete the constitutional review.

The Council will consider and approve any changes proposed 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 make a declaration at least annually. 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.

The responsibility to declare interests has also been extended to all tenderers and bidders as part of the procurement process. Periodically the audit plan contains reviews relating to compliance with the codes of conduct.

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 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.

The Care Act has been one of the most significant legislative changes to affect the Authority in 2014/15. During 2013/14 the Care Act, and in particular the financial risks associated with its implementation, was identified as a significant issue. Although the Council still faces significant financial challenges going forward the services involved in the implementation of the Care Act have worked together to ensure that the issue has been managed and risks mitigated and it does not remain a significant issue for monitoring in 2015/16.

3.7 Overview and Scrutiny

During 2014/15 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 prior to consideration at Full Council.

In 2014/15 a number of decisions were called in these included for example the Cabinet decision relating to the Drug and Alcohol Action Team (DAAT) Commissioning Intentions; Call-in of Mayoral Executive Decision Contract Award – Direct Payment Support Service and the Medium term Financial Strategy update report.

An Annual Scrutiny Report detailing the work of the Overview and Scrutiny Committee and the Health and Scrutiny Panel is approved and presented to Council annually. The 2014/15 report is included in the May 2015 agenda of the Committee.

3.8 Monitoring of the Best Value Performance Plan

As detailed earlier in this statement the PwC inspection identified best value failings in relation to three out of the four areas reviewed and although there was compliance in the contract area there were noted areas for improvement. As a result of this and the subsequent directives for each of the four areas the Council has produced a best value action plan. The Plan was submitted to the Secretary of State for CLG in March 2015. Officers responsible for these improvement areas have regular meetings with the Commissioners to review the progress against the action plan and a Best Value Programme Board, chaired by the Mayor, has been set up to monitor progress. As required by the directions this progress is then reported back to the Secretary of State for CLG every six months. The first of these progress reports was submitted in September 2015, and was received positively by the Secretary of State for CLG as referenced in the 'Background' section of this Statement.

3.9 Audit Committee

For 2014/15, the Audit Committee comprised 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 Audit Committee: Guidance for Local Authority and Police. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's Annual Financial Report, including the annual statement of accounts, and to consider reports from the Council's external auditor, KPMG. The Audit Committee met four times during the financial year 2014/15.

3.10 Internal Audit

Internal audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. 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. 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. This report is one of the sources of assurance used in the preparation of this statement. For 2014/15, the overall the control environment was adjudged by the Head of Internal Audit to be adequate.

Following the publication of the Public Sector Internal Audit Standards (PSIAS), the Council's internal audit arrangements have been updated and the Audit Charter endorsed by the Audit Committee most recently in June 2015.

The Head of Audit & Risk reports quarterly, on a formal basis, to the Corporate Management Team on findings of audit work and investigations. He also meets as required with CMT members individually as well as other officers with roles key to the Governance Framework to discuss governance related issues. The internal audit charter, setting out the purpose and authority and responsibility of internal audit was approved by CMT and the Audit Committee in June 2015.

To support the monitoring and assurances available with regards the completion of the Best Value Action Plans the 2015/16 Internal Audit Plan includes some focused work to assess whether the milestones detailed in the Best Value Improvement Plan have been implemented. The Internal audit report for the review of the Procurement Best Value Improvement plan was presented to the Best Value Programme Board on 26 January 2016 and the internal audit reports for Communications, Property and Grants was presented on 22 February 2016.

3.11 External Audit

The Council's external auditors, KPMG:

- Review the Council's accounts to ensure that they comply with statutory requirements and that proper practices have been observed in compiling them; and
- Conclude on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

In 2013/14, KPMG issued an unqualified audit opinion on the Council's financial statements. In respect of whether the authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, KPMG issued an adverse opinion and raised a S11 recommendation under the Audit Commission Act 1998. The recommendation was reported to the Audit Committee on 23 September 2015 in the external audit report "To Those Charged with Governance." The Authority considered the Section 11 recommendation at a meeting of the full Council on 20 January 2016, and at the General Purposes Committee on 8 February 2016.

At the Council and General Purposes Committee meetings it was agreed to accept the Section 11 recommendation and that the following courses of action would be undertaken:

- Continue with actions identified in the Best Value Action Plan in keeping with the agreed timescales.
- Set up a 'Governance Working Group' with formal Terms of Reference to thoroughly review the governance processes of the Authority.
- Construct a 'Governance Working Group Action Plan', with identifiable tasks, responsible officers and timeframes.
- Complete other items identified in the Final ISA260 Report 2013/14.
- Report progress to the General Purposes Committee and the Audit Committee on a regular basis.

Further information can be found at <http://moderngov.towerhamlets.gov.uk/documents/s81734/2016%2001%2007%20PG%20Draft%20Council%20Report%20-%20S11%20V5%20-%20legal%20v2%20Final.pdf>.

3.12 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 three 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 Advisory Committee.

The Mayor and elected 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 part of the Council's anti fraud and corruption Strategy. The strategy is refreshed annually and reported to the Audit Committee at its March committee. The strategy was last refreshed in March 2015. The authority plans to enhance current arrangements by promoting the Council's whistle blowing arrangements by raising awareness of the Council's whistle blowing arrangements and improving reporting.

3.13 Risk Management

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

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

During 2014, Zurich Municipal Engineering supported the risk management framework by undertaking a review of the Council's risk management arrangements and suggested enhancements to further embed risk management within the organisation and facilitating workshops with the Corporate Management Team and Directorate Management Teams. The risk team has developed an action plan and an Annual report which was also shared with the Audit Committee in June 2014. The action plan is being implemented and progress is being monitored by the Audit Committee.

3.14 Information Governance

Tower Hamlets has established two groups to oversee Information Governance as a risk area and ensure robust governance arrangements are in place and adhered to across the organisation. An Information Governance Group meets six weekly to discuss issues arising and the Freedom of Information Board, which is co-ordinated by Legal Services, has overall oversight. In 2014/15 the Authority participated in a voluntary inspection by the Information Commissioners Office (ICO) to generate independent assurances with regards the arrangements in place. An action plan has been developed following this inspection and signed off by the Freedom of Information Board before being submitted to the ICO. The action plan was agreed with the ICO and monitored by the Information Governance Group.

During 2014/15 all high level Information Governance Policies were reviewed and updated.

3.15 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.

The Council's medium term financial plan sets out the need to deliver financial savings to 2019/2020. Arrangements have been made to identify opportunities and for the delivery and reporting of savings to CMT and Cabinet.

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 2014/15 included:

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

Since the publication of the CIPFA statement on the role of the Financial Officer in Local Government (2010), a self assessment of the Council has shown the authority conforms to the good practice identified within the code.

3.16 The Efficient and Effective Use of Resources

As noted earlier in this statement, the authority has been subject to a Best Value inspection and the findings arising from the inspection are captured under review of effectiveness (Section 4). KPMG's assessment on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resource in relation to 2013/14 resulted in the issue of an adverse opinion in respect of the authority's arrangements to secure value for money.

The authority has developed an action plan to improve value for money and seek continuous service improvement through a range of processes, including the application of best value principles and the carrying out of efficiency reviews as set out under the background section of this report.

During 2014/15, 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 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.

During 2014/15 residents were also consulted through the Your Borough Your Voice campaign and a series of local meetings, a survey and workshops about their views on how the council can make most effective use of resources to meet local priorities.

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, led by the Cabinet Office, designed to detect fraud perpetrated on public bodies. The Corporate Anti-Fraud team continues to actively engage with the Cabinet Office to test and improve the output from the NFI exercise. The findings were reported to CMT and the Audit Committee, the exercise is completed every two years.

The Council is deploying increasing innovative approaches to tackle risks to deliver value for money services. One example would be the activity to link debtors across a number of council activities to ensure the more efficient and effective use of Council resources in pursuit of the debts and to improve outcomes through a targeted approach.

3.17 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.

3.18 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. A review of the value for money and compliance of East End Life was requested as part of the Best Value Action Plan. Following the review, a decision was made for East End life to be published fortnightly from January 2016 and quarterly from May 2016 to bring the publication in line with the Recommended Code of Practice for Local Authority Publicity.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council on the perception of the services it provides and the experience of services users. Further, the authority uses a wide range of digital media 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.

The Mayor's surgeries with community groups, local businesses and others also provide direct communication and engagement with all stakeholders.

Elected Members of the council also hold regular surgeries for their wards.

3.19 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. At a ward level Local Community Ward Forums enable local people to engage with the council and identify local priorities and projects for co-delivery.

Due to the Care Act and the drive towards more integrated services the Council has in 2014/15 been working in partnership with the Clinical Commissioning Groups, BARTs and East London Mental Health Trust. A formal partnership called the Tower Hamlets Integrated Provider Partnership has been created and the Council is committed to working to achieve shared outcomes with the members of the partnership. 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 authority 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 financial internal control.
- Performance monitoring shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- Monitoring of the 2013/14 Significant Governance Issues as well as the actions plans arising from the PwC review of best value.
- The outturn on the 2014/15 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Quarterly monitoring of strategic risks of the Council by the Corporate Management Team and the Mayor's Advisory Board.
- Meetings with Corporate Management Team Members who have reviewed their own directorate governance issues and actions with their Directorate Management Teams to seek input to the issues at a corporate level.

There has also been significant work to review and improve the authority's governance arrangements and this work is considered in the process to produce this statement. An example of this is outlined below.

The Council's Overview and Scrutiny Committee established an Overview and Scrutiny Transparency Commission (OSTC). The Commission aimed to identify actions the council should take to improve transparency and find ways the council can be more transparent. The Commission considered how:

- residents be better informed about council activity, processes and decisions;
- elected members be supported to make more transparent decisions; and
- decision-makers be held to account transparently.

The Overview and Scrutiny Committee agreed its final report, at its meeting on 29 January 2016. The report contained 18 recommendations and has been presented to the Mayor for implementation.

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 PwC review and our own internal review of the effectiveness of the governance arrangements in place during 2014/15 has identified some areas where action is appropriate to enhance the Council’s governance framework. The significant issues and the specific actions to address that have been taken and those planned for the future are set out below and in all cases, due to the on-going monitoring of the governance framework, work is already underway to address the action points.

Each significant governance issue has an identified CMT lead who takes responsibility for progress and implementation. The actions identified within this statement form part of the performance management framework for each director and will be incorporated into their directorate performance plans.

The overall process is overseen by the Audit Committee who approves the Annual Governance Statement prior to it being signed off by the Mayor and the Chief Executive.

Governance Issue and action noted as at June 2015	Update / further proposed action as at January 2016	CMT Lead and expected resolution date
<p>1) Payments to third sector organisations outside Mainstream Grants.</p> <p>Internal audit received an external referral and as a result of the subsequent review found that there were irregularities in payments made by the Council to an organisation. This matter has been reviewed to the police.</p> <p>Further investigation has resulted in more organisations being referred to the police.</p> <p>The systems and processes have been improved and increased compliance work has been completed and embedded into control environment.</p> <p>Finalisation of schedule of all grant regimes by July 2015 ensures no approved grant is paid.</p>	<p>The authority continues to assist the Police with its enquiries as they arise. No further actions.</p> <p>(CLC to provide update)</p>	<p>Corporate Director, Communities Localities Culture</p> <p>April 2016</p>

Governance Issue and action noted as at June 2015	Update / further proposed action as at January 2016	CMT Lead and expected resolution date
<p>2) Management arrangements for the control and monitoring of grants.</p> <p>Following a comprehensive review of this service and its approach to audit a corporate grant function has been created to enhance consistency of approach to grant giving, monitoring and reporting across the Council. It is also anticipated that the function will ensure approved grant is only paid following proper due diligence of the organisations, and outcomes expected from the grant.</p> <p>There is a Best Value Performance Plan for Grants which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones occurred throughout the financial year with the final actions to be completed March 2016.</p>	<p>A corporate grants team has been created to ensure management and control over grant giving, monitoring and reporting across the Council. The team will ensure grants are only approved following proper due diligence of the organisations, and outcomes expected from the funding.</p> <p>There is a Best Value Improvement Plan for Grants which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones in the best value performance plan final actions to be completed March 2016.</p>	<p>Corporate Director - Resources</p> <p>March 2016</p>
<p>3) Strengthen controls over disposal of assets that demonstrate best value is secured by the Council.</p> <p>Following the inspection disposal of assets is part of the Best Value Action Plan – Improvements to process have been made. Currently the Commissioners have the relevant Executive Powers. An assurance has been agreed by cabinet and embedded in financial regulations. A report has been provided to CMT.</p> <p>Internal Audit work in this area also generated actions which have been implemented.</p> <p>Arrangements are being made to improve the outcomes for the Council from its assets which</p>	<p>The Council's Asset Management strategy was reviewed and approved by Cabinet in December 2015, including arrangements to demonstrate value for money in disposal of assets.</p> <p>There is a Best Value Performance Plan for Property which contains a number of actions to strengthen governance arrangements. Final actions to be completed</p>	<p>Corporate Director - Development and Renewal</p> <p>March 2016</p>

Governance Issue and action noted as at June 2015	Update / further proposed action as at January 2016	CMT Lead and expected resolution date
<p>require the asset management strategy to be reviewed and approved by Cabinet.</p> <p>Audit work will provide assurances with regards compliance.</p> <p>There is a Best Value Performance Plan for Property which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones occur throughout the financial year with the final actions to be completed March 2016.</p>	<p>March 2016.</p>	
<p>4) To make suitable permanent appointments to the posts designated as statutory officers of the Council.</p> <p>All statutory officer posts are in various stages of the appointment process with a view to making permanent appointments as soon as possible.</p> <p>The Authority has complied with the directions, by agreeing the design. For two of the three statutory roles the new post holder will start July. For the Head of Paid Service/Chief Executive role it is expected to be by September.</p>	<p>All three Council statutory officers were appointed to as follows:-</p> <p>Chief Executive – October 2015</p> <p>Chief Financial Officer – August 2015</p> <p>Monitoring Officer – August 2015</p>	<p>Completed</p>
<p>5) Update the constitution to expand wording to clarify certain issues with the General Purposes Committee and update the local code of corporate governance.</p> <p>The Local Government Association reviewed the Council's constitution and indicated that the constitution is fit for purpose and conforms to statute and best practice. Further, recognising that there may be areas where the authority may learn from other authorities with an Executive Mayor, an independent external review was also commissioned comparing the Council's constitution with those of similar local authorities. This review confirmed there were no fundamental weaknesses of gaps in</p>	<p>Actions are included within the BVAP for organisation culture action plan. It is anticipated the majority of the work in this area will be completed by March 2016, although there will be on-going review and update of the constitution there after as part of the usual business of the Authority.</p>	<p>Monitoring Officer – Law Probity and Governance</p> <p>March 2016</p>

Governance Issue and action noted as at June 2015	Update / further proposed action as at January 2016	CMT Lead and expected resolution date
<p>the Council's constitution. There are opportunities to word elements more clearly or tighten up some areas of process to enable the Executive and non-Executive business to run more smoothly.</p> <p>The work to review the constitution commenced in 2014 but is not yet complete.</p> <p>There were some minor issues around scheme of delegation raised through audit work in 2014/15.</p> <p>External Review of Virements was completed in 2014.</p> <p>Review of the constitution.</p> <p>Review of the Schemes of Delegation and implementation of an annual review process which will be confirmed as part of the annual governance processes embedded within the organisations governance framework.</p> <p>It is anticipated the work in this area will be completed by March 2016, although there will be on-going review and update of the constitution there after as part of the usual business of the Authority.</p>		
<p>6) Elections</p> <p>Elections in Tower Hamlets are always vigorously contested and a recent election petition judgement found no wrong doing by the Returning Officer but did result in the Mayor being removed from the office.</p> <p>The Electoral Commission made various recommendations about improving the trust and confidence in the integrity of May 2014 elections, which have been implemented.</p> <p>The Electoral Commission has reviewed progress in the implementation of the recommendations and has strongly supported the steps that have been taken.</p> <p>In preparation for the 2015 general election, further action is planned to tighten up</p>	<p>Steps taken to implement milestones in the best value action plan. For the 2015 Mayoral election, a report was presented to the General Purposes Committee setting out what went well and areas for improvement.</p>	<p>Completed</p>

Governance Issue and action noted as at June 2015	Update / further proposed action as at January 2016	CMT Lead and expected resolution date
<p>procedures around registration for, and management of postal votes. Other actions include; joint on-going working between the Returning Officer and police to deter and detect electoral fraud; local protocol committing all those involved in May 2014 elections to work towards free and fair elections; pre-election guidance reviewed and issued to all managers, staff and members and pre-election restrictions from 14 April including complete review of Council website and other publicity.</p> <p>There is a Best Value Performance Plan for Elections which contains a number of actions to strengthen governance arrangements.</p> <p>Deadlines and milestones were identified leading up to May 2015 and where required, the date of the elections.</p> <p>The actions identified were implemented for the Mayoral elections on 11 June 2015.</p>		
<p>7) Enhance contract management and contract letting process.</p> <p>The Procurement Strategy and procedures have been refreshed and adopted.</p> <p>To ensure compliance around procurement, the Competition Planning Forum and the Competition Board continue to monitor and recommend the best course of action for all significant purchases.</p> <p>The new procedures now provide greater visibility and input from the Corporate procurement team and over the next financial year, the team plan to seek better outcomes from the organisation's spend and enhance contract monitoring arrangements across the organisation.</p> <p>There is a Best Value Performance Plan for Procurement which contains a number of actions to strengthen governance arrangements.</p>	<p>Monitoring of the Best Value Performance Plan for Procurement which contains a number of actions to strengthen governance arrangements final actions to be completed April 2016</p>	<p>Chair of Competition Board and Corporate Director, Resources April 2016</p>

Governance Issue and action noted as at June 2015	Update / further proposed action as at January 2016	CMT Lead and expected resolution date
<p>Future planned actions include an Annual Procurement Report, three year strategy and Supplier Ethical Code of Conduct.</p> <p>Deadlines and milestones occurred throughout the year with the final actions to be completed April 2016.</p>		
<p>8) Review, and where necessary, enhance arrangements around declarations of interests.</p> <p>The Council has in place arrangements for declarations of interests. The existing arrangements will be reviewed to ensure staff and members are aware of their responsibility and Council procedures and processes strengthened to identify potential interests.</p> <p>Mandatory training will also be provided to ensure staff and members complete their declarations in a timely manner.</p>	<p>The council's policies, procedures and processes have been reviewed.</p> <p>Officers are required to complete declaration of Interest forms on a 6 monthly basis as part of the PDR process and the form is accessible via the self-service HR module.</p> <p>A list of organisations receiving financial assistance from the authority is being compiled to guide Members and Officers in making their declarations.</p> <p>Annual mandatory training is continuing to be provided for all members. The regular review of forms includes a reminder to ensure interest declarations are complete and up to date. In relation to officers, regular reminders continue to be issued to staff to update their online declaration forms.</p>	<p>Completed</p>
<p>9) Review the Council's Section 106 arrangements.</p> <p>The Council's external auditors highlighted a</p>	<p>Grant Thornton were appointed to carry out an independent review. Grant Thornton has</p>	<p>Corporate Director, Development and Renewal and Corporate Director,</p>

Governance Issue and action noted as at June 2015	Update / further proposed action as at January 2016	CMT Lead and expected resolution date
<p>number of control issues in the administration of the Council's S106 arrangements.</p> <p>An independent review of the arrangements in relation to s106 receipts and payments will be undertaken to ensure effective and robust processes, controls, monitoring and reporting arrangements are in place, in accordance with agreements and aligned with the planning consents.</p>	<p>completed its review and has issued a draft report for management comment before finalising the report in April 2016.</p>	<p>Resources</p>
<p>10) Strengthen Internal Controls over Mayoral Expenses.</p> <p>A review by the Council's external auditors highlighted supporting documentation is not always retained for expenditure relating to the Mayor's Office.</p> <p>Existing arrangements will be reviewed and contracts subject to management review to ensure all supporting documentation is properly retained and maintained in line with the Council's Financial Procedures.</p>	<p>Systems are in place to ensure that sufficient supporting documentation is retained.</p>	<p>Completed</p>
<p>11) Governance of the Council</p> <p>In their annual report to those charged with Governance (ISA 260) for 2013/14, the Council's external auditors have raised a recommendation under S11 of the Audit Commission Act in respect of governance processes in the Council.</p> <p>The Council will be required to respond to the recommendation at a public meeting at a date and time to be agreed.</p> <p>The Council is already taking a number of actions in respect of its governance arrangements and compliance with those arrangements. The response to the S11 recommendation of the external auditor will be made taking account of those actions.</p>	<p>A full report was provided to Full Council including recommendations and a section 11 notice has been issued. Recommendations were endorsed and an action plan is in place.</p>	<p>Corporate Management Team March 2016</p>

Governance Issue and action noted as at June 2015	Update / further proposed action as at January 2016	CMT Lead and expected resolution date
<p>12) Governance arrangements at schools</p> <p>Following internal audit findings from regularity audits of schools and external referrals alleging irregularity at some schools, the governance arrangements are being reviewed with a view to ensuring sound practices are in place.</p>	<p>The latest guidance issued to schools and governors.</p> <p>Training and guidance on Governance Arrangements has been delivered to both Governors and Schools business managers. The governor conference was attended by over 50 governor representatives.</p> <p>It is also planned to be further enhanced by direct support to those schools which have been identified in internal audit reports as consistently receiving limited assurance through additional workshops delivered by Mazars/Schools Finance; to emphasise the previous messages which have already been delivered.</p>	<p>Completed</p>
<p>13) Publicity Expenditure Controls</p> <p>This issue was identified during the inspection and the Authority subsequently received directions relating to publicity expenditure.</p> <p>A new Strategy and Protocol documents has been produced and a fully costed communications plan is now in place.</p> <p>There is a Best Value Performance Plan for Communications which contains a number of actions to strengthen governance arrangements.</p> <p>A new system and implementation of a testing regime to ensure compliance with relevant</p>	<p>There is a Best Value Performance Plan for Communications which contains a number of actions to strengthen governance arrangements.</p> <p>Future planned actions include a new system and implementation of a testing regime to ensure compliance with relevant code and other requirements.</p> <p>Deadlines and milestones</p>	<p>Monitoring Officer – Law, Probity and Governance</p> <p>March 2016</p>

Governance Issue and action noted as at June 2015	Update / further proposed action as at January 2016	CMT Lead and expected resolution date
code and other requirements. Deadlines and milestones occurred throughout the financial year with the final actions were completed December 2015.	occur throughout the financial year with the final actions to be completed March 2016.	

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 progress periodically and confirm their implementation and operation as part of the process to produce the 2015/16 Annual Governance Statement.

.....

Chief Executive

Date:

.....

Mayor

Date:

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Agenda Item 4.3

Non-Executive Report of the: Audit Committee 22 nd March 2016	 TOWER HAMLETS <i>Classification:</i> <i>Unrestricted</i>
Report of: Zena Cooke - Corporate Director - Resources	
Quarterly Assurance Report	

Originating Officer(s)	<i>Minesh Jani and Bharat Mehta</i>
Wards affected	<i>All wards</i>

1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period December 2015 to February 2016.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

2. RECOMMENDATION

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

3. Background

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

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

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





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

4. Overall Audit Opinion and Direction of Travel

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

- 4.2. **Direction of Travel**

Each audit summary presented at Appendix 2, shows the Direction of Travel for that audit. Each Direction of Travel is defined in the following Table.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
	Not previously visited by Internal Audit.

5. Overview of finalised audits

- 5.1. Since the last Assurance Report that was presented to the Audit Committee in December 2015, twenty six final reports have been issued. The findings of these audits are presented as follows:
- Chart 1 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 2015 and the 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector.

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

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	N/A	Total
Significance	Extensive	2	11	3	1	17
	Moderate	1	6	2	-	9
	Low	-	-	-	-	-
Total Numbers		3	17	5	1	26
Total %		11%	66%	19%	4%	100%

- 5.4. From the table above it can be seen that of the seventeen finalised audits which focused on high risk or high value areas; two were assigned Full assurance, eleven were assigned Substantial Assurance, three were assigned Limited assurance and one was not assigned assurance level due to the nature of this specific audits. A further nine audits were of moderate significance and of these one was Full Assurance, six were assigned Substantial Assurance and two were assigned Limited Assurance.
- 5.5. Overall, 77% of audits resulted in an adequate assurance (substantial or full), 19% of audits have an inadequate assurance rating (limited or nil) and remaining 4% have Not Applicable status.

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 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 the quarter 3 to December 2015	70%	70%
Percentage of Priority 1 Audit Recommendations implemented for Qtr 3 to December 2015 by Auditees at six monthly follow up audit stage	100%	95% 18 out of 19
Percentage of Priority 2 Audit Recommendations implemented for Qtr 3 to December 2015 by Auditees at six monthly follow up audit stage	95%	80% 8 out of 10

- 6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 95%, whereas the percentage of priority 2 recommendations was 80%. Details of priority 1 and 2 recommendations not implemented are set out in Appendix 3. Further to the usual escalation actions to the relevant Corporate Director and Service Heads, the Corporate Director - Resources has also been informed.

7. Comments of the Chief Financial Officer

- 7.1 This is a quarterly noting report covering the period December 2015 to February 2016. There are no specific financial implications arising from the contents of this report.

8. Legal Comments

- 8.1 The Council has a duty 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 by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 8.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, 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 by Regulation 5 to maintain an

effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.

- 8.3 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. Best Value Implications

- 10.1. This report highlights areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

11. Risk Management Implications

- 11.1. 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.

12. Sustainable Action for a Greener Environment (SAGE)

- 12.1. There are no specific SAGE implications.

13. Crime and Disorder Reduction Implications

- 13.1. By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Adults and Children's Services	Framework-i
	Extensive	Children's Services	Youth Offending Service
	Extensive	Law, Probity and Governance	Signing and Sealing of Contracts
	Moderate	Children's Services	Kobi Nazrul Primary School
	Moderate	Children's Services	Bonner Primary School
SUBSTANTIAL	Extensive	Corporate	Compliance Testing of Best Value Improvement Plans for Procurement, Grants, Communications and Property
	Extensive	Resources	NNDR
	Extensive	Resources	Budgetary Control
	Extensive	Resources	VAT Management
	Extensive	Resources	Council Tax
	Extensive	Adult Services	Customer Journey First Response Follow Up Audit
	Extensive	Tower Hamlets Homes	Bancroft Tenant Management Co-operative
	Extensive	Communities, Locality and Culture	Follow Up - Parking Cash Income
	Extensive	Communities, Locality and Culture	Trading Standards
	Extensive	Tower Hamlets Homes	Declaration of Staff Interests
	Extensive	Tower Hamlets Homes	SLA Management
	Moderate	Children's Services	Bigland Green Primary School
	Moderate	Children's Services	Halley Primary School
	Moderate	Children's Services	Mayflower Primary School
	Moderate	Children's Services	Harbinger Primary School
	Moderate	Children's Services	Osmani Primary School

Assurance level	Significance	Directorate	Audit title
	Moderate	Communities, Locality and Culture	Follow Up – Animal Wardens Service
FULL			
	Extensive	Children’s Services	Excluded Children Follow Up Audit
	Extensive	Resources	Medium Term Financial Planning
	Moderate	CLC	Blue Badges
N/A	Extensive	Development and Renewal	Homelessness Strategy


**Summary of Audits Undertaken
Limited Assurance**

APPENDIX 2

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Framework-i	Nov 2015	<p>The audit was designed to provide assurance to management as to whether the systems of control around the Framework-i system are sound, secure and adequate, and that the system is able to provide timely and accurate performance, management and budgetary information. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Annual or initial reviews of user support plans were either not undertaken on a timely basis or not undertaken at all. Where they were undertaken, they were not signed and dated following completion; • From the testing conducted, it was found that in one case a provider invoice was disputed on 21st May 2013, due to a lack of information recorded on Framework-i. At the time of the audit, this invoice remained in dispute and had not been paid; • Operational policies and procedures relating to Framework-i and the associated processes had not been recently reviewed and no document owners were recorded; and • Key performance indicators relating to the completeness and accuracy of the data recorded in Framework-i were not in place for Adult Social Care (ASC) at the time of the audit, and meetings to discuss data quality with service managers were not held. <p>All findings and recommendations were agreed with the Programme Director, Special Projects, and reported to the then Interim Corporate Director, Children's Services, and the Interim Corporate Director, Adults Services.</p>	Extensive	<p>Limited</p> <p style="text-align: center;">↔</p>

Management Comments

Progress in implementing the various management actions agreed in response to the recommendations of this audit is largely on schedule. There is a delay of one month in completing and implementing the updated procedures for paying suppliers. This won't be achieved by 31st March. However, it is scheduled to be completed by 30th April. The action related to this around management of held and disputed invoices is included in the paying suppliers procedures, including how invoices in these categories are monitored by managers and actioned in a timely fashion.


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Youth Offending Service	Feb 2016	<p>The Youth Offending Service (YOS) comprises staff from a range of agencies, including the Council, Police, Probation Service and health care professionals. There are three teams within the Service – Early Intervention and Prevention Team, Court Team and Community Supervision Team.</p> <p>The teams work with young people from arrest through to sentencing and provide services to the youth court, and work with young people given final warnings by the Police and those given community sentences. The Service also works with young people and the community to prevent young people from entering the criminal justice system. In addition, the Council has a number of schemes designed to prevent young people from re-offending by addressing the causes of criminal behaviour and offering help and support.</p> <p>The Service works with approximately 250 to 350 youth offenders at any one time. The audit was designed to provide assurance to management as to whether the systems of control around the Youth Offending Service are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Examination of the purchase card statements for members of the Youth Offending Team (YOT) identified two officers who had failed to attach receipts to the bank statements on a monthly basis. When the two officers were approached on this matter they produced all receipts. In addition, receipts could not be located at all for two items of expenditure incurred on purchase cards. • For a sample of 10 YOS officers tested, there was one instance where the DBS check was out of date but the officer had continued to work as a sessional support worker. • We were unable to determine if a supervision policy was in place. Examination of one operations manager's records in respect of staff supervision identified that these were insufficient, as they took the form of an email and problems with cases were not clearly specified, which is not in 	Extensive	Limited 

		<p>compliance with guidance from the Social Care Institute for Excellence.</p> <ul style="list-style-type: none"> • The YOT Management Board, which is, amongst other roles, responsible for delivering the principal aim of reducing offending and reoffending, has an out of date Terms of Reference (ToR). The ToR refers to targets for the financial year 2010-2011. • Recommendations from independent bodies have not been implemented. This refers to two recommendations by the HM Inspectorate of Probation. • Youth Justice Board minutes for the heads of services meetings were not provided in respect of meetings held after September 2014, and so we are unable to provide assurance in this area. • Although budget reports are produced, meetings are not held to discuss them. • Discussion with the Office Manager identified that she is not informed of training undertaken by the staff of Operations Managers. <p>All findings and recommendations were agreed with the Service Manager Family Interventions/Troubled Family Co-ordinator and reported to the Service Head, Children's Social Care, and the Interim Corporate Director, Children's Services.</p>		
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Management Comments

The issues raised in this helpful audit process relate to historical management issues and period of time in the YOT when compliance, adherence to financial procedures and management oversight were at a lower level than should be acceptable. Management changes in October 2015 have resulted in a much tighter compliance focus that has addressed all of the issues raised in audit. There has been clear communication between the Operational manager and the audit team that has confirmed progress, and progress reports have been made to the Youth Offending Management Board in November 2015 and February 2016. The Youth Justice Board have been closely involved in the progress of matters raised by audit as they relate to compliance to Youth Justice Standards. There were no outstanding issues as of 25th February 2016.

Nikki Bradley – Service Manager, Youth Justice and Family Interventions Service, Children's Services.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Signing and Sealing of Contracts	Jan. 2016	<p>This audit reviewed systems for the signing and sealing of contracts for goods, services and works procured by the Council. The delay in signing and sealing of contracts was included as an issue within the PWC Best Value Inspection Report.</p> <p>From our review, we concluded that improvements were required in systems of control and information management flow to enable prompt contract advice, signing and sealing of contracts. The following weaknesses were highlighted:-</p> <ul style="list-style-type: none"> • A lack of procedures, templates and checklists to enable the prompt signing and sealing of contracts to take place. • There appears to be an inefficient and elongated process from the project formation stage to receipt of the contract award notification, through to the signing and sealing of the contract. • There was lack of a system for identifying the sources of the delay in signing and sealing of contracts and reporting this to Management so that the root cause can be identified and dealt with. <p>All findings and recommendations were agreed with the Acting Head of Legal Services and final report was issued to the Director of Law, Probity and Governance.</p>	Extensive	Limited 

Management Comments

Following the issue of the final report, the action plan and the accompanying the recommendations are being progressed. We have discussed out approach with the audit team and would want to see an improvement when a follow up audit is carried out in due course.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Kobi Nazrul Primary School	Feb 2016	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. At the time of audit the School was under special measures and controlled by an Interim Executive Board (IEB) with an Interim Head Teacher in post (since January 2015).</p> <p>The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Examination of the IEB meeting minutes identified that there could have been more detail included with regards to discussions over financial matters within the School. • For five out of 11 purchase orders sampled, there was no evidence that an official order form had been completed. From the remaining six purchase orders sampled with an order form attached, three of the orders were not evidenced as authorised and of these one of the order forms was not raised in advance. From the remaining three purchase orders left with an order form attached, one of the orders was both raised and authorised by the Head Teacher. As such nine out of eleven orders sampled did not evidence sufficient segregation of duties. (This issue was also identified in the School's previous audit report dated July 2014). • For two out of eleven purchase orders sampled, examination of the invoices identified that VAT had not been charged and payment details listed referred to individuals rather than a company. • A sample of five new starter files were tested and there were a number of 	Moderate	<p>Limited ↔</p> <p>No change in the direction of travel from the previous audit undertaken in 2013/14</p>

		<p>instances where documentation was missing from the file, e.g. in all five cases documentation to evidence right to work was not held on file. We noted that the School had recorded the type of ID sighted by the School (all were British passports) and the date of the ID check within the School's Single Central Record document. However, under Home Office guidelines it is a requirement to keep a copy of evidence of right to work.</p> <ul style="list-style-type: none"> • The School's Finance Committee is not currently in operation, all of the School's finances are being controlled by the IEB currently in place. However, the Finance Committee Terms of Reference were examined for when the Committee does operate again. Examination of the School's Finance Committee Terms of Reference noted that whilst the terms of reference did state the authorisation limit for approval of debt write offs and asset disposal, the document did not state the full scope of authorisation limits which would be delegated to the Committee. • From examination of a sample of four higher value purchases above £5,000, it was noted that for two contracts over £10,000 in value a tendering process could not be evidenced. The School's Financial Procedures (March 2015) manual, page 3, states that a tendering process should occur for orders above £10,000. We noted that the above contracts were placed before the IEB was established. Two other orders were tested during the time of audit and the correct procedures were followed for obtaining quotes and tenders by the Interim Head Teacher. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the IEB and the Corporate Director – Children's Services.</p>		
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Management Comments

In January 2016 the Schools Finance Manager discussed and provided options of additional support which the School could consider; such as providing a bursar service to review and support the school to implement the recommendations or commissioning an independent consultant to support the improvement in all key findings. Additional/refresher information has also been provided to the School on the guidance/procedures that need to be adhered to.

In Feb 2016- The School have commissioned a structured review of their current documentation and processes, following which a report will be produced including an action plan, with key time scales for improvement. This will aid the School to implement the recommendations from this audit.

Additionally further general support action has included or will include:

- News bulletins provided to all Schools which are used to encourage good practice in Schools to support operational procedures.
- Termly director's reports to Governors include good financial management practices which Schools should follow.
- The Schools Business Managers' forum includes advice on actions to improve Audit outcomes through more self-assessment and peer to peer reviews.
- Audit check lists circulated to all Primary Schools (see attached).
- Governors training to be provided in the Summer term.

The School have acted immediately and agreed to complete all actions within a defined timeframe. The School and the Governing body are fully committed to the recommendations made in the Audit report and will:

- be tracking all actions within the timeframe stipulated in the report, including evidence of the actions taken.
- confirm additional steps that the School are planning to take in light of the audit findings.
- take immediate action in mitigating exposure to risks arising from weaknesses in the control environment

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bonner Primary School	Dec 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Both the full Governing Body and Finance and Curriculum Committee meeting minutes did not contain sufficient detail regarding discussions of financial matters within the School. • From a sample of six new starter files, it was noted that in five instances, documentation to evidence that an identity and right to work check had been completed was not held on file. It was noted that the School was incorrectly informed by the payroll provider that identity/right to work documentation did not need to be retained by the School. In all instances tested, documentation to evidence that a medical check had been completed was not held on file. • There was no evidence that the majority of statutory policies had been formally approved by the full Governing Body or delegated committee where appropriate by the School at the time of audit. • From examination of a sample of two higher value payments above £5,000 neither had alternative quotes attached. In both cases the basis of supplier selection had not been documented. • For six out of ten applicable purchase orders sampled, there was no evidence that the order was raised in advance of the invoice. For all ten purchase orders sampled, there was no evidence that a goods or services received check had been performed. Furthermore, we noted that the Head Teacher and Business Manager were also cheque signatories. In all instances the Head Teacher and/or the Business Manager was involved in the payment and ordering process, and therefore sufficient segregation of duties was not evidenced. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children’s Services.</p>	Moderate	<p>Limited</p> <p style="text-align: center;">←</p> <p>Deteriorated since previous visit in 2010/11 (previously Substantial Assurance)</p>

Management Comments

The Council's Finance team have encouraged all Schools to put Internal Audit issues as a regular item on the Schools Management Team agenda for discussion. In addition the Internal Audit reports are used by Schools Finance team to identify Schools requiring priority support and use the Internal Audit assurance rating to target specific support to schools.


Additionally further general support action has included or will include:


- News bulletins provided to all Schools which are used to encourage good practice in Schools to support operational procedures. Schools Finance provided Governors Finance Training (November 2015).
- Termly director's reports to Governors include good financial management practices which Schools should follow.
- The Schools Business Managers' forum includes advice on actions to improve Audit outcomes through more self-assessment and peer to peer reviews.
- Audit check lists circulated to all Primary Schools (see attached).


The School have acted immediately and agreed to complete all actions within a defined timeframe. The School and the Governing body are fully committed to the recommendations made in the Audit report and will:


- be tracking all actions within the timeframe stipulated in the report, including evidence of the actions taken.
- confirm additional steps that the School are planning to take in light of the audit findings.
- take immediate action in mitigating exposure to risks arising from weaknesses in the control environment.

Substantial Assurance


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Compliance Testing on Best Value Improvement Plan for Procurement	Jan 2016	<p>The objective of this audit was to provide assurance to management that the actions agreed within the Best Value Improvement Plan for Procurement had been implemented and that appropriate controls were in place so that the Council can be confident of compliance and that reports to the Commissioners and the Secretary of State on progress against the Action Plans are accurate.</p> <p>We carried out compliance testing on the key milestones contained in the Procurement action plan. Only those actions were tested which triggered 100% by December 2015. We did not test whether the milestone had been embedded into business as usual.</p> <p>Our testing showed that of the fourteen action points in the BV Improvement Plan, 10 actions triggered by December 2015. These ten action points had seventeen milestones for implementation. Compliance testing on these seventeen milestones found that sixteen milestones (94%) were implemented.</p> <p>The milestone which was not implemented included a new operation model for 'central monitoring of contracts and compliance to Council's procurement procedures'. This milestone was not fully operational as a key post had not yet been filled. The target date for implementing the model needed to be revised.</p> <p>We also reported that the milestone to 'Improve Finance and Procurement controls to increase compliance and transparency of spend across the organisation' had been progressed, but the compliance escalation framework needed to be embedded effectively to achieve Council objectives.</p> <p>All findings were agreed with the Head of Procurement and final report was issued to the Corporate Director of Resources. The report was submitted to the Best Value Programme Board.</p>	Extensive	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Compliance Testing on Best Value Improvement Plan for Grants	Feb. 2016	<p>This audit assessed the progress and implementation of actions agreed within the Best Value Improvement Plan for Grants to ensure that appropriate controls were in place so that the Council can be confident of improvement in the Grants process.</p> <p>Of the ten actions in the Plan, seven actions had triggered by December 2015. These seven actions had twenty four milestones which we tested to ascertain progress and verify their implementation. Our testing found that twenty-two (92%) of the twenty four milestones were fully implemented. We did not test whether the milestone had been embedded into business as usual. Details of the two milestones not fully implemented are given below:-</p> <ol style="list-style-type: none"> 1. In relation to action point 5 (4), 'Ensure all grant 'contracts' over £5,000 are included in the Council's contracts register', it was noted that this milestone was misinterpreted by Management as being related to publishing MSG grants information on the Council's website on the transparency page. It has now been agreed with management that all grants related information held on the Council's centralised grants system, GIFTS, will be entered on the Council's contracts register. Management has been advised to revise the milestone related to action point 5(4) and report this to the next Best Value Programme Board. 2. The milestone related to action point 7 (3) around the monitoring of performance in delivering approved grant funded projects could not be tested during the audit. As the 2015/18 MSG programme started in September 2015, monitoring returns are not due until mid-January 2016 and no monitoring visits to organisations had been undertaken yet. Hence, Management has been advised that this milestone be revised and reported to the next Best Value Programme Board. <p>All findings were agreed with the Head of Benefits Service and final report was issued to the Corporate Director of Resources. The findings were reported to the Best Value Programme Board for further discussion and consideration.</p>	Extensive	Substantial 


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Compliance Testing on Best Value Improvement Plan for Communications	Jan. 2016	<p>The objective was to provide assurance to management that the actions agreed within the Best Value Improvement Plan for Communications had been implemented and that appropriate controls were in place to improve business processes.</p> <p>A total number of twenty-nine milestones under the fourteen action points were tested to verify implementation and embedding. Our testing found that twenty- two (76%) of the twenty nine milestones had been progressed. The remaining seven milestones were work in progress at the time of audit, and implementation relied the outcomes of the LGA review of Communications. In view of this, we could not come to a definite conclusion on the implementation and embedding of the required controls within the communications service business.</p> <p>We recommended that once the outcome of the LGA review is published, the action plan should be revised, clarified and reported to the Best Value Programme Board for an effective monitoring purpose to meet the objectives and priorities of the Council in relation to its Communications Service.</p> <p>All findings were agreed with the Acting Head of Communications and final report was issued to the Corporate Director – Law, Probity and Governance. The report was taken to the Best Value Programme Board for further consideration.</p>	Extensive	Substantial 


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Compliance Testing on Best Value Improvement Plan for Property	Feb. 2016	<p>This audit sought to provide assurance to management that the actions agreed within the Best Value Improvement Plan for Property had been implemented and that appropriate controls were in place to improve business processes for asset management and disposal.</p> <p>Of the thirteen action points, ten actions triggered by December 2015. These ten action points had twenty eight milestones. Audit testing found that all twenty eight milestones (100%) had been progressed. We did not test whether the milestone had been embedded into business as usual.</p> <p>However, in relation to action point 3 - ‘ Establish what if any additional checks/references are needed by bidders on conflict checks (commercial bidders declaring interest when putting proposals forward to buy a site within a sealed bid process.)’, Audit was unable to evidence the implementation of this action. The Service Head, Corporate Property and Capital Delivery, advised Audit that a number of discussions took place with the Commissioners, particularly Max Caller, on this issue. The Service Head, Corporate Property & Capital Delivery, agreed to explore what mechanisms can be put in place, in relation to bidders, that aligns with similar processes in the planning process. Accordingly, management have been advised to revise this action point and report this to the next meeting of the Best Value Programme Board for further discussion.</p> <p>All findings were agreed with the Service Head - Corporate Property and Capital Delivery and final report was issued to the Corporate Director – Development and Renewal. The report was referred to the Best Value Programme Board for consideration.</p>	Extensive	Substantial 

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
NNDR	Nov 2015	<p>The NNDR function is responsible for the identification of billable properties, correct input of Valuation Office data, correct and timely billing, processing of reliefs and collection of income including debt recovery. This audit is being undertaken as part of the 2015/16 agreed Audit Plan.</p> <p>Business rates or National Non-Domestic Rates (NNDR) collected by the Council are the means through which those who occupy a business property contribute towards the cost of local services. NNDR monies collected are pooled by the Central Government and redistributed to local authorities as part of the annual formula grant settlement. Rates are determined by the Department for Communities and Local Government (DCLG) each financial year, according to a formula set by legislation.</p> <p>The Council has approximately 15,764 business properties as at 1st August 2015. A total of £194m had been collected in respect of NNDR as on 1st September 2015.</p> <p>The Council is part of the CIPFA NNDR benchmarking club. A value for money benchmarking exercise is undertaken on an annual basis to compare NNDR activity and performance with other comparable local authorities in London.</p> <p>The audit was designed to provide assurance to management as to whether the systems and controls around the management of NNDR are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • It was identified that timely reconciliations of the Council's rateable list against the Valuation Office Agency's (VOA) rateable list and processing of necessary amendments are not undertaken. • It was found that there was no independent quality review in respect of individual account amendments processed. It should be noted that this issue 	Extensive	Substantial 

		<p>was also raised in the 2014/15 audit.</p> <ul style="list-style-type: none">• There were no weekly checks undertaken on the workflow actions for the period February 2015 to August 2015. This issue was also raised in the 2014/15 audit.• It was found that in one out of the five charitable reliefs that were tested, there was no evidence of a site inspection being undertaken during the periodic review of the relief.• It was established that there is no evidence of independent review of inhibited accounts. This issue was also raised in the 2014/15 audit. <p>All findings and recommendations were agreed with the Non-Domestic Rates Manager and reported to the Service Head, Revenue Services, and the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Budgetary Control	Feb 2016	<p>The Council approved the amended budget proposals on 5th March 2015 in respect of the General Fund Revenue Budget 2015/16 as agreed at the Council meeting in February 2015, following approval of the original budget proposals by Cabinet at its meeting in February 2015. The impact of the Spending Review on the Medium Term Financial Plan continues a tightening financial position for the Council, with a need to identify further budget savings. At the same time the Council continues to face significant and largely unavoidable spending growth and inflation pressures.</p> <p>The forecast year-end out turn is £291,222,000 and the current budget is £291,363,000 making up a variance of (£141,000) i.e. 0.05%.</p> <p>The agreed general fund revenue budget was for £291.4m for 2015/16.</p> <p>The audit was designed to provide assurance to management that the systems at corporate level for controlling and monitoring revenue budgets across the Council to meet the agreed objectives are sound, secure and effective, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The weakness identified was as follows:-</p> <ul style="list-style-type: none"> • The list of budget holders is not up to date, since it includes officers that do not have budget related responsibilities. <p>All findings and recommendations were agreed with the Head of Financial Planning & Corporate Finance Partner and reported to the Interim Service Head, Finance and Procurement, and the Corporate Director of Resources.</p>	Extensive	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
VAT Management	Nov 2015	<p>The audit was designed to provide assurance to management as to whether the systems and controls around the management of VAT are sound, secure and adequate to ensure that VAT regulations are complied with. and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The VAT Procedure Notes are out of date • The workflow process map has not been updated as it still includes an ex-employee as an approver who should have been replaced by a new approver. • From our testing, we noted one instance where a journal to the VAT was not approved on a timely. In addition, we were informed that in several instances journals had been posted to the VAT Control account or the Uncertified VAT account which did not have the relevant documentation attached, i.e. a valid HMRC compliant tax invoice or a pro-forma invoice (for where items are posted to the Uncertified VAT account). • From our testing of a sample of twelve VAT returns made to HMRC tested, it was identified that VAT return for the month of May 2014 was submitted one day after the HMRC's deadline. • Although control account reconciliations were being undertaken on a monthly basis the reconciliations were not independently signed and dated by the reviewer and the preparer. • Through discussions with the Senior Accountant it was established that although reviews of the partial exemption calculations are undertaken, this could not be confirmed as the documents were not signed or dated following the review. In addition, we requested sight of the partial exemption calculations produced for the last seven years, which should have been retained as per the HMRC requirement, but only the calculation for 2013-14 could be located. <p>All findings and recommendations were agreed with the Senior Accountant and</p>	Extensive	Substantial 


		reported to the Interim Service Head, Finance & Procurement, and the Corporate Director of Resources.		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Council Tax	Nov 2015	<p>The Council Tax function is responsible for the correct identification of residential properties, billing of correct amounts, processing of discounts and voids, collection of income and recovery of arrears.</p> <p>For the financial year commencing 1st April 2015, there were 119,073 banded properties within the Tower Hamlets Borough, which is an increase of 1,888 since 2014/15, with band C containing the highest number of chargeable properties at 36,204 and band H the lowest at 509 properties.</p> <p>For the year 2015/16 the cumulative value of Council Tax collected was £39.79m as at 31st August 2015, which is 41.94% of the total Council Tax due for 2015/16. At the same point in the year 2014/15, 40.92% had been collected.</p> <p>The audit was designed to provide assurance to management as to whether the systems and controls around the management of Council Tax are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • In one out of the 20 exemptions that were tested, it was found that the end date of the student exemption was not updated on Civica IBS. • We noted that the prescribed sample checks of 5% of write off cases that were processed in June 2015 have not been undertaken. • Spot checks are no longer undertaken on completed work items to ensure that staff members are performing to the expected standard. This issue was raised in the previous audit report in respect of the 2014/15 financial year. <p>All findings and recommendations were agreed with the Council Tax and Income Manager and reported to the Service Head, Revenue Services, and the Corporate</p>	Extensive	Substantial ↔


	Director of Resources.		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Customer Journey First Response Follow Up Audit	Dec 2015	<p>A full systems audit on the Customer Journey First Response was undertaken in September 2014 and the audit was assigned “Substantial Assurance”. First Response is the first point of contact for people over 18 years of age, either in the community or in hospital, wishing to get information relating to social care and community services.</p> <p>The First Response service, which consists of the Hospital and Community Teams, seeks to resolve the majority of people's concerns and needs at first contact through information and advice giving, and speedy provision for simple levels of support, such as installing basic equipment in their homes. People who require additional support are referred onto other services, such as the Reablement team or Long Term Support teams.</p> <p>Referrals for the Hospital Team are received from the hospital wards. The Community Team receives referrals from a variety of sources, including officers of other Council services, emergency services, health services, or members of the public, via phone, e-mail and in person. Records of service users are maintained on the Frameworki system, with additional documents being archived electronically using TRIM.</p> <p>This audit was a follow up audit, and its objective was to assess whether the agreed recommendations at the conclusion of the internal audit had been implemented.</p> <p>Our follow up review showed that of the one high priority and four medium priority recommendations made at the conclusion of the original audit, one medium priority recommendation had been fully implemented, one high and one medium priority recommendation had been partly implemented and two medium priority recommendations had not been implemented. Following our testing, we have made four recommendations to enhance the control environment within this area.</p> <ul style="list-style-type: none"> • Consent to share information should be obtained, evidenced and recorded. 	Extensive	Substantial 


		<ul style="list-style-type: none"> • The policies, procedures and guidance in place for staff should be reviewed and updated on a regular basis. • The performance of the service against the key indicators (KPIs) identified as per the Team Plans should be monitored, recorded and reported on to senior management. • As per the Adult Social Care Complaints Procedures in place, complaints should be responded to within the timeframes set out by the Council. <p>All findings and recommendations were agreed with the Interim Service Manager for Delivery, Transformation and Independence and reported to the Acting Director – Adult Services.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Bancroft TMC	Feb 2016	<p>A Tenant Management Co-operative or Organisation (TMC or TMO) is a form of participative tenancy organisation, in which the tenants and leaseholders in a particular area take on responsibility for the day-to-day management of their estate. The Council retains ownership of the properties, and the tenants retain their tenancy rights.</p> <p>The services managed by a TMC vary according to local agreement, but can include organising repairs, deciding on caretaking and estate cleaning priorities, collecting rent and managing arrears, employing and managing staff and contractors, looking after public gardens and other shared areas, controlling any estate improvements, and providing advice and support to tenants.</p> <p>Bancroft TMC was set up in 1992 by residents under the 'Right to Manage' legislation of 1994. The TMC was formed to ensure a high level of attention was focused on the needs of the resident, and has taken over the management of caretaking, responsive repairs, cleaning and general upkeep of the estate. Monthly General Meetings are held which are open to all resident members of the estate, and a Management Committee of the elected members holds regular monthly closed meetings. A Finance and HR sub-committee also meets ten times a year. It should be noted that Bancroft TMC does not have responsibility for major repairs works.</p> <p>The annual budget for Bancroft TMC for 2015/16 is £459,000.</p> <p>The audit was designed to provide assurance assurance to Tower Hamlets Homes (THH) that appropriate financial management processes and systems are in place at Bancroft TMC. To provide assurance to management as to whether the systems of control around the Financial Management system at Bancroft TMC are sound, secure and adequate., and also to evaluate the potential</p>	Extensive	Substantial 


	<p>consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • We were unable to provide assurance that the current procurement arrangements in respect of two contractors provide value for money since we could see no evidence that market testing had taken place. • The TMC's Financial Regulations and Procedures are not clear with regards to the procurement route to be followed in all cases. In addition, the Financial Regulations and Procedures, and the Pay Policy are not up to date. • Examination of the bank reconciliations undertaken in respect of the Unity Trust current and savings accounts identified that on four out of the 12 occasions reviewed for the current account, and seven out of 12 occasions for the savings account, these were not signed by the bookkeeper. • Post inspection certificates were incomplete for all five instances tested. Confirmation could not be obtained for when the certificates were completed. • Examination of the declaration of interest forms for the committee members identified one out of 12 instances where the name of the member had not been printed. The member had signed but had not completed the 'print name' section. For one out of 12 of the declaration of interest forms, there was no date included of when the form had been signed/completed. <p>All findings and recommendations were agreed with the Director of Bancroft TMC and reported to the Director of Finance, and the Chief Executive at THH.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of On-Street Parking Cash Income Follow Up Audit	Jan. 2016	<p>This follow up audit assessed the progress made in implementing the recommendations agreed at the conclusion of the original report finalised in November 2014. Our testing showed that of the nine high priority recommendations made all appeared to have been progressed.</p> <p>The Parking and Development Manager created a P&D reconciliation process at the time of the follow up audit showing how the income reconciliation process was followed daily by parking officers. This process included the supervisory checks. An arrangement has been put in place to record counterfeit coins by the contractor who would also destroy these coins. The contract monitoring meetings were minuted in detail and had a rolling agenda for each meeting. The Parking Development Manager had written to the contractor with regard to the insurance provision and additional insurances have now been provided in accordance with the contract requirements. Invoice checking and payment procedure had been improved. Two Local Performance Indicators for monitoring the performance of the contractor had been introduced. However, Audit was informed that these Indicators were not required to be included in the Parking Senior Management Team Performance Report</p> <p>Since November 2014 the responsibility for income reconciliation has been handed over to the Parking Service from CLC Finance. Parking service undertakes 100% check on all cash income collected by the contractor and reconcile this to the audit tickets produced by the P&D machines. Our review has shown that this was being carried out in practice and variances were being recorded. The variance levels are to be reported to the Parking Management Team for information. However, there was no detailed explanation to inform the management team as to the reasons or actions taken to address the variances and issues identified.</p> <p>All findings and recommendations were agreed with the Head of Parking and final report was issued to the Corporate Director, Communities, Localities and Culture.</p>	Extensive	Substantial 


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Trading Standards	Feb 2016	<p>The role of the Trading Standards team is to help maintain a fair trading environment for businesses and consumers within the London Borough of Tower Hamlets. The team applies a wide range of trading standards laws, and provides support, advice and guidance to consumers and traders. The Trading Standards budget including revenue has increased from £727,449 in the financial year 2014/15 to £750,168 in the financial year 2015/16. The team currently comprises of eight members of staff. A total of 11 prosecutions were initiated within the last 12 months under the Proceeds of Crime Act (POCA) and of these nine are continuing to be investigated or confiscation is being pursued.</p> <p>The Trading Standards Service carries out routine inspections of premises, samples and tests products, investigates complaints made against traders by other businesses or by members of the public, investigates offences and prosecutes the offenders, and contributes to achieving priorities in trading standards at both the local and national levels.</p> <p>The audit was designed to provide assurance to management as to whether the systems and controls around the management of the Trading Standards service are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Civica APP system is not being updated appropriately on a timely basis with the relevant information obtained as a result of the investigation visits. • Due process is not being followed in acknowledgement of the received complaints or taking the required action to address those complaints. <p>All findings and recommendations were agreed with the Head of Consumer and Business Regulations Service and reported to the Service Head for Safer Communities, and the Interim Head of Paid Service and Corporate Director, Communities, Localities and Culture.</p>	Extensive	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Declaration of Staff Interests	Feb 2016	<p>Under the Tower Hamlets Homes (THH) Staff Code of Conduct, officers have a duty to declare interests which conflict with the impartial performance of their duties, and to declare in writing any financial, personal, or social interests that could be considered in bringing about conflict with the organisations business or interests, such as involvement in political activities or financial investments in property owned by THH.</p> <p>Staff are required to seek approval for any voluntary or paid employment that they undertake outside of their work with THH. Any additional work, whether paid or unpaid, must not conflict with the organization’s interests or weaken public confidence in it.</p> <p>THH currently has approximately 480 employees who are required to complete a declaration of interests form on an annual basis.</p> <p>The audit was designed to provide assurance on the effectiveness and adequacy of the systems and controls THH has put in place for the management and control of Declarations of Staff Interests, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • From our audit testing we noted a number of cases where no follow up action had been taken in respect of disputed declaration of interest (DOI) forms (a disputed DOI form is where the form is either not fully completed, where the information is not clear or where it has been sent by the employee, but has not been received by HR). We were informed that these issues were as a result of the large number of staff members that are required to be chased by the support team on an individual basis. This leads to the support team spending an excessive amount of time chasing up outstanding DOIs alongside their other day-to-day responsibilities. • The Whistleblowing Procedures document was last reviewed in April 2008 and this document is out of date. 	Extensive	Substantial 

		<ul style="list-style-type: none">• Code of Conduct acknowledgement slips are not always completed and returned in a timely manner. <p>All findings and recommendations were agreed with the Senior Employment Relations Manager and reported to the Director of Finance, and the Chief Executive.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – SLA Management	Dec 2015	<p>The London Borough of Tower Hamlets (LBTH) is a key partner and client of Tower Hamlets Homes (THH). The ALMO is commissioned by the Council to provide housing management services for council-owned stock, and THH works in partnership with a range of Council functions.</p> <p>This audit was scoped to focus on two of the 23 service level agreements (SLAs) in place in detail, and the Legal Services SLA and the ICT SLA were selected prior to the start of the audit.</p> <p>In 2015/16, year eight of the Management Agreement, 23 SLAs were budgeted for by THH, with total costs of £6.4m. This represents 18% of the management fee (£35.1m) that THH receives from LBTH.</p> <p>The audit was designed to provide assurance on the effectiveness and adequacy of the systems and controls THH has put in place for the strategic management of the formal SLAs for support services provided by LBTH, thus ensuring that the services provided by the Council are economic, efficient and effective and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The current main contact for the Legal SLA will require operational reports from commissioning services as legal services do not form part of the contact's role; • The formal ICT SLA Quarterly Performance Review meetings are held between the Client Representatives (THH) and the LBTH ICT Client Team; informal monthly meetings are held between Client Representatives and the LBTH Contracts & Performance Co-ordinator and are not recorded. <p>All findings and recommendations were agreed with the Head of Finance (THH) and reported to the Director of Finance (THH), and the Chief Executive (THH).</p>	Extensive	Substantial 

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bigland Green Primary School	Nov 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Resources Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • From examination of the Full Governing Body meeting minutes it was found that the Governors Handbook was last updated in the December 2013 meeting. Discussion established that the current handbook was still effective; however some of the information contained within the terms of reference needed revising. • From examination of the Full Governing Body meeting minutes there was no evidence that virements for over £25,000 or changes to the budget from additional funding were appropriately approved. It was noted that virements and other budget movements were presented within Resources Committee meetings, and that some of the significant budget movements were discussed in Full Governing Body meetings. However, explicit approval of large budget movements by the Full Governing Body was not noted in the meeting minutes. • From examination of the School's non Local Authority service level agreements above £5,000, there was no evidence from the meeting minutes that the agreements were approved by the Governing Body (or delegated committee). For one contract, alternative quotes were not attached so value for money could not be demonstrated. • Sample testing identified two out of three instances where payments had been made direct to an individual, without NI or PAYE deductions being made. No record of the individuals' employment status being checked was available. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children's</p>	Moderate	Substantial 

		Services.		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Halley Primary School	Dec 2015	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The School's Financial Policies and Procedures Manual, D5: Expenditure limits – tendering states that “All purchases estimated between £1,000 and £10,000 should have a minimum of 3 quotes”. Examination of a random sample of five high value purchases identified that only three had the required number of quotes on file. • Although the School's Scheme of Delegation of Governing Bodies and Financial Powers and Duties to Others' was signed by the Chair of Governors on 4 February 2015, there was no evidence to demonstrate that it had been formally approved by the Governing Body. It was also noted that no approval by the Full Governing Body could be evidenced in the last 15 months. • The School's Finance & General Purposes Committee's ToR stated that it had been reviewed in February 2015. However, from examination of the Governing Body minutes for February and May 2015 (the last minutes available), there was no evidence that this has been formally approved. • For eight out of 10 purchases sampled, there was no evidence that an official purchase order form had been completed. Other checks on the purchases made (e.g. receipt of invoice / goods, authorisation of invoice etc.) had been completed by the School. • Examination of five equipment loan forms noted that in four instances the make, model and serial number of the loaned item was not present, and also the loan form had not been correctly authorised (i.e. authorised by the head Teacher or Admin Officer). 	Moderate	<p>Substantial</p> <p style="text-align: center;">↔</p> <p>No change in the direction of travel from the previous audit undertaken in 2010/11</p>

		All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children’s Services.		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Mayflower Primary School	Jan 2016	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body and a Finance, Personnel and Premises Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • Testing of a sample of five high cost procurement / contracts identified four cases where confirmation by the Finance and Curriculum Committee in respect of major work (value between £10,362 and £12,475) could not be evidenced. The Head Teacher has delegated powers up to £5,000. There were also three cases where the required number of quotes were not obtained. • For eight out of 10 purchases sampled, there was no evidence that an official purchase order form had been completed. In one of the cases an invoice had not been received. Instead an email was received quoting the amount. • The terms of reference for the Curriculum Committee is undated, and has not been signed and dated by the Chair of the Committee. The terms of reference for the Finance, Personnel and Premises Committee is unsigned. • Declaration of interest forms have not been completed for three of the current Governors. • The School has a three year School Improvement Plan. There is no evidence that the plan has been reviewed or formally approved in the last 12 months. • A sample of five new starter files was tested. In two instances, the medical checks records were not in the files. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director – Children’s Services.</p>	Moderate	<p>Substantial</p> <p style="text-align: center;">↔</p> <p>No change in the direction of travel from the previous audit undertaken in 2010/11</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Harbinger Primary School	Feb 2016	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body, and a Finance and Resources Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The School produces a monthly reconciliation to the Council. However, the only signature evidenced on the report and all supporting documentation was the sign off of the Head Teacher with no evidence provided that it has been produced independently by another staff member. • From our sample testing of leavers' files, there appears to be an adequate system in place. However, it was noted that the Payroll report from the Council was received approximately two weeks after the month end processing has taken place, which could result in retrospective actions being taken to correct errors where applicable. In the case of one member of staff, an additional payment was made to her after she had left the School. The School identified this quickly and made arrangements for the staff member to pay it back and this was resolved within two months. • Testing for a sample of ten purchases identified one case where payment was made 48 days beyond the target payment date, one case where there was no valid invoice, and one case where there was a £3 discrepancy between the payment made and the invoice issued. • Whilst it was evidenced that the School produces a detailed income and expenditure record, it was established that a subsequent 'End of Journey' statement, was not prepared and presented to governors in respect of residential trips. • From a sample of asset loans, all three had completed and appropriately approved asset loan forms. However, in one case, the serial number on the form did not tally with the asset number given to the asset. 	Moderate	<p>Substantial ↔</p> <p>No change in the direction of travel from the previous audit undertaken in 2010/11</p>

		All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Corporate Director – Children’s Services.		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Osmani Primary School	Feb 2016	<p>The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The school has a Full Governing Body, and an Operations Committee, which have overall responsibility for financial planning and control. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • It was evidenced that the Scheme of Delegation and Financial Management Code of Practice were reviewed in the Operations Committee meeting in December 2014 and the minutes denote that it was approved by the Chair of Governors. However, there is no evidence that a review and approval was undertaken at the subsequent Full Governing Body meetings. • Examination of the Governor 'Declaration of pecuniary and personal interest' forms noted two instances where the signature on the completed form had been typed and not been signed by the Governors. • From a sample of 10 transactions, two orders were identified where an order had been amended, and a new purchase order issued. However, the updated purchase orders had not been signed as authorised. • From a sample of six new starters, only two had DBS checks in place prior to starting work. The Head Teacher stated that some of these were for urgent recruits for lunch time support, who were usually mothers of pupils in the school who have shown an interest and the School's ethos is to encourage the local community to participate as much as possible in the school. We were also advised that a rigorous risk assessment is carried out by the Head Teacher to satisfy herself that the staff member is low risk; however no documentation was retained on file. Additionally, we were informed that the relevant staff members are not permitted to be alone with children until the DBS clearance is received. The School has now moved to online DBS processing which has reduced the delivery time to approximately a week. The Starter Checklist has now been updated (during the audit) to include the Head Teacher's confirmation that in cases where there is a delay in DBS clearance, the Head Teacher has carried 	Moderate	<p>Substantial ↔</p> <p>No change in the direction of travel from the previous audit undertaken in 2010/11</p>

		<p>out a Risk assessment on the staff member.</p> <ul style="list-style-type: none"> • Examination of the list of staff leavers and the current FMS user list identified that there were former employees of the School who were still listed on the system as active users. Discussion with the ICT Coordinator established that the users can no longer have access to the network and they had not signed on since July 2015, However, their access rights to the FMS had not been disabled. • The guidance on the HMRC website states that, “A worker's employment status that is whether they are employed or self-employed, is not a matter of choice. Whether someone is employed or self-employed depends upon the terms and conditions of the relevant engagement.” The Employment Status Indicator (ESI) tool on the HMRC website can be used to determine the employment status of individuals. Where someone is determined to be employed, PAYE and NI deductions must be made at source. From examination of a sample of three transactions there was no evidence that the suppliers have confirmed that they are fully responsible for their NI and Tax payments. <p>All findings and recommendations were agreed with the Head Teacher and reported to the Chair of the Governing Body and the Corporate Director – Children’s Services.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Animal Warden Service Follow Up Audit	Jan. 2016	<p>The objective of this follow up audit was to assess the progress made in implementing the agreed recommendations at the conclusion of the original audit in October 2014.</p> <p>Our testing showed that out of the 10 high priority recommendations made in the final audit report, there was evidence to show that two recommendations had been fully implemented and one recommendation was not implemented at all. The remaining seven recommendations were partially implemented and the Senior Animal Warden had taken a lead role in this. However, there were limitations in implementing these recommendations fully as support was needed from higher level management to embed these recommendations effectively within the service to demonstrate improvement in service performance, internal control and risk management.</p> <p>All findings and recommendation were agreed with the Head of Street Enforcement and final report was issued to the Service Head – Community Safety and Corporate Director – Communities, Localities and Culture.</p>	Moderate	Substantial 

Full Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Excluded Children Follow Up Audit	Nov 2015	<p>Between the period 1st September 2014 and 20th July 2015, schools in Tower Hamlets had excluded 681 pupils on fixed term exclusions (secondary and primary schools) and eight pupils on permanent exclusions (all eight pupils were from secondary schools and none from primary schools). The number of secondary school permanent exclusions had increased from five in 2013/14 to eight in 2014/15.</p> <p>Reasons for exclusions in the Borough included physical assaults; persistent disruptive behavior and theft, verbal abuse/threatening behavior, etc.</p> <p>A full systems audit on Excluded Children was undertaken in 2014 for which the final report was issued in July 2014. This audit was assigned substantial assurance.</p> <p>Our follow up review showed that of the three recommendations made in our original report (one high priority and two medium priority) all have been fully addressed and no further recommendations were made.</p> <p>The findings were agreed with the Head of Pupil Services, and the Head of Support for Learning/Lead Officer for Social Inclusion and reported to the Service Head, Learning and Achievement, and the Corporate Director, Children's Services.</p>	Extensive	<p>Full</p> <p>⇒</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Medium Term Financial Planning	Dec 2015	<p>The purpose of the Medium Term Financial Plan (MFTP) is to provide a comprehensive review of the Council's overall financial position for the current year and an overview of the prospects for the following three years. The plan covers both revenue expenditure, which relates to the daily running costs and overheads of service provision, and capital expenditure, which includes long term investment in infrastructure such as schools and roads. The plan also sets out the Council's overall Financial Strategy.</p> <p>The Cabinet and Full Council are responsible for agreeing an approach to deliver a sustainable financial position over the period, taking into account financial risks and unknown factors. In addition, the Cabinet and then the Full Council review the budget assumptions for 2015/16 and consider growth requirements, savings plans and assumptions around the Council's resource base.</p> <p>In the latest version approved on 28th July 2015, the MTFP for the Authority covers the period 2015/16 to 2018/19. The net estimated general fund requirement reported at March 2015 Council for 2016/17 is £296.7m with a total funding envelope of £265.0m available through Revenue Support Grant, Council Tax and Business Rates. The refreshed MTFP reports an estimate that the three year funding gap to the end of 2018/19 will be £63.0m. The potential for setting the savings target for 2016/17 at £15.0m has been identified, with a likely scenario of a target of £30.0m for 2017/18, with the remaining £18.0m being delivered in 2018/19.</p> <p>The purpose of the audit was to provide assurance to management that the system in place for compiling and updating the Council's Medium Term Financial Plan is sound, secure and resilient, and also to evaluate the potential consequences that could arise from any weaknesses in internal control procedures.</p> <p>We noted the following areas of good practice;</p>	Extensive	Full 

	<ul style="list-style-type: none"> • The roles, responsibilities and process for formulating, monitoring and reviewing the MTFP are defined in the Council’s Financial Regulations, the Budget and Policy Framework Procedure Rules, MTFP Guidelines and the Budget Practitioners’ Guide. • The MTFP is consistent with the Council’s corporate objectives and the planning assumptions are realistic and accurate. • The key stakeholders are identified and consulted during the formulation process. Updates on implementation are provided to them via regular reports and meetings. • The MTFP undergoes a challenge process with senior management, the Overview and Scrutiny Committee, the Cabinet and the final version is approved by Full Council. • Monitoring of the MTFP is supported by performance indicators. Data relating to the performance measures is published and presented to the Overview and Scrutiny Committee and the Cabinet. <p>We did not make any recommendations as a result of our work in this area.</p> <p>All findings were agreed with the Head of Financial Planning and Corporate Business Partner and reported to the Interim Service Head, Corporate Finance, and the Corporate Director of Resources.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Blue Badges Follow Up Audit	Jan. 2016	<p>This follow up audit assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit that in March 2015.</p> <p>Our testing showed that out of the five high priority recommendations made in the final audit report, all recommendations had been addressed by the service.</p> <p>A new version of Blue Badge application form was put in place with adequate guidance on eligibility checks. The new version also included requirements to provide supporting medical evidence from GP or Hospital which was then considered by the Assessor during the assessment process. Information was obtained from other Local Authorities who had contracted out the mobility assessment function to ensure that a more detailed specification which reflected LBTH current service and legislation was developed for tendering out the LBTH mobility assessment service. Key operational risks were identified, assessed and were being managed. Authority was sought from Legal services to release monthly Death Lists to the mobility team for matching with the database to cancel the blue badges allocated to those persons now deceased. This has reduced the opportunity for fraudulent use of blue badges. In addition to this control, there has been a proactive enforcement of fraudulent blue badges with the objective of seizing blue badges and communicating the message more effectively to reduce prosecutions in the future.</p> <p>All findings were agreed with the Mobility Support Team Leader and Interim Service Head – Public Realm. Final report was issued to the Corporate Director – Communities, Localities and Culture.</p>	Moderate	Full →

Assurance Not Given

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Homelessness Strategy	Nov 2015	<p>The audit was designed to provide assurance to management that there are appropriate arrangements in place for managing and delivering the Tower Hamlets Homelessness Strategy. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> • The Council has produced a Homelessness Statement for 2013-17. This was approved by the Cabinet in July 2013 and describes the borough's approach to tackling homelessness, setting out the direction and priorities for the five year period. This Statement was regularly discussed throughout 2012 and 2013 at the Homeless Partnership Board, prior to its approval. However, it was noted that there is no overarching Housing Strategy currently in place, with the previous version covering the period from 2009-12. • The Homeless Partnership Board has not met since 13th June 2013. • No action plan has been produced to support the delivery of the Homelessness Statement. In addition, roles and responsibilities in terms of delivery of the Statement have not been clearly defined. • We also recommended that once the action plan has been produced and appropriately approved, progress against the action plan should be regularly reported to the Homelessness Partnership Board. In addition, management should also ensure that progress is regularly reported to senior management, members and stakeholders. <p>All findings and recommendations were agreed with the Service Head, Strategy, Regeneration, Sustainability, and reported to the Corporate Director, Development and Renewal.</p>	Extensive	N/A


APPENDIX 3**Follow Up Audits – List of Priority 1 Recommendations still to be implemented**

Audit Subject	Recommendation	Service Head	Officer Name
Animal Warden Service	The Service Head Safer Communities should request the Service Head HR and Workforce Development to formulate a Corporate Policy on the Use of Council Vehicles by staff in order that the organisation considers the cost of fuel, wear and tear to the vehicles etc. and if any charge should be made by the employer to the employee with regard to the use by him/her for home to work travel	Andy Bamber	Andy Bamber

Follow Up Audits – List of Priority 2 Recommendations still to be implemented

Audit Subject	Recommendation	Service Head	Officer Name
Customer Journey First Response	The policies, procedures and guidance in place for staff should be reviewed and updated on a regular basis to help to ensure that they reflect good practice. The documents in place should be approved and any changes communicated to staff following review, and made available via the Council intranet.	Luke Addams	Brian Turnbull
Customer Journey First Response	The performance of the service against the key indicators identified as per the Team Plans should be monitored, recorded and reported on to senior management. The performance management needs for Assessment and Intervention Teams should be finalised and implemented as soon as possible.	Luke Addams	Brian Turnbull

Agenda Item 4.4

Non-Executive Report of the: Audit Committee 22 nd March 2016	 TOWER HAMLETS <i>Classification:</i> <i>Unrestricted</i>
Report of: Zena Cooke - Corporate Director - Resources	
Audit Plan for 2016/17	

Originating Officer(s)	<i>Minesh Jani and Bharat Mehta</i>
Wards affected	<i>All wards</i>

1. Introduction

- 1.1. This report presents the proposed Annual Internal Audit Plan for 2016/17. The plan was compiled using the Internal Audit Strategy approved by the Audit Committee in December 2010 and endorsed each year thereafter as part of the annual planning process.
- 1.2. The internal audit strategy details the methodology for developing the annual audit plan and sets out the role of internal audit and the process by which to direct the work of audit. The first step in this methodology is to obtain information about the population from which audit activity is to be selected. This was achieved by consulting with key officers, reviewing the authority's corporate plan and risk registers and meeting with external audit. By gathering information and assessing the risks affecting each auditable system, resources have been directed at those areas with the highest risk significance. Details of the strategy are attached at Appendix 2 for information.

2. Recommendation

- 2.1. That the Audit Committee consider the Annual Internal Audit Plan for 2016/17 at Appendix 1.

3. Background / Methodology

- 3.1 The methodology for developing the Internal Audit Plan focuses upon the quantification of the risks associated with achieving corporate and departmental objectives.
- 3.2 This process uses four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the four assessment categories and what each is intended to measure.

Assessment Category		Measure
A	Corporate Objectives/Priorities Importance –	Corporate materiality
B	Corporate Sensitivity – Impact	Reputational materiality
C	Inherent Risk	Inherent vulnerability
D	Control Risk	Control effectiveness

- 3.3 Following this assessment, those systems with the highest score were added to the audit plan based on the resources available. In addition to the above assessment, auditable areas that have a medium or low score, but in order to support the work of external audit or to provide assurance to key officers, also feature in this audit plan. These include areas such as the reviews of key financial systems, governance arrangements, grant audits, cash income and regularity/probity audits.

Resources

- 3.4 The table below shows how provisionally the plan will be resourced between the in-house staff and our strategic internal audit partner, Mazars through the L.B of Croydon Framework Agreement.

Audit Resources 2016/17		Days	Days
In-house	4 auditors @ 195 days	780	
	Management	150	
			930
Mazars	Core Audits	491	
	Computer Audit	100	
TOTAL			591
PLAN TOTAL			1,521

Please note – the analysis shown in the table above is subject to review. The Head of Audit and Risk Management will assess the audit plan and profile the plan in consultation with the Council's S151 officer and the Audit Manager.

Annual Audit Plan

- 3.5 Appendix 1 shows the annual audit plan and provides a brief summary of the scope of each review. The plan also shows the source of the auditable area and its link to the authority's corporate priorities. The proposed plan will be presented at directorate DMT and the CMT.
- 3.6 In summary, for 2016/17, the Internal Audit Plan comprises of 1,521 days across all directorates. In line with the established protocols, all changes to the agreed 2016/17 plan will be reported to the CMT in November and the Audit Committee in December 2016. The decrease of 109 days follows an increase of 154 days in the previous year where internal audit created a temporary post to carry out procurement and contract related audits and audit work around grants. The resource requirement will be kept under review and where necessary, changes will be made.

	Original plan 2015/16	Revised Plan 2015/16	Audit Plan 2016/17
Corporate systems	257	287	185
Law, Probity and Governance	60	35	40
Education, Social Care and Welfare	250	-	-
Children's Services	-	208	230
Adults Services	-	80	85
Communities, Localities and Culture	145	190	150
Tower Hamlets Homes	130	115	130
Development & Renewal	174	182	115
Resources	264	249	236
Computer audit	100	100	100
Follow-up, management and reactive fraud provision	250	184	250
Total	1,630	1,630	1,521

- 3.7 In developing the internal audit plan for 2016/17, consideration has been made to provide assurance over the best value action plans.
- 3.8 It should be noted the reviews planned for Tower Hamlets Homes are subject to further consultation with the Executive Management Team.

4 Comments of the Chief Financial Officer

- 4.1 This report presents the proposed Annual Internal Audit Plan for 2016/17. The budget for the Internal Audit services in 2016/17 is £600k including support costs

and the Audit plan is expected to be delivered within this funding envelope. The Audit plan is expected to be delivered within existing resources and thus there are no additional financial implications arising from endorsing the plan attached.

5 Legal Comments

- 5.1 The Council has a duty 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 by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 5.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, 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 by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.
- 5.3 One of the functions of the Audit Committee under the Council's Constitution is to consider the Audit Plan and review the performance of Internal Audit against this target. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions .

6 One Tower Hamlets

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

7 Best Value Implications

- 7.1. This report highlights areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

8 Risk Management Implications

- 8.1. 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.

9. Sustainable Action for a Greener Environment (SAGE)

- 9.1. There are no specific SAGE implications.

10. Crime and Disorder Reduction Implications

10.1. By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

Appendix 1



London Borough of Tower Hamlets

Risk, Internal Audit and Control – Audit Plan 2016/17



Contents

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Foreword

The role of internal audit is important in supporting the Council achieve its goals and outcomes. For internal audit to contribute towards the overall goals of the organisation, effective planning of audit activity is essential, whether planned or unplanned. The annual audit plan for 2016/17 is devised using a risk based methodology, and focuses on areas where Tower Hamlets needs to be sure its risks are being properly managed. The plan also recognises the wider role audit has in supporting management, who strive to deliver excellent public services to residents living in, and people working in the borough, by including for example, consultancy audits, corporate reviews, value for money, contract and ICT audits. A large part of the annual plan rightly focuses on providing independent assurance over the systems of control for managing risks across the authority. There is also some flexibility within the plan for risks that will arise over the next financial year.

In preparing the plan, it is important to recognise the contributions made by officers at the Departmental and Corporate Management Teams, the S151 Officer, and the Chair of the Audit Committee for which I am grateful.

Minesh Jani
Head of Risk Management and Audit

Context

Risk taking is vital to the success of any business; it is inherent in everything we do. All too often, however, risks are regarded only as hazards despite the fact they can present significant opportunities for organisations to innovate and gain short and long-term competitive advantages. Risk and opportunity are, in essence, a duality – like two sides of the same coin.

The Good Governance Standard for Public Services identifies that ‘Good governance means “taking informed, transparent decisions and managing risk”. This implies creating a framework of enterprise-wide risk management that is embedded in the ‘business as usual’ operations and viewed as an integral component of how the organisation is governed.

Risk management is not about avoiding or eliminating risk. It is about understanding what risks are and the potential impact upon the organisation should the risks materialise and also about controlling risks when they arise.

Embedding good, enterprise-wide risk management systems will facilitate the achievement of our strategic objectives.

Internal Audit and their evaluation of controls provide an important part of the tool kit that the Corporate Management Team and the Audit Committee have in evaluating the risks being faced by the organisation, and the controls that are in place to mitigate these risks.

Key Risks

The Audit Plan is based on three principal sources of information – Risk Registers (Strategic Risks and Directorate based service risks), our own risk analysis and management request. In formulating the Audit Plan, the key corporate risks and Directorate based risks have been considered. There are **11 corporate risks** currently facing the Council which are being monitored by the CMT and the Audit Committee and are summarised below. These risks have been referenced within the Audit Plan, where applicable.

Risk Ref..	Risk
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.
DRA0016	Failure to meet the borough's housing targets.
CSDR0002	Council's inability to meet demand for school places
CSD0016	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.
LPGCOM0003	Failure to effectively manage the reputation of the Council.

No.	Risk
PPM0016	Failure of the Council's supply chain.
LPGSE0001	Failure to achieve community cohesion, Radicalisation of young people and gangs.
DR0029	Council is unable to identify a viable exit route from Mulberry Place that ensures staff are decanted by September 2019.
LPGLS0001	Non-compliance with corporate governance procedures.
CLSCEI0008	There is a risk that, should a major incident take place affecting Council services, there may be a failure to implement an effective response.

The Role of Internal Audit

The role of Internal Audit is to provide an independent ‘assurance’ to the organisation that its systems of internal control are sound and adequate, and are being complied with by staff and management.

Internal Audit is a review function, which independently reviews and reports upon the organisation’s internal control, governance and risk management arrangements. It critically evaluates the entire internal control framework and where necessary, makes recommendations for improvement and the introduction of best practice.

The public sector internal audit standards defines internal audit as:

“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

The findings emerging from internal audit reviews provide a basis for an Annual Audit Opinion in the Statement of Internal Control within the Annual Governance Statement.

London Borough of Tower Hamlets 2016/17 Internal Audit Plan

	Audit Days	Pages
Corporate systems and Council-wide reviews	185	8-10
Director of Law, Probity and Governance	40	11
Adults Services	85	12-13
Children's Services	230	14-15
Communities, Localities & Culture	150	16-18
Development & Renewal	115	19-20
Resources & core financial systems	236	21-23
Tower Hamlets Homes	130	24-25
Information technology audits	100	26
Follow up, management and reactive fraud provision	250	26
Total Provision	1,521	-

Internal Audit Plan 2016/17

Corporate Audits

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Best Value Action Plans	The objective of this audit would be to test and determine the extent to which the five Best Value Improvement Plans around Procurement, Property, Communications, Grants and Organisational Culture have been embedded into the business processes.	50	CMT and Commissioners	One Tower Hamlets Working efficiently and effectively as One Council
Control and Monitoring of DBS checks	This audit will review the effectiveness of systems and procedures in place for controlling, monitoring and reviewing DBS checks for employees working in the relevant professions which require basic and enhanced DBS clearance.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Business Continuity Planning and Disaster Recovery	This audit will examine systems for ensuring that should a major incident takes place which affects Council's services, the Council is resilient to plan, co-ordinate and manage an effective response to such events.	15	Audit Needs Analysis Corporate Risk Ref. CLSCEI0008	One Tower Hamlets Working efficiently and effectively as One Council
Fees and Charges	This audit will examine the Council's arrangements for reviewing fees and charges to ensure compliance with its fees and charges policy and to maximise the potential for generating income. A sample of fees and charges across all Directorates will be selected for testing.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Staff Hospitality	The objective of this audit will be to review the systems and procedures for controlling and monitoring staff hospitality and gifts across all Directorates to ensure that the Council's ethical standards are complied with.	15	Audit Needs Analysis Corporate Risk LPGLS0001	One Tower Hamlets Working efficiently and effectively as One Council
Control, Monitoring and Reporting of Executive Decisions Under Management Scheme of Delegation	This audit will examine the Council's procedures for reviewing and monitoring compliance with its Management Scheme of Delegation to ensure that Executive decisions taken by officers are within the scope of their delegated limits.	15	Audit Needs Analysis Corporate Risk LPGLS0001	One Tower Hamlets Working efficiently and effectively as One Council
Staff Declaration of Interests	To provide assurance that the systems for declaration of interests by staff across Directors are sound and secure to ensure that the Council's ethical standards are complied with.	15	Audit Needs Analysis Corporate Risk LPGLS0001	One Tower Hamlets Working efficiently and effectively as One Council
Programme and Project Management	This audit will review the Council's Corporate arrangements for ensuring that there are sound procedures and tools for managing and monitoring major change programmes and projects.	10	Audit Needs Analysis Corporate Risk LPGCOM0003 and RSB0019	One Tower Hamlets Working efficiently and effectively as One Council
Acting up and Honoraria Payments	The objective of this audit will be ensure that current acting up and honoraria payments across all Directorates are in accordance with Council's policy and that such payments are approved, controlled, monitored and reviewed.	15	Audit Needs Analysis Corporate Risk LPGCOM0003	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Local Code of Corporate Governance	To ensure that the best practice principles of CIPFA Good Governance Framework 2016 are incorporated in the LBTH Local Code of Corporate Governance and to test compliance with the best practice.	10	Audit Needs Analysis and Corporate Risk LPGLS0001	One Tower Hamlets Working efficiently and effectively as One Council
Whistle blowing procedures	The review will review the Council's whistle blowing arrangements once planned changes have been implemented and provide assurance over their operations.	10	Audit Needs Analysis Corporate Risk LPGLS0001	One Tower Hamlets Working efficiently and effectively as One Council
Total		185		

Law, Probity and Governance

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Management and Control of Information Security Breaches and Incidents	This audit will examine the effectiveness of current arrangements for reporting, investigating and actioning information security breaches and incidents to ensure that rules and regulations are complied with.	10	Audit Needs Analysis Corporate Risk LPGCOM0003	One Tower Hamlets Working efficiently and effectively as One Council
Member-Officer Protocol	This audit will review the arrangements put in place by the Council to manage, monitor and safeguard the interface between members and officers of the Council.	10	Audit Needs Analysis Corporate Risk LPGLS0001	One Tower Hamlets Working efficiently and effectively as One Council
Members' Hospitality and Gifts	The objective of this audit will be review the systems for reporting, recording and monitoring members' hospitality and gifts.	5	Audit Needs Analysis Corporate Risk LPGLS0001	One Tower Hamlets Working efficiently and effectively as One Council
Procurement and Payment for Legal Advice	This audit will examine systems for procuring and paying specialist advisors and counsellors to ensure that Council procurement procedures are complied with.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Total		40		

Adult Services

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Financial Assessments	This audit will review the systems for carrying out financial assessments of service users to ensure that assessments are undertaken and charged for in accordance with policy, procedures and regulations.	15	Audit Needs Analysis Corporate Risk ASD0015	A Safe and Supportive Community Empower Older and Vulnerable People
Electronic Home Care Monitoring System	To provide assurance that the newly implemented electronic system is operating effectively to ensure that the service users receive the required service and payments are made only for the service/hours provided.	20	Audit Needs Analysis Corporate Risk ASD0015	A Safe and Supportive Community Empower Older and Vulnerable People. Focus on Early Intervention
Contract Monitoring of Commissioned Services	This audit will examine systems and procedures for monitoring a sample of commissioned services to ensure that providers effectively deliver the services to vulnerable service users and that payments are made in line with the rates set out in the contract.	20	Audit Needs Analysis Corporate Risk ASD0015	A Safe and Supportive Community Empower Older and Vulnerable People. Focus on Early Intervention

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Procurement of Domiciliary Home Care Contracts	This audit will review the tendering arrangements for domiciliary care contracts to ensure that Council's procurement procedures and financial regulations are complied with in the procurement process.	15	Audit Needs Analysis	A Safe and Supportive Community Empower Older and Vulnerable People. Focus on Early Intervention
Reviews of Care Plans	The objective of this audit is to provide assurance that controls are in place to ensure that Care Plans for vulnerable adults are reviewed within the statutory time period and that the plans are properly costed and budgeted for.	15	Audit Needs Analysis Corporate Risk ASD0015	A Safe and Supportive Community Focus on Early Intervention
Total		85		

Children's Services

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Quality Assurance Systems for Child Protection	This audit will provide assurance that the quality assurance and review systems over child protection cases are sound and secure.	15	Audit Needs Analysis Corporate Risk CS0016	A Safe and Supportive Community Focus on Early Intervention
Prevent Strategy and Action Plan	This audit will review the arrangements put in place to discharge the requirements of the Council's Prevent Duty and the effectiveness of the delivery and monitoring of the action plan.	15	Management Request Corporate Risk LPGSE0001	A Safe and Supportive Community Focus on Early Intervention
Contract Audit	We will select a sample of building works in progress and test the effectiveness of contract management and monitoring to ensure that building works are delivered on time and to the agreed budget.	10	Audit Needs Analysis Corporate Risk CSDR0002	One Tower Hamlets Working efficiently and effectively as One Council
Schools Probity Audit	The school visits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll and Personnel; Asset Management; and other key areas of schools' business.	160	Annual Programme of Audit	A Prosperous Community Support lifelong learning opportunities for all.
Youth Offending Service	This audit will review the arrangements for planning, controlling and governing the operation of the Youth Offending service to ensure that Council objectives are achieved.	15	Audit Needs Analysis and Management Request	A Safe and Supportive Community Focus on Early Intervention

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Commissioning of Special Education Placements	This audit will review the effectiveness of procuring and monitoring placements for SEN pupils to ensure that the placements provide good value for money and that Council's procedures are complied.	15	Audit Needs Analysis and Management Request	A Prosperous Community Support lifelong learning opportunities for all.
Total		230		

Communities, Locality and Culture

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Street Lighting	This audit will review the monitoring arrangements for street lighting to ensure that works are identified, ordered, carried out, monitored and paid for in accordance with the contract.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Penalty Charge Notices	To review the systems and controls for processing and management of PCNs, including the effectiveness of debt recovery through the bailiff contract.	15	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Parking Permits	The objective of this audit is to review the systems for processing new and renewal applications for parking permits, ensuring that permits are issued to those who meet the eligibility requirements and that there are sound controls in place.	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Tendering for Waste Contracts	To review compliance with Council's procurement procedures and to provide necessary advice.	5	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
On the Spot Fine Collection	This audit will review the systems and controls for on the spot fine collection by officers in accordance with their delegated function to charge, collect and arrange for the safe custody, transfer and banking of the collected income.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Boishakhi Mela	To be determined.	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Contract Procurement and Monitoring	This audit will review the systems and controls in place for procuring and monitoring contracts to ensure that Council procedures are complied with and that payments to contractors and income received from providers of concessionary services are in accordance with agreed rates and contract conditions.	25	Audit Needs Analysis Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Watney Market Idea Store	This will be a regularity visit to ensure that procedures for petty cash, income collection and banking, stock control, security, ordering of goods and services, staffing control, inventory control, health and safety etc. are being complied with.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Brady Arts Centre and Kobi Nazrul Centre	This will be a regularity visit to ensure that procedures for petty cash, income collection and banking, security, ordering of goods and services, staffing control, inventory control, health and safety etc. are being complied with.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
CCTV Control Room	To review the controls over the effective operation of the control room and to provide assurance that any surveillance carried out is in accordance with the	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
	RIPA regulations.			
Bancroft Library Archiving	To provide assurance that the controls over archiving, valuation, security and insurance of literature, arts and other pieces of heritage and history are sound and secure.	10	Management request	One Tower Hamlets Working efficiently and effectively as One Council
King George's Trust – Mile End Park	To review the governance and financial probity and management of the Trust accounts to provide assurance to stakeholders that arrangements are sound and secure and protects Council's interests.	10	Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Total		150		

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Development and Renewal				
Asset Disposals	This will be compliance testing of procedures developed by Management for managing the disposal of Council assets.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Procurement of Temporary Accommodation	This audit will review the arrangements for procuring temporary accommodation for homeless families to ensure that the Council's procedures are complied with and that payments made are in accordance with the agreed rates.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Control and Monitoring of RTB Valuations	The objective of this audit is to provide assurance over the robustness of systems for procuring, ordering, controlling and monitoring the valuations for RTB properties to ensure that Council's objectives are achieved.	15	Audit Needs Analysis and Management Request. Corporate Risk DRA0016	One Tower Hamlets Working efficiently and effectively as One Council
Property Buy Back Programme	To review the effectiveness of the Council's buy back programme to ensure that properties bought back meet the set criteria, are valued appropriately and the programme is managed effectively to achieve Council's objectives and value for money principles.	15	Audit Needs Analysis Corporate Risk DRA0016	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Economic Benefits	This review will provide assurance that the Council has effective systems and controls in place for managing and monitoring the various Economic Benefits to the community designed in various agreements and contracts.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Planning Permissions and Approvals	This audit will provide assurance that the Council's arrangements for granting and approving planning permissions are in accordance with rules and regulations.	15	Audit Needs Analysis and Management Request.	One Tower Hamlets Working efficiently and effectively as One Council
New Town Hall Building Project	To provide assurance that there are sound and secure project management arrangements in place to manage and monitor various contractual agreements for commissioning and building of the new town hall.	15	Audit Needs Analysis Corporate Risk DR0029	One Tower Hamlets Working efficiently and effectively as One Council
Mulberry Place - Dilapidations	We will review the effectiveness of systems in place for planning and costing the dilapidations of Mulberry Place in readiness of the exit strategy for Mulberry Place.	10	Audit Needs Analysis and Management Request	One Tower Hamlets Working efficiently and effectively as One Council
Total		115		

Resources

	Broad Scope	Audit days	Audit Source	Link with Corporate Priorities
Staff Recruitment	To ensure that recruitment to established posts are in compliance with the Council's recruitment policy and procedures.	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Monitoring of MSG Grant Programme	We will test the system for monitoring the delivery of the 2015-18 MSG grant programme to provide assurance that monitoring visits are effectively carried out and the probity around grant usage is monitored for delivery of projects and for value for money.	20	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Procurement Procedures	To review the Council's Procurement Procedures to provide assurance that they are fit for purpose and meet Council's priorities and objectives.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Category Management	To test the effectiveness of the category management function to ensure that the operational procedures for category management are complied with.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Client Monitoring of ICT Contract	This audit will examine the procedures for monitoring the contract with Agilisys by the client team to ensure that the systems for performance monitoring are effective and that payments and deductions are made in accordance with the contract.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit days	Audit Source	Link with Corporate Priorities
Treasury Management	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
HR/payroll	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
General Ledger	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Creditors	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Debtors	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
NNDR	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Council Tax	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Revenue and Capital Budgetary Control	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Control and Monitoring of cash income C&D	Annual Review of key financial system	10	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council

	Broad Scope	Audit days	Audit Source	Link with Corporate Priorities
Pensions	Annual Review of key financial system	8	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Housing and Council Tax Benefit	Annual Review of key financial system	15	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Housing Rents	Annual Review of key financial system	8	Part of Managed Audit approach	One Tower Hamlets Working efficiently and effectively as One Council
Back Office Revenue Collection and Processing	This audit will review and test the effectiveness of the back office revenue collection, processing, payment and support functions provided by the ex-Cashier's office at Albert Jacob House.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Total		236		

Tower Hamlets Homes

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Right to Buy	This audit will examine systems of control for managing Right to Buy applications and compliance with appropriate legislation, regulations and authorisations from LBTH.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Project Management	We will review the arrangements for managing major projects to ensure that the standards to which projects are managed are sound and secure to achieve key objectives.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Management and Control of Voids and Lettings	We will review the effectiveness of the systems and controls for managing void Council dwellings to ensure that these are re-let efficiently and effectively and the required policy, procedures and standards are followed.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Estate and caretaking management	We will review the effectiveness of Estate and Care taking management to ensure that the required policy, procedures and standards are followed.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Horticulture Contract Monitoring	This audit will examine the systems and controls for monitoring horticultural contracts to ensure that the performance of the contractor is managed and monitored effectively.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council

Tower Hamlets Homes	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities.	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Financial Systems	This audit will review the robustness of key financial systems such as income and expenditure systems, cash flow forecasting, Treasury Management, VAT and reconciliation processes, as part of the annual assurance on the soundness of financial control across THH.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Final Accounts Audit	To carry out final account audits referred to Internal Audit for certification	10	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Follow Up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	15	Audit Needs Analysis	One Tower Hamlets Working efficiently and effectively as One Council
Contract Audits	We will review the effectiveness of systems and controls for managing and monitoring various building contracts delivered by the company under the Delegated powers from LBTH.	20	Audit Needs Analysis Corporate Risk Ref. DRA0016	One Tower Hamlets Working efficiently and effectively as One Council
Total		130		

	Broad Scope	Audit Days	Audit Source	Link with Corporate Priorities
Information Technology		100		
Other				
Follow up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	100		One Tower Hamlets Working efficiently and effectively as One Council
Management Requests	Contingency set aside to service Management requests during the year.	50		One Tower Hamlets Working efficiently and effectively as One Council
Reactive Fraud	Earmarked resource to support the investigation of cases of potential fraud, irregularities, waste of public money and whistle blow inquiries directed to the team.	50		One Tower Hamlets Working efficiently and effectively as One Council
Management Time	Provision for management time to direct, control and monitor the work of the team.	50		One Tower Hamlets Working efficiently and effectively as One Council
Grand Plan Total		1,521		

Governance-based Audit Assessment Methodology

Assessment Categories

The Risk Assessment model takes account four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the proposed four assessment categories and what each is intended to measure.

Assessment Category		Measure
A	Corporate Importance – Objectives/Priorities	Corporate materiality
B	Corporate Sensitivity – Impact	Reputational materiality
C	Inherent Risk	Inherent vulnerability
D	Control Risk	Control effectiveness

The full definition for each category and the scoring criteria are described below.

Assessment Process

Assessment was based on professional judgement after careful consideration of the key risks to the authority with the Executive Directors and other key officers, a review of current and previous audit plans and strategic issues facing the authority. The following steps were followed in performing the risk assessment:

Step	Action
1	Select the System and Corporate Controls to be risk assessed, to ensure a clear and unambiguous understanding of the area under review. This is normally called the Auditable Area
2	Select the most appropriate assessment criterion and therefore the score in each assessment category
3	Record the scores.
4	Compute the risk index by reference to the following section

Calculation of the Audit Risk Index

Internal Audit risk is the product of risk and materiality. In valuing materiality it is appropriate to add the constituent assessments of Corporate Importance and Corporate Sensitivity to generate a Materiality Factor on a scale of 100.

Total Risk is the product of inherent and control risk. For the purposes of simplicity in this model Inherent Risk is assessed on a scale of 5-10 and Control Risk on a scale of 2-10. The minimum Risk Factor is produced by multiplying these components is therefore 10% (2 x 5).

The Audit Risk Index for each auditable area is, therefore, the Materiality Factor multiplied by the Risk Factor.

Results of the Audit Risk Assessment

The structured list of auditable areas with illustrative assessment scores is recorded and the summarised scores used to give the Risk Factor and Materiality Factor and the resultant Audit Risk Index.

The list of auditable areas is then ranked by reference to the Audit Risk Index and grouped as high, medium or low priority. The top third are considered to be high priority, the next medium priority, and the bottom third low priority.

Internal Audit Risk Assessment Matrices

A CORPORATE IMPORTANCE This aspect considers the effect on an organisation of any inability to achieve management defined service objectives should the system or process fail. This aspect also takes into account the financial exposure or materiality of the area. The consequential impact, either directly or indirectly, on other systems and processes is also relevant to the assessment. Overall it is a measure of the extent to which the organisation depends on the correct running of the system to achieve its strategic objectives.					
Score	Risk to Department, Corporate and/or Service Objectives		Operational Risk Exposure		Financial Risk Exposure
10	Negligible impact on achievement of service objectives. This would still be achieved with minimum extra cost or inconvenience.	or	Minor inconvenience	or	Under 2% of total operating income or net assets.
20	Service objectives only partially achievable without compensating action being taken or reallocation of resources.	or	Difficult to recover	or	Between 2% and 10% of operating income or net assets.
30	Unable to achieve service objectives without substantial additional costs or time delays or adverse effect on achievement of national targets / performance indicators.	or	Permanent loss of data	or	Between 10% and 30% of operating income or net assets.
40	Unable to achieve service objectives resulting in significant visible impact on service provision such as closure of facilities.	or	Unable to restore system	or	Between 30% and 50% of operating income or net assets.
50	Unable to achieve service objectives, resulting in inability to fulfil corporate obligations.	or	Organisation unable to function	or	Over 50% of total operating income or net assets

Internal Audit Risk Assessment Matrices

B Corporate Sensitivity This aspect takes into account the sensitivity / confidentiality of the information processed, or service delivered by the system, or decisions influenced by the output. It also assesses any legal and regulatory compliance requirements. The measure should also reflect any management concerns and sensitivities.

Score	Risk to Public Image		Risk of Adverse Publicity		Risk to Accountability		Risk of non-legal Compliance
10	Negligible consequences					or	No regulatory requirements
20	Some public embarrassment but no damage to reputation or standing in the community	or	Information would be of interest to local press			or	Minimal regulatory requirements and limited sensitivity to non-compliance
30	Some public embarrassment leading to limited damage	or	Information would be of interest to local MPs			or	Modest legal and regulatory requirements
40	Loss of credibility and public confidence in the service concerned	or	Incident of interest to National Press	O r	Incident potentially leading to the dismissal or resignation of the responsible functional manager	or	Extensive legal and regulatory requirements with sanctions for non-compliance
50	Highly damaging with immediate impact on public confidence	or	Incident of interest to the Audit Commission, government agencies	O r	Incident potentially leading to the resignation or dismissal of a Chief Officer	or	Possible court enforcement order for non-compliance

Internal Audit Risk Assessment Matrices

C Inherent Risk This aspect considers the inherent risk of the system, service, process or related assets to error, loss, irregularity, inefficiency, illegality or failure. The particular service sector, nature of operations and the pace of change will also affect the level of inherent risk. Similarly the relative complexity of the system will influence the inherent risk or error. The inherent vulnerability of a system, service or process cannot be altered, only mitigated by the quality of controls considered in section D.

Score	Inherent Risk – Vulnerability		Risk of Error due to System Complexity		Risk resulting from Pace of Change		Risk to Asset Security
5	Low vulnerability		Simple system with low risk of error	or	No changes planned	or	Undesirable low value assets not at risk of fraud or loss
6	Medium or low inherent risk	or		or	Limited changes planned with reasonable timescale		
7	Medium vulnerability	or	Moderately complex system with medium risk of error	or	Moderate level of change over medium term		
8	Medium to high inherent risk	or		or	Significant level of change with restricted timescale		
10	Highly vulnerable	or	Complex system with high risk of error	or	Extensive changes planned with short timescale	or	Highly desirable assets exposed to high risk of fraud or loss

Internal Audit Risk Assessment Matrices

D Control Risk This aspect assesses the level of control risk based upon the results of past audits of the control environment under review. This aspect also takes into account of the operating history and condition of systems and processes and knowledge of management controls to minimise exposure to risk. CRSA and extensive Control Risk Workshops under the leadership of the Council’s Risk Manager could support evaluation.

Score	History of Risk Management Success		Management Risk and Control Environment		Condition of Risk Management Controls
2	No history of control weakness	or	There is effective risk management in place and adequate controls operated by risk-aware management	or	Effective controls and robust attitude to the management of all material risks. Embedded risk management culture
4	No history of significant weakness	or	Good management risk and control environment	or	Stable system with history of reliability and controls. Risk management issued considered regularly.
6	No high risk issues outstanding from the previous audit/investigation/best value/external review	or	No knowledge of management risk and control environment	or	Risk management and system controls not validated.
8	Some significant problems were identified and are known to be outstanding from the previous audit/review	or	Some significant concerns have been expressed by management (through Controls Risk Workshops)	or	Technical health of system of risk management and controls in doubt.
10	Major weaknesses in risk management and controls were identified and are known to be outstanding	or	Major concerns have been expressed by management (through Controls Risk workshops)	or	Obsolete system with history of problems and ineffective control. Little or no work undertaken on risk management.

Internal Audit Charter

This Charter sets out the purpose, authority and responsibility of the Council’s Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.

The Charter will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.

Purpose

Internal Audit is defined by the Institute of Internal Auditors’ International Professional Practices Framework as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Internal audit provides independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Chief Financial Officer to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council’s financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council’s governance, risk management and internal control systems. Further information around the purpose of Audit is set out in the Council’s Financial Regulations (D3) and Financial Procedures (CR4).

Authority

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

Responsibility

The Council's Head of Internal Audit (The Head of Audit and Risk Management) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- To investigate allegations of fraud, bribery and corruption

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk

and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Tower Hamlets Homes. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

Reporting

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Corporate Management Team (CMT) and the Audit Committee (AC). Both documents must then be presented to these bodies annually.
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of CMT. It is then presented to CMT and AC annually for noting and endorsement.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the AC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to CMT and AC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to both CMT and the AC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to CMT and the AC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

Independence

The Head of Internal Audit (the Head of Audit and Risk Management) has free and unfettered access to the following:

- Chief Financial Officer (Corporate Director, Resources)
- Head of Paid Service
- Chair of the Audit Committee (AC)
- Monitoring Officer
- Any other member of the Corporate Management Team

The independence of the Head of Internal Audit is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the AC contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the Governance Service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

Due Professional Care

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)

- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Head of Audit and Risk Management and the Audit Manager are required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

The Internal Strategy

This Strategy sets out how the Council's Internal Audit service will be delivered in accordance with the Internal Audit Charter.

The Strategy will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.

Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Corporate Director, Resources to support him in discharging his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost efficient internal audit service.

Internal Audit's Remit

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit (the Head of Audit and Risk Management), Internal Audit will:

- Provide management and members with an independent, objective assurance and consulting activity designed to add value

and improve the Council's operations.

- Assist the Audit Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service; and
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit must ensure that it is not responsible for the agreed design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

Service Delivery

The Service will be delivered by the Council's internal audit team and the Council's strategic internal audit partner (currently Mazars) under the direction of the Council's Head of Internal Audit and Risk Management and supported by the Audit Manager.

To ensure that the benefits of the Internal Audit service are maximised and shared as best practice, Tower Hamlets will participate in the London Audit & Anti-Fraud Partnership to work with other local authorities on a shared service basis. This includes appropriate: resource provision, joint working, audit management & strategy and a range of value added services.

Internal Audit Planning

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's Management Team (CMT) and management
- The Council's Risk Register
- Outputs from other assurance providers
- Requirements as agreed in the joint working protocol with External Audit

The Head of Internal Audit and Risk Management or his deputy will attend all Departmental Management Team meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan.

The Internal Audit Plan 2014-15 is composed of the following:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Departments' own risk processes and will increasingly include work in areas where the Council services are delivered with other organisations.

Internal Audit planning is already significantly based on the Council's risk register. Internal audit will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process.

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.
- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Fraud and Ad Hoc Work:** A contingency of audit days are set aside to cover any fraud and irregularity investigations arising during the year and additional work due to changes or issues arising in-year.

- **Knowledge and Insight:** The Head of Audit and Risk Management, in conjunction with the Internal Audit and the Corporate Fraud teams, will use the knowledge and insight gained of the organisation and carry out reviews in specific areas.

Follow-up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to management and to the Audit Committee on a quarterly basis.

Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental and corporate management on a quarterly basis. Summary reports are also provided to the Audit Committee four times per year. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

The Internal Audit Process

The Pre-Audit Stage

Based on the audit timetable, which has previously been agreed, Internal Audit Team will give two weeks notice to the appropriate Corporate Director and Service Head (the Audit Owner) of an impending audit review and issue an Audit Brief. The Audit Brief will also detail how the audit relates to the agreed audit plan. The Audit Owner has an opportunity to comment on the Audit Brief and raise any areas of concern.

The Audit Owner will ensure that Internal Audit is provided with a written agreement or otherwise to the Audit Brief within two weeks following the receipt of the draft by the Audit Owner.

During the Audit

At this stage Internal Audit will keep the Auditee informed of key findings found during the course of the audit. Where an officer has not been able to provide information requested, Internal Audit will refer matters to the Audit Owner.

The Auditee will ensure that the auditor is provided with all the resources and facilities, including information requested, to facilitate the smooth progress of the audit, including responding to any auditor enquiries promptly.

Post Audit Stage

Upon conclusion of the audit field work Internal Audit will present a Draft Audit Report to be discussed at the audit exit meeting with the Audit Owner. At the audit exit meeting, the findings will be discussed, along with any recommendations for improvement.

Following the audit exit meeting, LB Tower Hamlets Internal Audit will issue a formal Draft of the Audit Report which includes a Management Action Plan of Recommendations to the Audit Owner within three weeks following the completion of the audit exit meeting.

The Audit Owner has three weeks to respond to the Draft Audit Report by completing the Management Action Plan of Recommendations, including listing responsible officers and proposed completion dates. Upon receipt of the agreed Action Plan, a Final Report will be issued to all parties concerned.

The Audit Owner will then enter the agreed management actions and target dates into the Audit Tracker System, and monitor the progress in implementing the recommendations.

The LB Tower Hamlets Internal Audit will present a Summary of Findings from recently issued Final Audit Reports to the Audit Committee. The Audit Owner will have the opportunity to add a response to the Summary of Findings before this report is presented to the Audit Committee.

The Monitoring Process

Follow-up audits will be conducted six months after the issue of the Final Report, and a follow up audit report will be issued showing the progress on implementing the agreed recommendations.

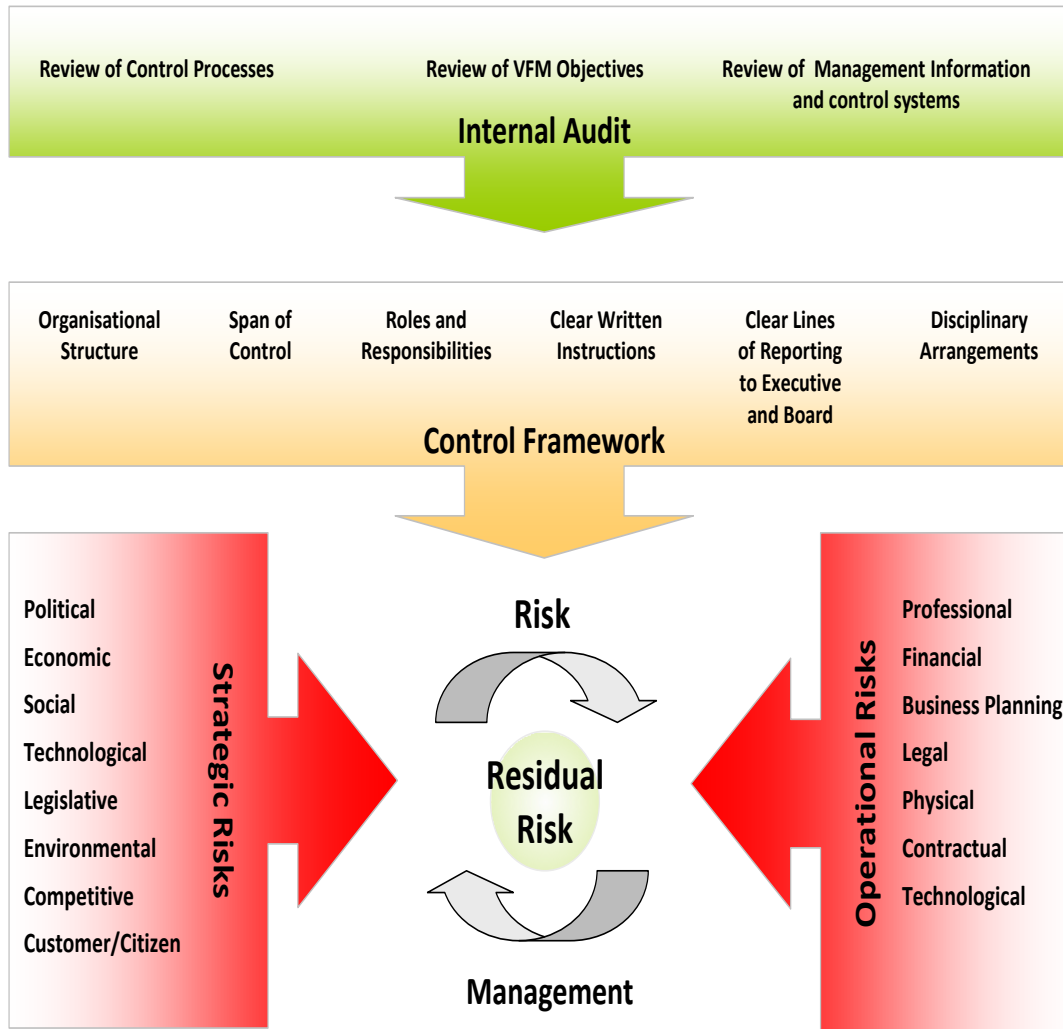
Internal Audit recommendations are classified as follows:

Category 1 – High Priority - 100% of recommendations to be implemented within six months

Category 2 – Medium Priority – 95% of recommendations to be implemented within six months

Summary

Appendix 6



Internal Audit: Will provide assurance that risk management processes and internal controls are operating effectively, ensure major business risks are being managed effectively, and that governance arrangements are operating effectively.

Control Framework: A matrix of control mechanisms will be developed to ensure that every member of staff is aware of their responsibility in managing risk, and a reporting framework will ensure that the Senior Management Team and the Board have a clear view of the effectiveness of the controls in place.

Risk Management: The Risk Register will be reviewed on a periodic basis to reassess the residual level of risk for the strategic risks identified in the first year of operation; new risks added as they become evident.

Definitions

Risk “Any issue which could impact on an organisation’s ability to meet its objectives”

Risk Management Risk management is a planned and systematic approach to the identification, analysis and control of risks that challenge and threaten the achievement of the objectives of the organisation. Risk management makes it possible to determine whether the risks pose a large enough threat and the innovations a big enough opportunity, to implement mitigation techniques.

Objective Is to implement an effective risk management framework that ensures that risks are identified and managed to an acceptable level and that opportunities are fully exploited, whilst minimising, financial loss, service disruption, bad publicity, reputation loss, claims for compensation and threats to the public and staff.

Our Policy: We believe that by managing risks effectively, we at LB of Tower Hamlets will be in a stronger position to deliver our strategic and operational objectives. By taking advantage of opportunities and managing them well, we will be in a better position to improve services and give our stakeholders better value for money.



Objectives of Risk Management:

- Ensure that systems are in place to identify, track and report upon existing and emerging risks that could damage the interest of our business and our stakeholders.
- Ensure that risk management is embedded throughout the organisation, creating an environment where all staff assumes responsibility for managing risk.

These Objectives will be Achieved by:

- Establishing clear roles, responsibilities and reporting lines within the organisation for risk management;
- Providing opportunities for shared learning on risk management across the organisation;
- Developing and maintaining systems for identifying and evaluating all significant risks;
- Developing and maintaining a framework for allocating resources to identified priority risk areas;
- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training;
- Incorporating risk management considerations into Best Value and service reviews and business planning;
- Put in place review and monitoring arrangements to assess the effectiveness of our mechanisms and arrangements.

To Emphasise the Organisation’s Working Commitment to Risk Management, the Risk Management Mission Statement is as Follows:

“London Borough of Tower Hamlets recognises that it has a responsibility to manage opportunities and risks in a structured manner in order that LB Tower Hamlets will better achieve its corporate objectives and enhance the value of services it provides to the Community”.

The Audit Committee, Corporate Management Team (CMT) and the Directorate Management Team (DMT) will have overall responsibility for risk management and will be consulted and kept informed as to the progress of the implementation of the strategy on at least an annual basis.

Roles and Responsibilities

<p>Audit Committee</p>	<p>The Committee's primary role is to review and conclude upon the adequacy and effectiveness of the Council's overall internal control system. In performing this role the Committee's work predominantly focuses upon the framework of risks, controls and related assurances that underpin the delivery of the Council's objectives.</p>
<p>Corporate Management Team</p>	<p>One of the roles of the CMT is to work on a cross-directorate basis to ensure that the Council has an effective risk management arrangement in place to achieve its objectives and to consider quarterly reports on the key strategic risks faced by the Council and how these risks are being managed and mitigated.</p>
<p>Corporate Director of Resources</p>	<p>As S.151 officer, the Corporate Director of Resources is responsible for the proper administration of the financial affairs of the Council. The requirement to have an Internal Audit function derives from S.151 of the Local Government Act 1972. As such the Corporate Director of Resources supports the Council and its departments in ensuring that the arrangements made for financial management, risk management and internal control systems are sound and secure.</p>
<p>Corporate Directors</p>	<p>The Corporate Directors have the operational responsibility for ensuring that there are sound procedures in place at Directorate level for effective financial management, risk management and internal control systems.</p>

Risk Management Action Plans

One of the key risk management objectives is the effective management of the organisation's risks, both strategic and operational. This has been achieved by the sessions to identify and profile the organisation's significant strategic risks.

Once this task has been compiled, SMT and the Audit Committee will be asked to comment on these risks and the risk assessment process. In relation to the operational risks, each Director has facilitated and co-ordinated a similar risk assessment exercise in order that the significant operational risks have been accurately identified profiled and managed. The aim of such a process is that it will eventually form part of each Division's annual business planning process.

Coming out of this process, will be risk management action plans relating to the most serious significant risks, i.e. those where the existing levels of internal control are seen as inadequate. The above assessments (both strategic and operational) will be a yearly process with tracking and monitoring of risks on an annual basis.

The Director of Resources will receive copies of each Division's operational risk management action plans in order that any cross-departmental risks can be picked up and managed accordingly. The Director of Resources will also monitor the risk improvement strategy to ensure that progress is made against the key significant risks.

Similarly, the same risk assessment programme can be adopted when services are going through the Best Value programme. A risk management pack can be included in the Best Value documentation. It is generally accepted that each Directorate must be seen to be managing its risks in order to demonstrate Best Value.

Classification of Risk

Strategic Risks		Operational Risks	
Political Wrong strategic priorities Not meeting Government agendas Too slow to innovate/modernise Decisions based on incomplete information Unfulfilled promises to Council Failure to recruit a suitable CEO	Economic General economic problems Regional economic problems Treasury risk Missed business or service opportunities	Professional Failure to recruit/retain staff Lack of training Over-reliance on key officers Inefficient management processes Inability to implement change Lack of employee motivation Bad management of partners	Financial and business planning Failure of major project(s) Failure to prioritise, allocate appropriate budgets and monitor Failure to implement effective partnering contracts for property and estate services
Social Failing to meet the needs of disadvantaged Impact of demographic changes Employment challenges Lack of development of staff Failures in partnership working	Technological Obsolescence of technology Security policies Breach of confidentiality Failure in communications	Legal Not meeting statutory duties Breach of confidentiality/DPA Failure to comply with European Directives on procurement of works, supplies, and services Failure to implement new legislation	Physical Attacks on personnel Loss of tangible assets Non compliance with health & safety law Loss of physical assets Local and national emergencies
Legislative Judicial review Human Rights Act breaches Intervention by regulatory bodies Inadequate response to new legislation Poor response to Audit Commission	Environmental Impact of sustainability policies Noise, contamination and pollution	Contractual Over-reliance on key suppliers/contractors Failure of outsource provider Quality issues Non-compliance with procurement policies	Technological Failure of big technology project IT system crashes affect services Breaches of security of network and data Bad management of intranets and websites

Competitive

Failure to show best value
Failure of bids for government funds

Customer/Citizen

Lack of appropriate consultation
Bad public and media relations

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