

LONDON BOROUGH OF TOWER HAMLETS

DRAFT

ANNUAL FINANCIAL REPORT 2019-20

(UNAUDITED)

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Narrative Report – 2019/20

Introduction

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2019/20, which reports our financial results for the year. This set of accounts has arrived much later than the statutory deadlines permit; this is due to the extraordinary amount of time and effort that has been required in order to restate them, and eliminate the material errors from the draft version as first published in August 2020.

The past few years have been extremely challenging, both for the nation as a whole and for Tower Hamlets, while we learnt to adjust to life under Covid-19. The Statement of Accounts allows us to take stock of the position as at 31 March 2020, and to consider what bearing this might have on the future financial position of the Council.

The primary purpose of the Narrative Report is to provide information on the Local Authority, its objectives and strategies and the principal risks that it faces. The Report also provides a commentary on how the Local Authority has used its resources to achieve its intended outcomes, as identified through the development of its local objectives and strategies.

The Council's financial accounts have been compiled in accordance with "proper accounting practice", as outlined in the Accounting Policies section, with which councils must comply by statute.

Caroline Holland,

Interim Corporate Director of Resources (Section 151 Officer)

Introduction to Tower Hamlets

Tower Hamlets offers the best of London in one borough. The new East End that epitomises both the capital's past and its future. While Tower Hamlets represents a young, vibrant modern city, our history comes from being the hamlets of the Tower of London. This mix of old and new, combined with award winning parks, international cultural destinations, world class learning institutions and one of the largest economies in the UK, makes Tower Hamlets one of the most popular places to live, work, study and play.

One of the Borough's biggest strengths remains its proud history and continued commitment to diversity, with over 137 languages spoken and 43 per cent of residents born in over 200 different countries. For many years new communities have settled in Tower Hamlets because of the opportunities to trade and do business. There are numerous major cultural events that bring our communities together in celebration such as the Boishakhi Mela and firework display which attract 130,000 people every year.

Tower Hamlets is one of the fastest growing and most densely populated places in the UK. The borough's population has continued to grow and it is expected

to reach 365,200 by 2027. It is a young borough with the average age just 31 and 46 per cent of the population are aged between 20 and 39.

The Borough also boasts a strong and expanding business and financial sector and is home to international business districts which generate the third highest economic output in the UK. Canary Wharf is a hub of businesses, shops, cafés and restaurants and many cultural events every year. Additionally, the City Fringe includes Whitechapel, Aldgate and Spitalfields. It is being developed to support London's financial sector, the growing digital creative businesses in Tech City and has plans for a world-class life science centre. However, despite rapid development and transformation, there remains significant levels of poverty in the borough and the pockets of affluence are surrounded by high levels of deprivation. At 32.5 per cent Tower Hamlets has the highest child poverty rates in England, 4 in 10 households live below the poverty line and 21 per cent of households have no adult in employment.

Tower Hamlets has a number of outstanding assets and excellent transport links to central London. There are 26 London Underground and DLR stations serving seven lines including Crossrail – the second highest of any London borough. The Borough has over 120 parks including Victoria Park, and part of the Queen Elizabeth Olympic Park. Additionally, it is home to world class culture with 22 art galleries and historic attractions including the Tower of London, the V&A Museum of Childhood and the Museum of London, Docklands and Tower Bridge.

Organisational Context

The Strategic Plan is the main strategic business planning document of the Council and a central part of our Performance Management and Accountability Framework. It sets out the corporate priorities and outcomes, the high-level activities that will be undertaken to deliver the outcomes, as well as the measures that will help us determine whether we are achieving the outcomes.

For the year 2019/20 the Strategic Plan aspired to deliver the following objectives:

Priority 1 - People are aspirational, independent and have equal access to opportunities

1. People access a range of education, training, and employment opportunities.
2. Children and young people are protected so they get the best start in life and can realise their potential.
3. People access joined-up services when they need them and feel healthier and more independent.
4. Residents feel they fairly share the benefits from growth and inequality is tackled.

Priority 2 - A borough that our residents are proud of and love to live in

5. People live in a borough that is clean and green.
6. People live in good quality affordable homes and well-designed neighbourhoods.

7. People feel safer in their neighbourhoods and anti-social behaviour is tackled.
8. People feel they are part of a cohesive and vibrant community.

Priority 3 - A dynamic, outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough

9. People say we are open and transparent putting residents at the heart of everything we do.
10. People say we work together across boundaries in a strong and effective partnership to achieve the best outcomes for our residents.
11. People say we continuously seek innovation and strive for excellence to embed a culture of sustainable improvement.

The plan is a key link in the 'Golden Thread' and used to inform directorate, service and team planning. It also sets out how the Council will deliver the objective and priorities set out in the new Tower Hamlets Plan developed by the Tower Hamlets Strategic Partnership.

A new Mayor was elected in May 2022 and a new Strategic Plan was published over the summer of 2022.

Operational Model

The Council has adopted an outcomes-based accountability approach, which is an internationally recognised method that has a proven track record in supporting rapid improvement in delivering outcomes. This required engagement across the council and is a collaborative approach to identify the activity needed to make a difference, and how our success will be measured.

Our Target Operating Model (TOM) sets the framework through which we deliver the outcomes of the Tower Hamlets Plan and the Strategic Plan. The TOM supports an evidence-based approach where data are used to inform continuous learning and delivery is reviewed continuously to ensure impact on residents and communities. Flexibility and agility are key to delivery as they allow us to adjust in response to evidence about impact and the changing needs of the community.

Organisational Challenges

During the year 2019/20, the Council was operating in and against a particularly challenging financial context, which was exacerbated by the Covid-19 pandemic. The pandemic added further pressure to the availability of the Council's resources and forced the Council to significantly reconstitute its services and redeploy staff to safeguard residents, whilst leading the business continuity efforts to ensure the workforce was able to continue to work safely and in line with government guidelines in its delivery of services to its residents.

Despite these many challenges, the Council continued to meet its key objectives, safeguard front line services and vulnerable residents, and invest in the future of the community. In 2019, Ofsted rated our Children's Services as 'Good' recognising the 'remarkable progress' we made. We backed that

progress with additional funding to ensure a stable and secure future for our young people. The Council will continue to meet its key objectives and deliver the new Mayor's priorities.

Key Achievements

Throughout 2019/20 we worked together with our community to make Tower Hamlets a fairer, cleaner and safer borough.

Priority 1: People are aspirational, independent and have equal access to opportunities

We put young people at the heart of what we do. In June 2019, our children's social care service was inspected by OFSTED who rated our service as good and were impressed by the remarkable progress we made since our previous inspection.

We built on this success by evaluating the effectiveness of the support we were providing for children and young people with Special Educational Needs and Disabilities. In addition, we continued a programme of work to build upon and promote the established multi-agency response to exploitation that has been facilitated through the exploitation team.

We started a programme to support middle attaining pupils by boosting borough-wide careers guidance and developing an earlier careers programme at Key Stage 3. We delivered professional development sessions for teachers through the TH Education Partnership. With the East London Business Alliance we delivered a programme of careers workshops with Year 7 pupils.

Our Youth Service saw positive progress with increasing participation by girls through high quality activities outside of school, including Bronze Duke of Edinburgh Award, an empowerment project during the summer holiday, and increased and regular attendance by girls at the Limehouse youth hub.

We worked with our partners and residents to reduce health and wellbeing inequalities. We launched our new Integrated Information and Advice Service model and commissioning approach. The redesigned service provides joined up information and advice across health and social care services to residents at an earlier stage so that they can be more independent for longer.

We took action to reduce inequality and make sure people feel that they fairly share the benefits from growth. Over the course of the year we undertook poverty-proofing audits in schools. We provided free food and activities for children over Christmas at leisure centres, and we continue to encourage residents to claim the benefits they are entitled to. Our Resident Support Scheme for those in particular hardship continued to provide emergency grants to vulnerable residents in crisis.

Our residents told us that they feel part of a cohesive and vibrant community. Between April and December 2019, 26 community events and festivals bringing people together took place in our parks and open spaces with attendance

figures of nearly 90,000, including our annual fireworks display inspired by the 50th anniversary of the Apollo moon landing. Black History Month featured a total of 61 events with 20 of the events having more direct involvement from Tower Hamlets Council, either activities programmed by libraries and Idea Stores, Idea Store Learning or the Local History Library & Archives, or exhibitions at venues such as the Brady Arts Centre and The Art Pavilion. Our Season of Bangla Drama was attended by over 4,500 people at 34 events over 24 days and involved 28 organisations.

Priority 2: A borough that our residents are proud of and love to live in

We strove to make Tower Hamlets safer by working more closely in partnership with other agencies and our communities.

As part of this, we continued Operation Continuum to disrupt the street drugs trade. We delivered raids across the borough in Bow, Stepney, Mile End, Shadwell and Whitechapel. This led to over 234 arrests since the beginning of 2019 and £686,000 cash being confiscated under the Proceeds of Crime Act. Operation Continuum's work was supported through the council-funded team of police officers, the Partnership Task-Force (PTF), to tackle local priorities.

Our new substance misuse service started operation. Our new treatment provider offered a person-centred recovery treatment service supporting adults misusing drugs and alcohol. Weapons and drugs sweeps by the Tower Hamlets Enforcement Officers (THEOS) in partnership with the police led to a large seizure of cannabis in Mile End Park and those arrested were referred on to our drug treatment services.

We delivered over 30 outreach sessions to raise awareness of violence against women and girls, domestic violence and hate crime.

We implemented a range of initiatives to clean up the borough and improve the public realm. In 2019/20 we developed plans to bring our waste and recycling services back in-house from the beginning of 2020/21. We increased monitoring of street cleansing to improve standards and reduce cleansing complaints across the borough. Alongside this, we introduced the use of red sacks to all our business customers to help identify commercial waste on the street and to help reduce fly-tipping of business waste in black sacks. We launched a pilot scheme to test whether a new type of bin would help us to reduce contamination in our recycling and increase the level of recycling. Contaminated recycling cannot be processed so these initiatives will enable us to focus our financial resources where it matters most.

We continued to roll out the Love Your Neighbourhood programme which aimed to make our streets more attractive for walking and cycling and improve air quality. We completed scheme designs for 21 School Streets around primary schools. We installed a bus gate in Wapping High Street which restricts traffic, except buses, during the morning and evening peaks. This will reduce traffic levels by removing through-traffic seeking to avoid congestion on The Highway, and make the streets in Wapping safer and better social spaces.

At the end of 2018/19 the council declared a climate emergency and committed to become carbon neutral by 2025. In May 2019 Cabinet approved a further £1.7m for carbon reduction projects, which included energy home visits, retrofitting energy efficiency works in schools, grants to SME's, community-led solar panel projects and community buildings energy efficiency projects.

Priority 3: A dynamic, outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough

We strove to build an organisational environment and culture that enables our staff to drive continuous improvement. We improved how we consult and engage our residents and external stakeholders by procuring a new online consultation hub. We moved more of our services online to make it easier for customers to get things done.

The roll out of new IT equipment to enable our workforce to work smarter and in a more agile way gathered pace. We accelerated the roll out speed so that staff could use new ways of working, especially towards the end of the year as the impact of the coronavirus pandemic required new ways of working, supported by our IT, for many.

We continued to improve the way we use our buildings and assets including creating two Community Hubs (Granby Hall and Raines House). Our new Town Hall will foster greater collaboration with our partners, increase the Council's transparency with the public and ensure everything we do is outwardly focussed.

Throughout the year we continued to prepare for the UK leaving the EU. We ran an awareness raising campaign around the EU Settlement Scheme. Our work aimed to ensure vulnerable residents had the support they needed to register with the scheme. We also collaborated with local voluntary and community agencies that received funding from the Home Office to assist with applications.

We continued to assess potential impacts and risks for services and partners arising from Brexit, especially after the transition period. Contingency planning for national level issues, such as food, fuel, and medicine took place and the Council engaged its service providers in these areas.

Monitoring Performance

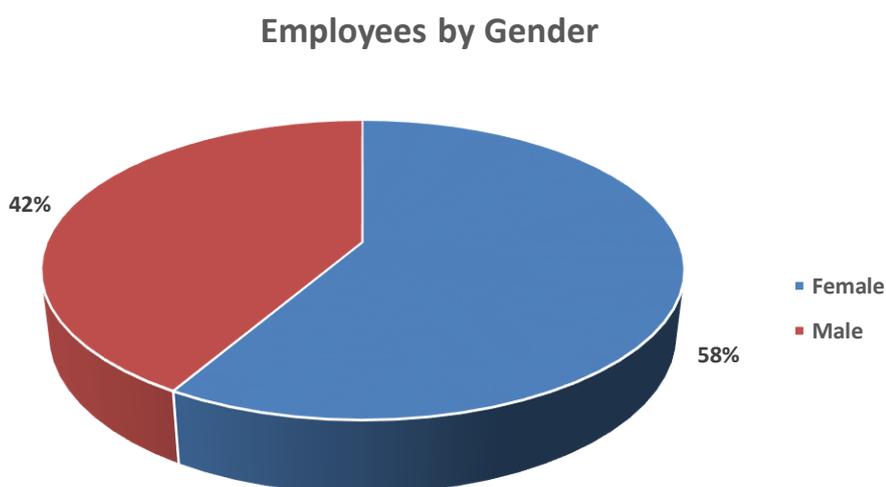
We normally report on our strategic plan performance every quarter, including at the end of the financial year. However, the impact of the coronavirus pandemic meant that we postponed our end of year reporting to the early autumn.

At the end of 2019/20, 15 performance indicators met or exceeded their target and 5 were between the target and the minimum expectation, while 17 were falling short. The remaining 16 indicators were data-only measures or they were based on our annual residents' survey. Unfortunately, we had to cancel the survey, which normally takes place in March, because of Covid-19.

For a more detailed view, a report regarding the Council's performance in 2019/20 was presented to the Mayor and the Cabinet at their September 2020 meeting.

Workforce

The council employed a total of 4399 people as at 31 March 2020. This is a decrease compared to the previous year when the staff count was 4,499. The diagram shows the council's workforce broken down by gender.



Key Strategic Risks

It is essential to the good governance of the Council that risks are managed thoroughly and appropriately. The Council has in place a formally approved risk management strategy, which is reviewed annually. The strategy clarifies the corporate risk appetite, which seeks to support decision making that considers threats and identifies mitigating actions. This allows the Council to ensure opportunities are seized and delivered.

The Council uses a corporate risk management system to identify all relevant corporate risks. Through this system, the Council identified a number of significant governance challenges. These include:

- 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. There is an ongoing need to ensure that services to all vulnerable children and young people have focus on safeguarding and a prevention of harm.
- Risk to essential service delivery including the protection of staff, stakeholders and continued service delivery (critical) as a result of the current coronavirus pandemic.

- The Council may significantly overspend its budget, fail to deliver savings and continue to rely on reserves.
- 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.
- Following the Grenfell Fire tragedy residents of tower blocks in the borough are not safe or do not feel safe from fire following reassurance, advice, interim measures and completed, in progress or scheduled remedial actions to improve fire safety.
- Risk that inequalities in attainment and well-being between disadvantaged children and other children will increase as a consequence of prolonged period out of school.
- There is a risk that the Council will fail to comply with its obligations in relation to the Protection of Freedoms Act 2012 and may also fail to meet the requirements of the Data Protection Act 2018 related to the use and management of video surveillance systems.
- The Council may fail to deliver the strategic plan's priorities and outcomes and/or meet its responsibilities generally to the community.
- We have a challenging target for our recycling rate for which we need to make significant improvement. Services are currently in transition from contracted to an in-house delivery model. This may impact on our ability to bring in long term measures to improve recycling on the service as there may be significant service redesign.

More details on governance issues can be found in the Annual Governance Statement section within these accounts.

Financial Overview and Medium-Term Financial Strategy

Since the finalisation of these accounts, the financial years 2019/20 and 2020/21 have had their Statements of Accounts published, the 2021/22 accounts will soon be published, and a new budget for 2023/24 is being drawn up, assessing changes in income and expenditure for the Council.

Despite the Chancellor last year announcing departmental spending limits for Government departments for three years, 2022/23 to 2024/25, the Local Government Finance Settlement (LGFS) was only announced for a single year covering 2022/23. Another single year finance settlement has recently been announced in this year's LGFS, published 19 December 2022, covering the 2023/24 financial year. The funding landscape for Local Government over the medium term remains highly uncertain.

On 17 November 2022 the Government announced that the implementation of Adult Social Care Reforms would be delayed from October 2023 to October 2025, however the funding for these reforms would still be provided to Local Government. The Council has therefore received additional Social Care Grant for 2023/24 with indications for further additional funding to be provided in 2024/25.

One reason councils have been provided with single year settlements was due to funding reforms that have been delayed, annually, for several years. The distribution formula utilised for allocating resources across Local Authorities

dates to 2013/14 and the Government proposes to take forward a 'Fair Funding Review' to ensure a more up to date assessment of need. As part of the LGFS the Government has announced that any reforms will now not come in before 2025/26.

In early 2021 the Government consulted on ending New Homes Bonus (NHB), a targeted incentive providing funding based on housing growth within the Council area, and the Government has not yet announced the outcome of its consultation although they have advised that the outcome will be announced before the 2024/25 settlement. The impact of these funding reforms will be particularly acute for Tower Hamlets when implemented and represent a significant risk going forward. Funding retained from Business Rates growth is significant and therefore the impact of resetting the Business Rates baseline would result in a substantial funding reduction for the Council when, or indeed if, this occurs.

The Council is making a significant new and additional investment in services and is drawing down £22.3m from reserves to balance the 2023/24 budget. It will be important to continue work to balance the budget over the medium term, ensuring alignment with the refreshed strategic plan.

The impact of inflation has significantly increased in recent months with high fuel and energy costs and food prices. As of October 2022, RPI Inflation was at 14.2% and CPI inflation at 11.1% and high inflation has a direct impact on the council's contracts and fuel and energy costs. The societal impacts of rising prices will also mean more individuals will require council support going forward. The latest treasury forecasts show high inflation through 2022/23 but reducing back to a lower level over the medium term.

Revenue Outturn for the Year

General Fund

The General Fund is the primary revenue fund through which the Council pays for its services.

Reductions in mainstream government grant funding over the last decade and a long-term continuing upward trend in the demand for key front line services, only exacerbated by Covid-19 in recent months, in adult social care, children's services and for housing services, particularly homelessness, collectively created a challenging financial environment for the Council.

The outturn for General Fund services, excluding the Dedicated Schools Budget, finalised at a £9.0m overspend on services in-year, together with a one-off planned drawdown of £9.0m from General Fund balances, which stand at £24.6m as at 31st March 2020; this position has been managed by the utilisation of New Homes Bonus grant, as reported to Cabinet, and earmarked reserves (see table below). There have also been one-off corporate movements, which have arisen as part of the process of improving the financial management and accounting of the organisation.

There were significant in-year overspends in Children and Culture, and Health, Adults and Communities, of £9.8m and £5.0m respectively.

Revenue Reserves

The table below presents the movement on reserves and free balances over the last three years:

	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2020 £m
General Fund balances	(26.1)	(17.5)	(24.6)
HRA balances	(47.6)	(44.6)	(48.2)
Dedicated Schools Grant (surplus)/deficit	(0.2)	4.6	11.1
Schools balances	(25.5)	(25.6)	(25.9)
GF earmarked reserves (non-schools/DSG)	(122.2)	(131.1)	(124.9)*

**This figure has been stripped of exceptional items of £10.3m relating to Covid-19 grant, and £7.8m of Community Infrastructure Levy in order to provide a better like-for-like comparison.*

Housing Revenue Account

The Housing Revenue Account (HRA) records expenditure and income on running the Council's own housing stock and closely related services or facilities. The HRA is ring-fenced within the General Fund and primarily supports management and maintenance costs.

The HRA outturn finalised at £3.6m underspend, but only after a provision requirement of £9.2m had been backdated to 2018/19.

Dedicated Schools Budget

This budget records the expenditure and income on the ring-fenced schools' budgets and related services.

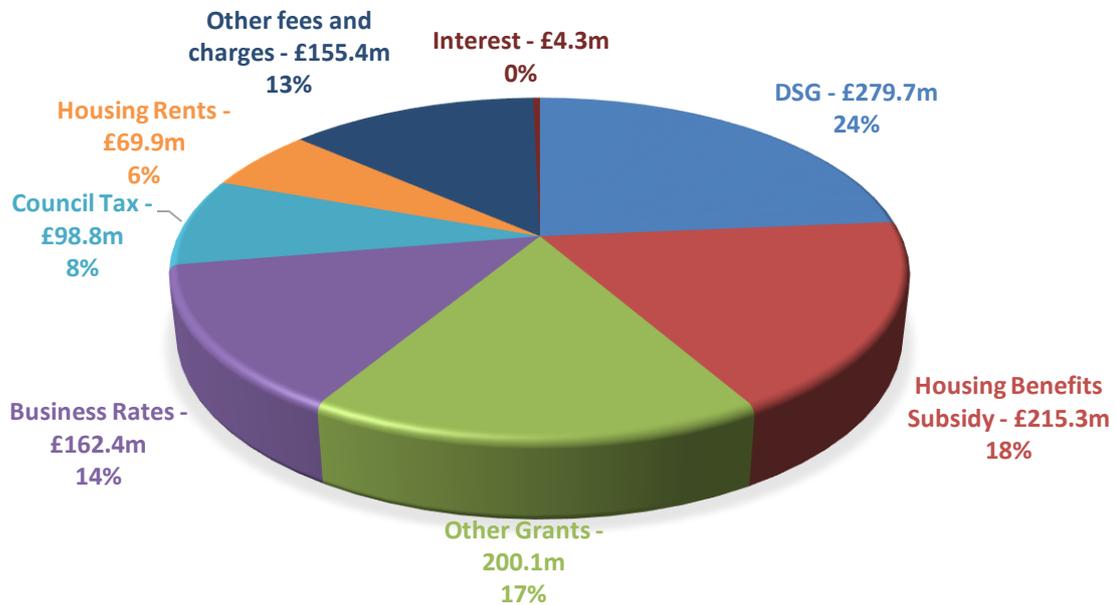
The outturn finalised at an in-year overspend on Dedicated Schools Grant of £6.5m, and the main reason for this is the overspend within the High Needs Funding Block, in very similar fashion to the previous year.

The Dedicated Schools Grant now has a cumulative deficit of £11.1m.

Revenue Funding

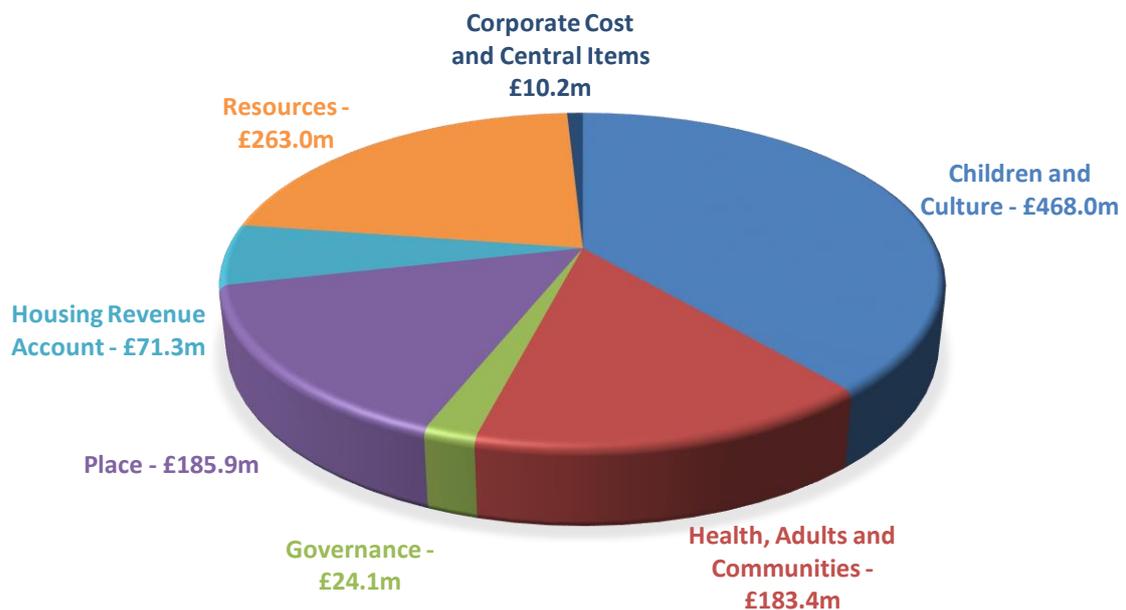
Government grants and subsidies continue to be the main sources of revenue funding, although with not inconsiderable revenues from fees and charges, business rates, council tax and housing rents.

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



Gross Expenditure on Services

The service with the largest gross expenditure is Children and Culture, which includes schools and social care for children. Further details are provided in the pie chart below.



Capital Investment and Funding

Capital Investment

The Council has continued to invest in its infrastructure with over £180 million spent on its capital programme. The main area of investment was in housing, with £57.1 million spent through the HRA capital programme and £32.7 million spent on temporary accommodation. £19 million was spent on the new Whitechapel Civic Centre site. Furthermore, over £11 million was invested in improving schools, and £13.6 million was spent on upgrading roads and paths.

Capital Funding

The largest share of funding for the capital programme, at £67.5m, fell to borrowing, currently incurred as “internal borrowing” (ie borrowing against internal resources such as reserves and working capital), although external borrowing will be required at some point soon to continue funding the extensive capital programme.

Further to that, capital grants and contributions financed £49.2m, followed by the use of capital receipts, at £45.0m

Borrowing

Long-term borrowing for the Council remained almost unchanged throughout the year, falling slightly from £72.3m to £71.5m.

Short-term borrowing, arising from repayment liabilities associated with loans, also fell, from £2.4m to £1.2m.

Cash Flows

The Council’s net cash outflows attributable to operational activities have increased from £5.6m in 2018/19 to £12.1m in 2019/20.

Net cash and cash equivalents at the balance sheet date have increased from £84.4m to £133.6m, but short-term investments have fallen from £269.7m to £100.9m over the same period.

Pensions

The Council’s Pension Fund’s income originates from employee contributions and existing assets (investments). This income is compared with the estimated cost of pensions payable in the future to determine the Council’s Pension Liability. The net amount is included in the accounts as the Council’s pension net surplus or liability.

The net liability decreased from £690.9 million in 2018/19 to £428.7 million in 2019/20. The decreased deficit is attributable in large part to changing assumptions used by the actuary; of particular note is that the assumption for

the rate of increase for pensions (taken to be the same as the Consumer Price Index) has been revised down to 1.9% from than the previous figure of 2.5%.

Although this sum has a significant impact on the net worth of the Council (as shown in its Balance Sheet) contributions to the Pension Fund are set by the actuary's triennial valuation, which concluded in March 2020, and provides for stable trends in contributions.

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 £'000	
		GENERAL FUND BALANCE £'000	EARMARKED 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	POOLED INVESTMENT FUNDS ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000		TOTAL UNUSABLE RESERVES £'000
Balance as at 31 March 2018		(26,107)	(147,843)	(47,561)	(5,485)	(194,554)	(141,666)	(563,216)	(914,556)	(1,460,337)	600,906	9,027	-	-	3,187	(1,761,773)	(2,324,989)
Movement in reserves during 2018/19																	
(Surplus) or Deficit on the Provision of Services		49,955	-	45,435	-	-	-	95,390	-	-	-	-	-	-	-	-	95,390
Other comprehensive expenditure and income		-	-	-	-	-	-	-	321,341	-	75,532	-	-	-	-	396,873	396,873
Total Comprehensive Expenditure and Income		49,955	-	45,435	-	-	-	95,390	321,341	-	75,532	-	-	-	-	396,873	492,263
Adjustments between accounting basis and funding basis under regulations	8	(45,599)	-	(42,514)	5,485	3,854	(16,787)	(95,561)	8,324	38,367	28,962	2,171	17,417	538	(218)	95,561	-
Net Increase or Decrease before Transfers to Earmarked Reserves		4,356	-	2,921	5,485	3,854	(16,787)	(171)	329,665	38,367	104,494	2,171	17,417	538	(218)	492,434	492,263
Transfers to or from earmarked reserves	9	4,100	(4,100)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to or from school reserves	9	173	(173)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase or (Decrease) in 2018/19		8,629	(4,273)	2,921	5,485	3,854	(16,787)	(171)	329,665	38,367	104,494	2,171	17,417	538	(218)	492,434	492,263
Balance as at 31 March 2019		(17,478)	(152,116)	(44,640)	-	(190,700)	(158,453)	(563,387)	(584,891)	(1,421,970)	705,400	11,198	17,417	538	2,969	(1,269,339)	(1,832,726)
Movement in reserves during 2019/20																	
(Surplus) or Deficit on the Provision of Services		31,313	-	(39,310)	-	-	-	(7,997)	-	-	-	-	-	-	-	-	(7,997)
Other comprehensive expenditure and income		-	-	-	-	-	-	-	(214,033)	-	(321,655)	-	-	-	-	(535,688)	(535,688)
Total Comprehensive Expenditure and Income		31,313	-	(39,310)	-	-	-	(7,997)	(214,033)	-	(321,655)	-	-	-	-	(535,688)	(543,685)
Adjustments between accounting basis and funding basis under regulations	8	(44,197)	-	35,740	-	56,544	(35,710)	12,377	5,550	(81,428)	45,004	13,136	(435)	5,796	-	(12,377)	-
Net Increase or Decrease before Transfers to Earmarked Reserves		(12,884)	-	(3,570)	-	56,544	(35,710)	4,380	(208,483)	(81,428)	(276,651)	13,136	(435)	5,796	-	(548,065)	(543,685)
Transfers to or from earmarked reserves	9	5,506	(5,506)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to or from school reserves	9	244	(244)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase or (Decrease) in Year		(7,134)	(5,750)	(3,570)	-	56,544	(35,710)	4,380	(208,483)	(81,428)	(276,651)	13,136	(435)	5,796	-	(548,065)	(543,685)
Balance as at 31 March 2020		(24,612)	(157,866)	(48,210)	-	(134,156)	(194,163)	(559,007)	(793,374)	(1,503,398)	428,749	24,334	16,982	6,334	2,969	(1,817,404)	(2,376,411)

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.

2018/19			Note	2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
Continuing Operations						
485,625	(351,868)	133,757	Children and Culture	468,027	(360,115)	107,912
176,745	(72,412)	104,333	Health, Adults and Communities	183,449	(82,605)	100,844
178,555	(87,019)	91,536	Place	185,876	(105,441)	80,435
21,298	(3,107)	18,191	Governance	24,072	(4,421)	19,651
140,373	(88,541)	51,832	Local Authority Housing (Housing Revenue Account)	71,315	(97,576)	(26,261)
258,480	(233,335)	25,145	Resources	263,016	(226,567)	36,449
2,656	(8,925)	(6,269)	Corporate Cost and Central Items	10,245	(5,312)	4,933
1,263,732	(845,207)	418,525	NET COST OF SERVICES	1,206,000	(882,037)	323,963
	(7,714)		Other Operating Expenditure			17,350
		37,166	Financing and Investment Income and Expenditure			27,363
	(352,587)		Taxation and Non-Specific Grant Income			(376,673)
		95,390	(SURPLUS)/DEFICIT ON THE PROVISION OF SERVICES			(7,997)
Other Comprehensive Income and Expenditure						
		321,341	(Surplus)/Deficit on revaluation of non-current assets			(214,033)
		75,532	Remeasurement of the net defined benefit pensions liability			(321,655)
		396,873	OTHER COMPREHENSIVE INCOME AND EXPENDITURE			(535,688)
492,263			TOTAL COMPREHENSIVE INCOME AND EXPENDITURE	(543,685)		

BALANCE SHEET

31 March 2019 £'000		Notes	31 March 2020 £'000
Long-term Assets			
2,358,917	Property, plant and equipment	14	2,704,496
18,835	Heritage Assets	15	18,835
-	Intangible Assets		684
60,462	Long-term investments	17	64,666
1,208	Long Term Debtors		1,616
2,439,422	Total Long-term assets		2,790,297
Current Assets			
269,698	Short-term investments	17	100,880
160	Assets held for sale		-
150,154	Short-term debtors	18	204,522
143,232	Cash and cash equivalents	16	186,725
563,244	Total Current Assets		492,127
Current liabilities			
(58,840)	Cash and cash equivalents	16	(53,159)
(2,413)	Short-term borrowing	17	(1,162)
(166,835)	Short-term creditors	20	(177,110)
(8,605)	Provisions	21	(9,198)
(236,693)	Total Current liabilities		(240,629)
Long Term Liabilities			
(21,493)	Provisions	21	(13,368)
(72,289)	Long-term borrowing	17	(71,534)
(690,938)	Liability related to defined benefit pension schemes	38	(428,749)
(89,413)	Capital grants receipts in advance	34	(96,094)
(58,650)	Deferred liabilities	36,37	(55,639)
(464)	Deferred Income - Receipt in Advance		-
(933,247)	Total Long-Term Liabilities		(665,384)
1,832,726	NET ASSETS		2,376,411
Reserves			
Usable Reserves			
(563,387)	Usable Reserves	22	(559,007)
(1,269,339)	Unusable Reserves	23	(1,817,404)
(1,832,726)	TOTAL RESERVES		(2,376,411)

These financial statements replace previous unaudited financial statements certified by the Corporate Director of Resources. These financial statements were authorised for issue by Caroline Holland - Interim Corporate Director of Resources.

Signature _____

Date _____

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.

2018/19 £'000		Notes	2019/20 £'000
(95,390)	Net surplus or (deficit) on the provision of services		7,997
150,076	Adjustments to net surplus or deficit on the provision of services for non cash	24	77,775
(60,244)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(97,837)
(5,558)	Net cash flows from Operating Activities		(12,065)
(9,488)	Investing Activities	25	78,433
(21,416)	Financing Activities	26	(17,194)
(36,462)	Net increase (or decrease) in cash and cash equivalents		49,174
120,854	Cash and cash equivalents at the beginning of the reporting period		84,392
84,392	Cash and cash equivalents at the end of the reporting period		133,566

NOTES TO THE ACCOUNTS

1. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31st March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 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 2018/19 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003.

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.

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 going concern concept assumes that the Council will continue in operational existence for the foreseeable future.

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 contracts with service recipients, whether for services or the provision of goods, is recognised as the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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.
- The Council operates a de minimis of £10,000 for revenue and £50,000 for capital below which items of income and expenditure are not required to be accrued.

- 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.

3. Cash and Cash Equivalents

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

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

4. Exceptional Items

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

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

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore

replaced by the contribution in the general fund balance, MRP, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

The Council has also decided to make a voluntary MRP contribution for HRA properties equal to 100% over the life of the asset as recommended in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

7. Council Tax and Non-domestic Rates (England)

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

8. Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income 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 as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

9. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly 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. 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.

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 in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. 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.

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).
- The NHS Pension Scheme, administered by NHS Business Services Authority on behalf of the Department of Health and Social Care

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' and NHS schemes mean that liabilities for these benefits cannot be identified to the Council. The schemes are therefore accounted for as if they were defined contributions schemes – no liability for future payments of benefits is recognised in the Balance Sheet. The Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year, and Health, Adults and Communities charged for the contributions to the NHS Pension Scheme.

The Local Government Pension Scheme

The Local Government scheme is a defined benefits scheme.

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

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (based on the constituents of the iBoxx AA corporate bond) as at 31st March 2020.

Assets attributable to the Council are included in the Balance Sheet at their fair value. Quoted or unquoted 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 the following 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 a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services.
- net interest cost – the increase in the present value of net 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. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as Other Comprehensive Income and Expenditure.
- 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 in 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.

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 incorporated THH’s pension liabilities and assets that have arisen into its pension obligations into the net pension liability as presented on the balance sheet; this is due to the Council having indemnified THH for all pension costs.

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.

10. Financial Instruments

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.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance or the Housing Revenue Account 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.

Early Loan Redemption

A LOBO loan was repaid prematurely in November 2018 and the cost of the premium to the Housing Revenue Account will be spread over the unexpired period of the loan through transfers to and from the FIAA.

Financial Assets

Financial assets are classified based on a consideration of the business model for holding the asset, along with analysis of their cashflow characteristics. There are three main classes, measured at:

- Amortised Cost
- Fair Value through Profit or Loss
- Fair Value through other Comprehensive Income and Expenditure (none currently held by the Council)

Financial Assets Measured at Amortised Costs

Financial assets measured at amortised cost 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 subsequently 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 financial assets held by the Council, 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.

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.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has calculated the expected credit loss on non-housing trade debtors and housing related rent arrears. The expected lifetime credit loss is calculated in the first instance upon historic payment information.

Further consideration has been given to macro-economic factors, in particular that the effects of COVID-19 might render collection of outstanding debts more difficult. However, since this is the first national experience of pandemic, identifying and quantifying impacts in any robust manner has not been possible.

The Council's treasury advisors provide details of potential 12-month credit losses on treasury deposits. With deposits to other Councils having no default risk, the remaining deposits to banks had immaterial credit losses. This is borne out by the Council not having a treasury counterparty default on a deposit in recent years.

Financial Assets Measured at Fair Value through Profit or Loss

Financial Assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

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 Council does not actively acquire or dispose of heritage assets as part of its normal day-to-day business and where the Council holds heritage assets, these have usually been donated.

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £18.8 million at 31 March 2020. This valuation is based on valuations for art and museum collections where the asset has a material value. Items without a material value are excluded from the balance sheet. Valuations are made by what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous. The Council has four heritage assets that have material values, one painting, two public sculptures and the civic regalia, these values are reviewed periodically. The real value of these items would only be established upon sale as valuations on assets of this nature are subjective.

Most heritage assets owned by the council have an historical interest to the Borough, but would not have material market value.

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. 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.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as a Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments 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).

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.

14. 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 Council's arrangements for accountability and financial performance. 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.

15. 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.

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

- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).
- Other Land and Buildings – current value, determined as the amount that would be paid for the asset in its existing use.
- Vehicles, Plant, Furniture and Equipment, and Infrastructure – depreciated historical cost.
- Community Assets, and Assets Under Construction – historical cost.
- Surplus Assets – fair value, estimated at highest and best use from a market perspective.
- Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value – this is the case in particular for the valuation of schools.

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- dwellings - straight-line allocation over the useful life of the property as estimated by the valuer
- other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over varying useful asset lives depending on the detailed nature of the asset
- infrastructure – straight-line allocation over varying useful asset lives depending on the detailed nature of the asset.

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.

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.

16. 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 current 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

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. 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.

17. Provisions, Contingent Liabilities and Contingent Assets

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.

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 29 to the accounts.

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.

18. Reserves

The Council sets aside specific amounts as revenue reserves for future policy purposes or to cover contingencies; these are earmarked reserves. In addition, there are some capital reserves which are used to hold the capital resources of the Council separately from revenue reserves. Collectively, these are all presented on the Balance Sheet, together with General Fund Balances and HRA Balances, as Usable Reserves.

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. Collectively, these are presented as Unusable Reserves on the Balance Sheet.

19. 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.

20. Fair value measurement

The Council measures some of its non-financial assets such as surplus assets and assets held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

21. Value added Tax (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.

22. Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges may be used to fund revenue expenditure, as permissible by the relevant legislation.

23. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

2 Accounting Standards that have been issued but have not yet been adopted

At the balance sheet date the following new standards and amendments to existing standards have been published, but will only be adopted by the Code of Practice of Local Authority Accounting in the United Kingdom in future years.

- **IFRS 16 Leases** – This is effective for annual reporting periods beginning on or after 1 January 2019, but implementation by the UK public sector has been delayed until the 2024/25 financial year. This standard will require the Council to recognise more leases where they are the lessee on balance sheet with the corresponding liability for lease payments.
- **IAS 19 Employee Benefits** – this will require remeasurement of the net pension asset/liability, and will apply from 1 April 2020. Due to the highly technical nature of the change it is difficult to assess the accounting impact at this stage.

3 Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the authority has not had to make any critical judgements.

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

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

The items in the authority's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows below.

Pensions Liability – Estimation of the net liability, of £428.7m, 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. One firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied with respect to the Tower Hamlets Pension Fund, and another firm for the LPFA.

With regard to the locally administered scheme the actuaries provide the following sensitivity analysis:

- a 0.5% decrease in the real discount rate would lead to an increase of approximately £172.2m in the scheme liabilities;
- a 0.5% increase in the rate of pension increase (taken as CPI) would lead to an increase of £158.2m;
- a 0.5% increase in salaries would result in an increase of £12.9m; and
- an increase of 1 year in life expectancy would increase the liabilities in the range £55.9m - £93.2m.

With regard to the LPFA scheme, the liabilities would increase by:

- £0.8m for a reduction of 0.1% in the discount rate;
- less than £0.1m for increases to long term salaries of 0.1%;
- £0.7m for 0.1% increase in pensions and deferred revaluations;
- £2.0m for a one-year increase in life expectancy.

Property, Plant and Equipment – The Council's Property Plant and Equipment (PPE) are assets held on a long-term basis which require regular valuation to ensure the Council's financial statements presented reflect the accurate values of its assets. In order to ensure that this is achieved, valuations and assessment of assets using accepted valuation bases and methods are undertaken by qualified professionals (Wilks, Head and Eve LLP, Registered surveyors).

However, global markets have been significantly disrupted by the outbreak of Covid-19. Consequently, less weight can be attached to previous market evidence to inform opinions of value, and there is an unprecedented set of circumstances on which to base a judgement. Valuations for PPE are therefore reported on the basis of 'material valuation uncertainty' as per Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2020 and RICS UK National Supplement ('Red Book'). Consequently, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.

4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty (continued)

The valuation of schools in particular is subject to the application of estimates. Schools are classified as special assets because there are no ready made market transactions to validate their value, and they are therefore valued on a Depreciated Replacement Cost basis, with the two components of buildings, and land, valued separately, as explained below.

School buildings have been valued on a "modern equivalent asset" basis, whereby the cost of rebuilding each building in its current size has been calculated, and this Gross Replacement Cost has been adjusted to reflect obsolescence factors. If the asset is up to 5 years old, then obsolescence is deemed to be zero; thereafter, a discount factor of 1.25% per additional year of age has been applied up to an initial threshold of 65%; this threshold is not applied universally to all assets, but is considered reasonable for most assets in order to reflect their viability in terms of service provision, and assumed ongoing maintenance programmes (however, depending on the specific characteristics of an asset, the valuer is not restricted to a 65% obsolescence factor, and may adjust this over and above this initial threshold). Asset valuations can also be informed by individual circumstances, and the overarching subjective consideration of the professional valuer. School buildings are valued at £445.4m as at 31 March 2020 (£408.2m at 31 March 2019).

The land valuation applied to schools' sites has been adjusted to reflect the principal market for the land type being residential, and that an element of any residential site would be adopted for social or affordable housing, which therefore gives rise to a significant discount on the raw land values; the net land value applied has increased from £11.1m per hectare in 2018/19 to £13.8m in 2019/20 (a 24.3% increase). The land that schools sit on is valued at £402.5m as at 31 March 2020 (£324.4m at 31 March 2019).

5 Material Items of Income and Expenditure

A material item is an item of expenditure or income that is unusual in scale and non-recurring. In 2019/20 material items of income and expenditure are disclosed in the relevant notes through the accounts, but the following significant items are highlighted below.

Lender Option Borrower Option (LOBO) loan repayment - In 2019/20 there was no such transaction, but in 2018/19 a £60m LOBO loan was repaid in November 2018. An early termination premium of £17.9m was paid and the premium charged to the Comprehensive Income and Expenditure Statement. This was then transferred via the Movement in Reserves Statement to the Financial Instruments Adjustment Account and the cost will be charged to the Housing Revenue Account over the remaining 42 years of the loan. See Note 11, where the £17.9m charge in 2018/19 is held within the line "Interest payable and similar charges".

Gains and Losses on disposal of non-current assets – A net gain of £9.0m was recognised on the disposal of non-current assets; in 2018/19 this had been a gain of £13.9m.

Revaluation of Properties – A net unrealised revaluation gain of £10.2m on the value of property is included in the net cost of services within the Comprehensive Income and Expenditure Statement; in 2018/19 this had been a total net loss of £71.3m. By service segment, a revaluation loss of £44.8m in 2018/19 relating to the HRA partially reversed to a gain of £25.3m in 2019/20; a revaluation loss of £10.9m relating to housing in use as temporary accommodation in 2018/19 recorded a further loss of £17.7m in 2019/20 (this is recorded within the Place service line in the CIES), and £16.3m loss to schools (which is incorporated within Children and Culture in the CIES) in 2018/19 recorded a partial reversal of £2.6m gain in 2019/20.

The key driver in valuation losses against temporary accommodation is the recognition of newly acquired property (at prevailing market prices) at 'value in use' - as social housing, the market value is discounted down, resulting in losses on valuation. For some understanding of the movements and sensitivities of valuation of schools, please see Note 4.

6 Events after the balance sheet date

Since the Balance Sheet date of 31 March 2020, there have been no material events that would necessitate amendments to these accounts.

The statement of accounts is adjusted to reflect events after the Balance Sheet date, 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 that provide evidence of conditions that existed at the end of the reporting period, unless deemed insignificant to the true and fair view of the council's assets and liabilities. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

The UK government imposed Covid-19 lockdown measures in England on 23 March 2020 and subsequently revised and extended them. As a result, many workers were furloughed and almost all schools, businesses, venues, facilities and amenities were closed. After this lockdown was lifted, various other restrictions were in place throughout 2020 and a second lockdown was implemented from the 5 November 2020. Although March 2020 saw the first few weeks of the Covid-19 crisis, the full financial consequences fell in 2020/21 and later years and therefore it is considered as a non-adjusting event with conditions arising after the reporting date.

The financial impact of Covid-19 in 19/20 was not material on reserves since the events after the reporting period do not indicate that the Council would be unable to continue as a going concern.

7 Expenditure and Funding Analysis

The expenditure and funding analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates. Income and expenditure accounted for under generally accepted accounting practices are presented more fully in the comprehensive income and expenditure statement.

2018/19			2019/20		
Expenditure Chargeable to GF and HRA balances £'000	Adjustments between funding and accounting basis £'000	Net Expenditure in the CIES £'000	Expenditure Chargeable to GF and HRA balances £'000	Adjustments between funding and accounting basis £'000	Net Expenditure in the CIES £'000
88,148	45,609	133,757	82,186	25,726	107,912
98,177	6,156	104,333	90,654	10,190	100,844
62,238	29,298	91,536	50,732	29,703	80,435
14,309	3,882	18,191	16,443	3,208	19,651
2,778	49,054	51,832	(3,580)	(22,681)	(26,261)
8,837	16,308	25,145	25,877	10,572	36,449
15,711	(21,980)	(6,269)	2,733	2,200	4,933
290,198	128,327	418,525	265,045	58,918	323,963
(278,648)	(44,487)	(323,135)	(275,749)	(56,211)	(331,960)
11,550	83,840	95,390	(10,704)	2,707	(7,997)
(73,668)		Opening General Fund and HRA balances	(62,118)		
8,629		Movement on General Fund Balance in Year	(7,134)		
2,921		Movement on HRA Balance in Year	(3,570)		
(62,118)		CLOSING GENERAL FUND AND HRA BALANCES	(72,822)		

7 Expenditure and Funding Analysis (continued)

2018/19					2019/20					
Adjustments for Capital Purposes £'000	Transfers to/from		Other Adjustments £'000	Total Adjustments £'000		Adjustments for Capital Purposes £'000	Transfers to/from		Other Adjustments £'000	Total Adjustments £'000
	Earmarked Reserves £'000	for Pensions Adjustments £'000					Earmarked Reserves £'000	for Pensions Adjustments £'000		
29,972	6,632	9,297	(292)	45,609	Children and Culture	8,291	6,167	11,268	-	25,726
26	740	5,367	23	6,156	Health, Adults and Communities	3,708	1,326	5,156	-	10,190
23,923	(4,071)	9,434	12	29,298	Place	31,252	(9,231)	8,130	(448)	29,703
-	1,764	2,077	41	3,882	Governance	-	838	2,370	-	3,208
53,393	-	(835)	(3,504)	49,054	Local Authority Housing (Housing Revenue Account)	(19,469)	-	143	(3,355)	(22,681)
199	9,133	6,972	4	16,308	Resources	1,123	2,171	7,278	-	10,572
(8,188)	7,131	(18,409)	(2,514)	(21,980)	Corporate Cost and Central Items	(11,350)	9,847	(6,225)	9,928	2,200
99,325	21,329	13,903	(6,230)	128,327	NET COST OF SERVICES	13,555	11,118	28,120	6,125	58,918
(60,082)	(25,602)	15,059	26,138	(44,487)	Other income and expenditure from the Expenditure and Funding Analysis	(68,599)	(16,868)	16,884	12,372	(56,211)
39,243	(4,273)	28,962	19,908	83,840	Difference between (surplus)/deficit and the CIES (surplus)/deficit on the provision of services	(55,044)	(5,750)	45,004	18,497	2,707

Adjustments for Capital Purposes

Services – depreciation and impairment and revaluation gains and losses are added back in as these are not in the net chargeable amounts but are chargeable under generally accepted accounting practices. Capital expenditure financed by revenue and statutory charges for capital financing (Minimum Revenue Provision) are removed as these is not chargeable to the CIES.

Other income and expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets and also adjusts for the share of housing capital receipts paid to central government under a pooling arrangement. Capital grants are adjusted for income not chargeable under generally accepted accounting practices. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Transfers to/from Earmarked Reserves

This column adjusts for the application of earmarked reserves against expenditure and the transfer of any balances to earmarked reserves, which are not included in the CIES.

Net Change for Pensions Adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

Services - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service and past service costs

Other income and expenditure – the net interest on the defined benefit liability is charged to Financing and Investment Income and Expenditure.

Other Adjustments

Services – adjustments in this column include the timing differences for premia and discounts; interest payable, interest receivable, levies and trading account surplus/deficit moved out of service expenditure to be recognised as part of Other Income and Expenditure within the Surplus or Deficit on the Provision of Services; recognising the accrual of employee annual leave in the Comprehensive Income and Expenditure Statement; also adjusting revenue grants to include those receivable without conditions or for which conditions were satisfied throughout the year.

Other income and expenditure – this represents the difference between what is chargeable under statutory regulations for council tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

8 Adjustments between Accounting Basis and Funding Basis under Regulations

2019/20	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES £'000
Adjustments involving the Capital Adjustment Account							
<i>Reversal of items debited or credited to the CIES</i>							
Charges for depreciation and impairment of non current assets	(22,311)	-	(16,295)	-	-	(38,606)	38,606
Revaluation losses on PPE (charged to SDPS)	(11,730)	25,349	-	-	-	13,619	(13,619)
Capital grants and contributions applied	17,726	1,527	-	-	29,979	49,232	(49,232)
Revenue expenditure funded from capital under statute	(11,174)	(8,073)	-	-	-	(19,247)	19,247
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(436)	(3,502)	-	-	-	(3,938)	3,938
<i>Inclusion of items not debited or credited to the CIES</i>							
Statutory provision for the financing of capital investment	9,247	2,059	-	-	-	11,306	(11,306)
Capital expenditure charged against the General Fund and HRA balances	2,193	-	-	-	-	2,193	(2,193)
Adjustments involving the Capital Receipts Reserve							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	2,089	10,806	-	(12,895)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	45,024	-	45,024	(45,024)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(24,415)	-	-	24,415	-	-	-
Adjustment involving the Major Repairs Reserve							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	16,295	-	-	16,295	(16,295)
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	-	435	-	-	-	435	(435)
Adjustments involving the Pooled Investments Adjustment Account							
Amount by which changes in the value of pooled investments charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	(5,796)	-	-	-	-	(5,796)	5,796
Adjustment involving the Pensions Reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	(88,567)	(5,771)	-	-	-	(94,338)	94,338
Employer's pensions contributions and direct payments to pensioners payable in the year	43,950	5,384	-	-	-	49,334	(49,334)
Adjustments involving the Collection Fund Adjustment Account							
Amount by which council tax and NNDR credited to the CIES is different from council tax and NNDR income calculated in accordance with statutory requirements	(13,136)	-	-	-	-	(13,136)	13,136
Adjustments involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to CIES when receivable	58,163	7,526	-	-	(65,689)	-	-
Total Adjustments	(44,197)	35,740	-	56,544	(35,710)	12,377	(12,377)

8 Adjustments between Accounting Basis and Funding Basis under Regulations (continued)

2018/19	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES £'000
Adjustments involving the Capital Adjustment Account							
<i>Reversal of items debited or credited to the CIES</i>							
Charges for depreciation and impairment of non current assets	(22,044)	-	(16,864)	-	-	(38,908)	38,908
Revaluation losses on PPE (charged to SDPS)	(26,483)	(44,789)	-	-	-	(71,272)	71,272
Capital grants and contributions applied	12,918	3,329	-	-	21,633	37,880	(37,880)
Revenue expenditure funded from capital under statute	(8,942)	(9,013)	-	-	-	(17,955)	17,955
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(1,175)	(8,396)	-	-	-	(9,571)	9,571
<i>Inclusion of items not debited or credited to the CIES</i>							
Statutory provision for the financing of capital investment	8,188	451	-	-	-	8,639	(8,639)
Capital expenditure charged against the General Fund and HRA balances	(810)	(42)	-	-	-	(852)	852
Adjustments involving the Capital Receipts Reserve							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	-	22,309	-	(22,309)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	22,999	-	22,999	(22,999)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(4,284)	-	-	4,284	-	-	-
Unattached capital receipts	428	692	-	(1,120)	-	-	-
Adjustment involving the Major Repairs Reserve							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	22,349	-	-	22,349	(22,349)
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	-	(17,417)	-	-	-	(17,417)	17,417
Adjustments involving the Pooled Investments Adjustment Account							
Amount by which changes in the value of pooled investments charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	(538)	-	-	-	-	(538)	538
Adjustment involving the Pensions Reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	(69,823)	(4,435)	-	-	-	(74,258)	74,258
Employer's pensions contributions and direct payments to pensioners payable in the year	40,048	5,248	-	-	-	45,296	(45,296)
Adjustments involving the Collection Fund Adjustment Account							
Amount by which council tax and NNDR credited to the CIES is different from council tax and NNDR income calculated in accordance with statutory requirements	(2,171)	-	-	-	-	(2,171)	2,171
Adjustments involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to CIES when receivable	28,871	9,549	-	-	(38,420)	-	-
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	218	-	-	-	-	218	(218)
Total Adjustments	(45,599)	(42,514)	5,485	3,854	(16,787)	(95,561)	95,561

9 Transfers to / from Earmarked Reserves

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

	BALANCE AT 31 MARCH 2018 £'000	TRANSFERS OUT 2018/19 £'000	TRANSFERS IN 2018/19 £'000	BALANCE AT 31 MARCH 2019 £'000	TRANSFERS OUT 2019/20 £'000	TRANSFERS IN 2019/20 £'000	BALANCE AT 31 MARCH 2020 £'000
1 Schools Balances	(25,465)	4,508	(4,681)	(25,638)	1,417	(1,661)	(25,882)
2 DSG	(186)	4,758	-	4,572	6,508	-	11,080
3 Insurance	(21,234)	3,568	-	(17,666)	9,000	-	(8,666)
4 New Civic Centre	(17,247)	-	-	(17,247)	254	-	(16,993)
5 Parking Control	(3,295)	-	-	(3,295)	-	-	(3,295)
6 Transformation	(14,975)	5,777	-	(9,198)	3,855	-	(5,343)
7 Collection Fund Smoothing Reserve	-	-	(6,515)	(6,515)	-	(4,930)	(11,445)
8 ICT / Finance Systems	(20,968)	4,865	-	(16,103)	1,555	-	(14,548)
9 Mayor's Tackling Poverty Reserve	(4,066)	700	-	(3,366)	-	-	(3,366)
10 Free School Meals	(4,000)	-	-	(4,000)	2,000	-	(2,000)
11 Mayor's Investment Priorities	(7,020)	2,380	-	(4,640)	-	(784)	(5,424)
12 Risk Reserve	(8,754)	5,345	(1,126)	(4,535)	-	(2,883)	(7,418)
13 New Homes Bonus	(12,113)	-	(16,826)	(28,939)	-	(1,620)	(30,559)
14 Adults, Health & Wellbeing (including Public Health)	(1,297)	-	(420)	(1,717)	704	-	(1,013)
15 Services Reserve	(1,508)	-	(387)	(1,895)	-	(1,296)	(3,191)
16 Revenue Grants	(5,715)	172	(3,927)	(9,470)	992	-	(8,478)
17 Covid-19 Grant	-	-	-	-	-	(10,318)	(10,318)
18 Ringfenced Developers' Contributions	-	-	(2,464)	(2,464)	-	(703)	(3,167)
19 CIL	-	-	-	-	-	(7,840)	(7,840)
Earmarked Reserve Total	(147,843)	32,073	(36,346)	(152,116)	26,285	(32,035)	(157,866)

Corporate Reserves

- Reserves held by schools under the scheme of delegation. This balance can only be used by the Schools and is not available to the Council for general use.
- This is Dedicated Schools Grant, bringing forward the deficit. This is disclosed separately in accordance with the requirements of the Accounts and Audit Regulations 2015, as amended (Regulation 7 (4)). A plan to reduce the deficit position was agreed between the Council and the Department for Education in February 2020.
- 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.
- Reserve to contribute towards funding of the new Civic Centre in Whitechapel.
- Parking control reserve.
- Reserve created to support the delivery of the Council's transformation programme.
- Collection Fund Smoothing Reserve - used to manage fluctuations in Business Rates income
- Reserve to support the planned investment in Council's finance systems.
- Contribution toward funding of welfare reform programme.
- Reserve to fund free school meals programme.
- Reserve to fund Mayor's Investment Priority schemes.
- Risk Reserve to manage funding of risks arising.
- Unspent element of the New Homes Bonus Grant which will to be used to fund housing schemes.
- Reserves held for Adults, Health and Wellbeing and Public Health services.
- Includes Building Control, Land Charges, and Planning reserves.
- Unspent revenue grants without repayment conditions.
- Grant received to fund Covid-19 related expenditure.
- This balance consists of developers' contributions which are ringfenced for specific purposes.
- Community Infrastructure Levy.

10 Other Operating Expenditure

2018/19*		Note	2019/20
£'000			£'000
1,860	Levies		1,892
4,284	Payments to Housing Capital Receipts Pool		24,415
(13,858)	Net (gain) / loss on disposal of non-current assets		(8,957)
(7,714)	Total		17,350

* The 2018/19 Net (gain)/loss on disposal of non-current assets figure incorporates the unattached capital receipt.

11 Financing and Investment Income and Expenditure

2018/19			2019/20
£'000			£'000
27,917	Interest payable and similar charges		9,159
15,059	Net interest on the net defined benefit liability/(asset)		16,884
(5,929)	Interest receivable and similar income	17	(4,274)
124	Net (gains)/losses on financial assets at fair value through profit and loss		5,146
(5)	(Surplus) or deficit of trading operations		448
37,166	Total		27,363

12 Taxation and Non Specific Grant Income

2018/19			2019/20
£'000			£'000
(93,185)	Council Tax income		(98,831)
(175,608)	Non domestic rates		(162,353)
(33,286)	Non-ringfenced Government grants	34	(38,959)
(50,508)	Capital grants and contributions	34	(76,530)
(352,587)	Total		(376,673)

13 Income and Expenditure Analysed by Nature

2018/19			2019/20
£'000			£'000
471,170	Employee benefits expenses		492,850
682,503	Other service expenses		687,942
110,377	Depreciation, amortisation and impairment		24,987
27,917	Net interest on the net defined benefit liability/(asset)		16,884
124	Interest payments		9,159
15,059	Net (gains)/losses on financial assets at fair value through profit and loss		5,146
1,860	Precepts and levies		1,892
4,284	Payments to housing capital receipts pool		24,415
(13,858)	Gains and losses on disposal of non-current assets		(8,957)
1,299,436	TOTAL EXPENDITURE		1,254,318
(203,505)	Fees, charges and other service income		(225,280)
(5,929)	Interest and investment income		(4,274)
(268,793)	Income from council tax and non-domestic rates		(261,183)
(725,819)	Government grants and contributions		(771,578)
(1,204,046)	TOTAL INCOME		(1,262,315)
95,390	(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES		(7,997)

14 PROPERTY, PLANT AND EQUIPMENT

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The totality of Property, Plant and Equipment is provided in the first table below, with details of in-year movements within each sub-section provided in the tables thereafter.

2018/19 £'000	TOTAL PPE	2019/20 £'000
111,491	Infrastructure assets (net book value) - 31 March	125,292
2,247,426	Other PPE - 31 March	2,579,204
2,358,917	TOTAL PPE - 31 March	2,704,496

2018/19 £'000	Infrastructure Assets	2019/20 £'000
111,453	Infrastructure assets (net book value) - 1 April	111,491
6,736	Additions in-year	22,692
(8,426)	Depreciation charge in-year	(8,891)
1,728	Reclassifications	-
111,491	Infrastructure assets (net book value) - 31 March	125,292

Rationale for the reporting of Infrastructure Assets in this way

The requirements for the financial accounting of PPE have evolved over several decades; formerly, up until 1994/95, the requirement in reporting assets was not at any fundamental valuation basis of the assets themselves, but rather on the basis of how much of the historical expenditure was yet to be financed. It is therefore highly unlikely that comprehensive records of expenditure for the preceding decades were held.

Since that time, other asset classes have either been revalued or, in the case of Community Assets, have been valued at historical cost with no, or very little, depreciation applied (since Community Assets are deemed to generally have indefinite useful economic lives).

14 Property, Plant and Equipment (continued)

MOVEMENTS IN 2019/20 PPE other than Infrastructure Assets	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	SUB-TOTAL PPE (excluding Infrastructure Assets) £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
Cost or Valuation								
At 1 April 2019	1,030,754	1,103,665	26,008	31,406	25,159	66,976	2,283,968	198,258
Additions	29,011	44,948	13,323	2,459	-	47,884	137,625	7,439
Revaluation increases/(decreases) recognised in the Revaluation Reserve	54,736	126,451	-	-	974	-	182,161	27,988
Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	25,349	(11,967)	-	-	238	-	13,620	(3,467)
Derecognition - Disposals	(3,392)	-	-	-	-	-	(3,392)	-
Derecognition - Other	-	(666)	-	(108)	-	-	(774)	-
Assets Reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Other Reclassification of Assets	-	24,464	-	(17)	-	(24,441)	6	-
At 31 March 2020	1,136,458	1,286,895	39,331	33,740	26,371	90,419	2,613,214	230,218
Accumulated Depreciation and Impairment								
At 1 April 2019	-	13,648	22,887	-	7	-	36,542	3,035
Depreciation charge	15,382	13,572	681	-	80	-	29,715	2,075
Depreciation written out to the Revaluation Reserve	(15,331)	(16,465)	-	-	(76)	-	(31,872)	(1,875)
Derecognition - Disposals	(51)	-	-	-	-	-	(51)	-
Derecognition - Other	-	(336)	-	-	-	-	(336)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Other Reclassification of Assets	-	12	-	-	-	-	12	-
At 31 March 2020	-	10,431	23,568	-	11	-	34,010	3,235
Net Book Value (PPE other than Infrastructure Assets)								
At 31 March 2020	1,136,458	1,276,464	15,763	33,740	26,360	90,419	2,579,204	226,983
At 31 March 2019	1,030,754	1,090,017	3,121	31,406	25,152	66,976	2,247,426	195,223

14 Property, Plant and Equipment (continued)

MOVEMENTS IN 2018/19 PPE other than Infrastructure Assets	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	COMMUNITY ASSETS	SURPLUS ASSETS	ASSETS UNDER CONSTRUCTION	SUB-TOTAL PPE (excluding Infrastructure Assets)	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
At 1 April 2018	1,201,039	1,314,675	24,833	31,873	23,442	9,507	2,605,369	273,230
Adjustment to opening balance between cost/valuation and accumulated depreciation	104	1,784	-	-	-	-	1,888	-
Adjusted cost/valuation at 1 April 2018	1,201,143	1,316,459	24,833	31,873	23,442	9,507	2,607,257	273,230
Additions	19,898	30,964	1,175	1,267	-	57,469	110,773	1,784
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(138,582)	(213,382)	-	-	1,850	-	(350,114)	(72,667)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(44,178)	(26,961)	-	-	(133)	-	(71,272)	(4,089)
Derecognition - Disposals	(8,519)	-	-	-	-	-	(8,519)	-
Derecognition - Other	-	(1,222)	-	-	-	-	(1,222)	-
Assets Reclassified (to)/from Held for Sale	-	(169)	-	-	-	-	(169)	-
Other Reclassification of Assets	992	(2,024)	-	(1,734)	-	-	(2,766)	-
At 31 March 2019	1,030,754	1,103,665	26,008	31,406	25,159	66,976	2,283,968	198,258
Accumulated Depreciation and Impairment								
At 1 April 2018	(104)	11,763	22,296	6	3	-	33,964	2,835
Adjustment to opening balance between cost/valuation and accumulated depreciation	104	1,784	-	-	-	-	1,888	-
Adjusted accumulated depreciation at 1 April 2018	-	13,547	22,296	6	3	-	35,852	2,835
Depreciation charge	15,912	13,899	591	-	80	-	30,482	2,420
Depreciation written out to the Revaluation Reserve	(15,828)	(12,869)	-	-	(76)	-	(28,773)	(2,220)
Derecognition - Disposals	(124)	-	-	-	-	-	(124)	-
Derecognition - Other	-	(51)	-	-	-	-	(51)	-
Assets reclassified (to)/from Held for Sale	-	(9)	-	-	-	-	(9)	-
Other Reclassification of Assets	40	(869)	-	(6)	-	-	(835)	-
At 31 March 2019	-	13,648	22,887	-	7	-	36,542	3,035
Net Book Value (PPE other than Infrastructure Assets)								
At 31 March 2019	1,030,754	1,090,017	3,121	31,406	25,152	66,976	2,247,426	195,223
At 31 March 2018	1,201,143	1,302,912	2,537	31,867	23,439	9,507	2,571,405	270,395

14 Property, Plant and Equipment (continued)

Depreciation

The following useful lives have been used in the calculation of depreciation, applied on a straight line basis:

- Council Dwellings – 50 years
- Other Land and Buildings – 50 years for schools, libraries and offices; 54 years for temporary accommodation; 53 years for garages; 41 years for community buildings
- Vehicles, Plant & Equipment - 5 years on a straight line basis, or as advised by the service
- Infrastructure assets - between 12-120 years

Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million at 31st March 2020 as below:

	Committed sum £'000	Costs to 31/3/2020 £'000	2020/21 onwards £'000
Whitechapel Civic Centre	110,204	27,769	82,435
New Housing - Infill sites	28,500	25,130	3,370
Barnsley Street	18,097	0	18,097
Bow Site - Phoenix SEN	14,569	4,788	9,781
St Pauls Way	7,793	0	7,793
Mellish Street	7,168	0	7,168
Lowder House Garage site	5,261	0	5,261
Bartlett Park	3,512	2,604	908
Keats House	3,034	0	3,034
Strahan Road	2,535	0	2,535
Hanbury St Garage site	2,305	0	2,305
Sidney Street	1,748	0	1,748
TOTAL	204,726	60,291	144,435

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million at 31st March 2019 as below:

	Committed sum £'000	Costs to 31/3/2019 £'000	2019/20 onwards £'000
Bow Site - SEN Provision (Phoenix)	13,887	211	13,676
Bartlett Park Improvements	3,406	525	2,881
Whitechapel Civic Centre	109,500	12,146	97,354
Raine House (Wapping Community Hub)	1,263	86	1,177
Granby Community Hub	1,629	391	1,238
New Housing - Infill Sites - Baroness	28,500	8,338	20,162
Barnsley East - Phase 1: Community Centre	1,352	258	1,094
TOTAL	159,537	21,955	137,582

Revaluations

In 2019/20, valuations of PPE were performed by Wilks Head and Eve, and 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 2016'.

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 in previous years were performed generally as at 1st April in the year of valuation (with the exception of schools, for which revaluations were recommissioned as at 31st March from 2016/17 onwards). For 2019/20 the valuation date switched to 31st March (with the exception of leisure and sports centres, which were valued as at 31st January). A summary of total valuation per asset category is shown below.

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		792	15,763	125,292	33,740	-	90,419	266,006
Valued at current value in:								
2019/20	1,136,458	1,065,236	-	-	-	17,404	-	2,219,098
2018/19	-	99,480	-	-	-	-	-	99,480
2017/18	-	37,580	-	-	-	-	-	37,580
2016/17	-	30,678	-	-	-	1,215	-	31,893
2015/16	-	42,698	-	-	-	7,741	-	50,439
31 March 2020	1,136,458	1,276,464	15,763	125,292	33,740	26,360	90,419	2,704,496

14 Property, Plant and Equipment (continued)

Fair Value Measurement – Surplus Assets

Surplus assets have been valued using the Fair Value approach, and the Valuer has advised that Level 2 inputs have been employed (and the definition of this is explained below). The objective of this measurement approach is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under the current market conditions.

- Level 2 inputs are inputs other than quoted prices in Level 1 that are observable for the asset.
- Significant Observable Inputs as used for the valuation of Surplus Assets are such things as current market conditions (based on recent sales prices), and size, location and condition of property, along with other relevant factors.
- The level of inputs has not changed from the previous balance sheet date.

15 Heritage Assets

The Council holds a number of heritage assets. These include civic regalia, works of art across the borough (one of which is a sculpture valued at £18m which was relocated to the borough during 2017/18) 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. No acquisitions, disposals or revaluations have occurred in the last two financial years.

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 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.

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.

16 Cash and Cash Equivalents

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

	31 March 2019 £'000	31 March 2020 £'000
Cash held by the Council	95,082	99,975
Bank overdraft	(58,840)	(53,159)
Short-term deposits with banks, building societies and local authorities	17,500	29,000
Money Market Funds	30,650	57,750
Total Cash and Cash Equivalents	84,392	133,566

17 Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are classified into one of three categories based on the business model for holding the instruments and their expected cashflow characteristics as follows:

Amortised Cost - where cash flows are solely for payments of principal and interest and the Council's business model is to collect those cash flows. For borrowing, this means that the amount in the balance sheet is the remaining principal and the accrued interest. Financial assets include cash in hand, bank current and deposit accounts, fixed term deposits.

Fair Value Through Other Comprehensive Income (FVOCI) - Fair value is defined as the amount for which an asset or a liability could be exchanged between market participants in an arm's length transaction. Where held as fair value through other comprehensive income, the cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows and sell the instruments, including equity investments that the Council has elected into this category).

Fair Value Through Profit and Loss (FVTPL) - These assets are measured and carried at fair value and all gains and losses due to changes in fair value (both realised and unrealised) are recognised in the Comprehensive Income & Expenditure Statement as they occur.

The Council holds some assets at fair value through profit or loss - the Council's investments in pooled funds have been classified as such, as well as holdings in money market funds. The former are long-term strategic holdings whose changes in fair value are not considered to be part of the Council's annual financial performance. The fair values for these investments have been mostly derived from "Level 1 inputs" (where the fair values are only derived from quoted prices in active markets for identical assets or liabilities). However, in 2019/20 property funds totalling a nominal value of £5m have had their fair values assessments moved from Level 1 to Level 2 inputs (where the fair values are derived from inputs that are observable, other than quoted prices) as there is no longer deemed to be an active market in these instruments. Fund managers had suspended redemptions reflecting market conditions for underlying properties caused by the economic consequences of the coronavirus pandemic.

Catagories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet.

Financial Instrument Categories	Non-Current		Current		Total	
	31 March					
	2019	2020	2019	2020	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000
<u>Financial Assets</u>						
Financial Assets - Fair Value through profit and loss*						
Investments	55,462	49,666	-	-	55,462	49,666
Cash Equivalents (Money Market Funds)	-	-	30,650	57,750	30,650	57,750
Financial Assets at Amortised Cost						
Investments	5,000	15,000	269,698	100,880	274,698	115,880
Trade Debtors	1,208	1,616	69,271	71,036	70,479	72,652
Cash and Cash Equivalents	-	-	112,582	128,975	112,582	128,975
Total Financial Assets	61,670	66,282	482,201	358,641	543,871	424,923
<u>Financial Liabilities</u>						
Financial Liabilities at Amortised Cost						
Cash and Cash Equivalents	-	-	(58,840)	(53,159)	(58,840)	(53,159)
Borrowing	(72,289)	(71,534)	(2,413)	(1,162)	(74,702)	(72,696)
Trade Creditors	-	-	(78,210)	(92,031)	(78,210)	(92,031)
Service Concessions and Finance Leases	(58,650)	(55,639)	(2,805)	(3,011)	(61,455)	(58,650)
Total Financial Liabilities	(130,939)	(127,173)	(142,268)	(149,363)	(273,207)	(276,536)

*The valuation basis is Level 1 classification, where fair value is determined by unadjusted quoted prices in active markets, but subject to the further detail provided in the text above the table.

17 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:

	2018/19			2019/20		
	Financial Liabilities	Financial Assets	Financial Assets	Financial Liabilities	Financial Assets	Financial Assets
	measured at amortised cost	measured at amortised cost	measured at FVPL*	measured at amortised cost	measured at amortised cost	measured at FVPL*
	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	10,065	-	-	9,159		
Loan repayment penalty	17,852	-	-			
Interest income	-	(5,929)			(4,274)	
Money Market Funds			(414)			(650)
Pooled Funds	-	-	538			5,796
Net Gain/(Loss) for the	27,917	(5,929)	124	9,159	(4,274)	5,146

*Fair Value through Profit and Loss

Fair Values of Financial Instruments carried at Amortised Cost

The fair value of each class of financial instruments which are carried in the balance sheet at amortised cost is disclosed in the table below. Some classes of instrument (namely cash and cash equivalents, trade debtors and creditors, and investments which are predominantly fixed-term deposits of maturity under 12 months, and in any case no longer than 3 years) have been assessed as having carrying values which are not materially different from fair values, and so are not disclosed in the table below.

	Fair Value Valuation Basis	31 March 2019	31 March 2019	31 March 2020	31 March 2020
		Carrying amount	Fair value	Carrying amount	Fair value
		£'000	£'000	£'000	£'000
Borrowing held at amortised cost					
Public Works Loans Board	Level 2	(57,125)	(61,025)	(55,121)	(61,964)
Market Loans - Fixed Interest	Level 2	(17,577)	(29,081)	(17,575)	(30,565)
Service Concessions	Level 2	(33,415)	(56,814)	(31,486)	(49,216)
Finance Leases	Level 2	(28,041)	(63,525)	(27,166)	(58,301)
Financial Liabilities		(136,158)	(210,445)	(131,348)	(200,046)

The fair value valuation bases are as follows:

Level 1 - unadjusted quoted prices in active markets for identical instruments that the Council can access at the balance sheet date.

Level 2 - using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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

The fair values of borrowings are estimated as the price the lender would receive to sell the loans to another market participant on 31st March, based on observable market rates for similar transactions, including local authority bonds in issue. Where there is no directly comparable bond in issue, the market rate is derived from observed interest rate swap rates plus an interpolated credit spread. Ultimately, if prevailing interest rates were lower, then the fair values of the Council's borrowings would increase. The fair values quoted for borrowings include accrued interest as at 31st March in order to enable direct comparison with the carrying amounts (which, being valued at amortised cost, also include accrued interest).

The fair values of service concessions and finance leases are estimated as the price the Council would pay to transfer the liability to another market participant on 31st March, and the underlying methodology is a discounted cash flow analysis. The key input involved is the discount factor, and that has been assessed as the yields on AA corporate bonds. Ultimately, if prevailing bond yields were lower, then the fair values would increase, all other factors being equal.

17 Financial Instruments (continued)

Nature and extent of risks arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- Credit risk - the possibility that other parties might fail to pay amounts due to the council
- liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments
- market risk - the possibility that financial loss may arise as a result of changes in such measures as interest rates

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.

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 financial institutions to a maximum of £20-30 million, the limit being dependent on the credit rating of the individual institution, 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.

Credit Risk Exposure on Treasury Management Activities

As at the balance sheet date investments of principal are analysed as follows, and the credit-worthiness of the investment portfolio is rated at AA- (also rated AA- in 2018/19).

Financial Asset Class	31 March 2019 £'000	31 March 2020 £'000
Long-term Investments		
Fixed-term deposits with other local authorities	5,000	15,000
Fixed-term deposits with financial institutions	-	-
Pooled investment funds with financial institutions	55,462	49,666
Short-term investments		
Fixed-term deposits with other local authorities	133,000	40,000
Fixed-term/call account deposits with financial institutions	115,000	40,000
Pooled investment funds with financial institutions	20,000	20,000
Cash Equivalents		
Fixed-term deposits with other local authorities	17,500	29,000
MMFs with financial institutions	30,650	57,750
TOTAL	376,612	251,416

The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits, and has no historical experience of defaults on any of its investments.

17 Financial Instruments (continued)

Credit Risk Exposure on Trade Debtors

Where the Council provides services to customers or has contractual arrangements in place with other organisations, there is the possibility that outstanding monies will not be repaid. The table below shows the gross amounts outstanding and the expected lifetime credit loss (using the simplified approach).

	31 March 2019		31 March 2020	
	Gross debtors £'000	Loss allowance £'000	Gross debtors £'000	Loss allowance £'000
Long-term trade debtors	1,208	-	1,616	-
NHS	6,444	-	8,679	-
Tower Hamlets Homes	994	-	1,165	-
Leaseholders	32,925	(2,657)	34,642	(2,665)
Tenants (HRA and temporary accommodation)	17,920	(17,593)	16,556	(15,938)
Other	33,107	(1,869)	31,843	(3,246)
TOTAL	92,598	(22,119)	94,501	(21,849)

For Leaseholders, the loss allowance is a reflection of the time-value of money, being calculated by means of a discounted cash flow of the expected collection time profile.

For Tenants, the loss allowance is calculated at nearly full coverage of the gross receivable, reflecting the difficulties of collection, especially from those housed in temporary accommodation. In 2019/20, £3.143m was written off (£4.992m in 2018/19).

For others, the loss allowance is calculated by means of mostly reviewing outstanding debts and assessing on an individual basis, but using collective assessment in the segment of adult social care customers; no component element of the loss allowance is significant. In the year, £0.405m was written off (£0.110m in 2018/19).

With the exception of leaseholders, who are permitted to pay for the costs of major works incurred on their accommodation blocks by means of payment plans over a number of years, the Council does not provide credit to customers.

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council has ready 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 maturity structure of financial liabilities at nominal value including projected interest cashflows is as follows :

Loans outstanding	31 March 2019 £'000	31 March 2020 £'000
Public Works Loans Board	121,270	117,688
Market debt	61,844	61,085
PFI / Finance Leases	150,561	141,076
TOTAL	333,675	319,849
Less than 1 year	13,828	12,445
Between 1 and 2 years	12,445	13,541
Between 2 and 5 years	38,712	37,363
Between 5 and 10 years	50,979	43,639
More than 10 years	217,711	212,861
TOTAL	333,675	319,849

17 Financial Instruments (continued)

Market Risk

Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall
- investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates - the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 75% of its net debt in variable rate loans and to prioritise use of cash balances and temporary borrowing over new variable rate loans. The Council's Strategy is that new variable rate loans from the Public Works Loans Board are to be for periods up to ten years.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

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

According to this assessment, at 31st March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2018/19 £'000	2019/20 £'000
Increase in interest payable on variable rate borrowings	-	-
Increase in interest receivable on variable rate investments	(883)	(840)
Impact on Income and Expenditure Account	(883)	(840)

Fair Value Movements	2018/19 £'000	2019/20 £'000
Decrease in fair value of fixed rate investments	820	477
Decrease in fair value of fixed rate borrowing liabilities	19,867	21,214
Impact on Income and Expenditure Account	20,687	21,691

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

Market Risk - Price

The market prices of the Council's pooled funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices and its investments in pooled equity funds is also subject to the risk of falling share prices. This price risk is minimised by limiting the Council's maximum exposure to property and equity investments.

Foreign Exchange Risk

The council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

18 Short-Term Debtors

	31 March 2019	31 March 2020
	£'000	£'000
National Health Service	6,444	8,679
HM Revenue & Customs	16,875	21,657
Other Central Government Bodies	7,922	16,521
Other Local Authorities	9,820	15,319
Tower Hamlets Homes	994	1,165
Council Tax	1,902	2,175
National Non Domestic Rates	9,084	6,894
Housing and Tenants Rents	42,694	44,399
Other Entities & Individuals	46,636	77,632
Payments in Advance	7,783	10,081
Total	150,154	204,522

19 Non-Financial Assets

Where monies are collectible due to statutory powers rather than contractual arrangements, these are classified as non-financial assets. Receivables past due and not impaired as at the balance sheet date are as per the table below.

Balances at 31 March 2020	0-1 year old	1-2 years old	2+ years old
	£'000	£'000	£'000
Council Tax and Court Costs	3,730	927	637
National Non Domestic Rates	6,060	598	236
Housing Benefits Overpayments	2,736	1,839	7,248
Community Infrastructure Levy	9,079	-	-
Parking	451	-	-
Total	22,056	3,364	8,121

Balances at 31 March 2019	0-1 year old	1-2 years old	2+ years old
	£'000	£'000	£'000
Council Tax and Court Costs	3,182	1,287	553
National Non Domestic Rates	6,906	1,701	477
Housing Benefits Overpayments	3,328	2,673	6,900
Community Infrastructure Levy	1,176	-	-
Parking	451	-	-
Total	15,043	5,661	7,930

20 Creditors

	31 March 2019	31 March 2020
	£'000	£'000
HM Revenue & Customs	(5,614)	(5,790)
Other Central Government Bodies	(1,484)	(6,582)
Other Local Authorities	(16,210)	(6,249)
Council Tax	(8,083)	(7,105)
National Non Domestic Rates	(27,373)	(13,459)
Housing and Tenants Rents	(1,994)	(2,179)
Other Entities & Individuals	(79,021)	(92,863)
Receipts in advance	(27,056)	(42,883)
Total	(166,835)	(177,110)

21 Provisions

SHORT-TERM PROVISIONS	Balance at 31 March 2018 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2019 £'000	Amounts used or written back £'000	Contributions or transfers £'000	Balance at 31 March 2020 £'000
(a) Business rates appeals	(2,983)	7,635	(11,697)	(7,045)	12,594	(11,787)	(6,238)
(b) Insurance Fund	-	-	(1,000)	(1,000)	991	(991)	(1,000)
(c) Other corporate provisions	(4,024)	3,464	-	(560)	560	(1,960)	(1,960)
(h) Single Status	(62)	62	-	-	-	-	-
(i) Contract disputes	(304)	304	-	-	-	-	-
TOTAL	(7,373)	11,465	(12,697)	(8,605)	14,145	(14,738)	(9,198)

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

LONG-TERM PROVISIONS	Balance at 31 March 2018 £'000	Amounts used or written back £'000	Contributions or transfers to short-term provisions £'000	Balance at 31 March 2019 £'000	Amounts used or written back £'000	Transfers to short-term provisions £'000	Balance at 31 March 2020 £'000
(a) Business rates appeals	-	-	(7,045)	(7,045)	-	6,545	(500)
(b) Insurance Fund	(6,991)	1,622	979	(4,390)	589	991	(2,810)
(d) Repayment of deposits	(169)	111	-	(58)	-	-	(58)
(e) Water Charges	-	-	(9,000)	(9,000)	-	-	(9,000)
(f) Disrepairs	-	-	(200)	(200)	-	-	(200)
(g) Employment Disputes	-	-	(800)	(800)	-	-	(800)
TOTAL	(7,160)	1,733	(16,066)	(21,493)	589	7,536	(13,368)

- (a) Council share of provision for business rates appeals. A significant number of the appeals have been resolved in 2019-20, and the remaining long term provision is held for more complex cases that will go to tribunal hearings.
- (b) 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.
- (c) Provision has been made to meet anticipated liabilities in relation to the fatal incident involving a child in Mile End Park in 2015.
- (d) 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.
- (e) A High Court ruling in 2016 established that another London Borough had not passed on discounts from a water supplier to its tenants. The discounts were given as part of the agreement with the water company as an administration fee for collection of charges from tenants. As a result of this ruling the Council may receive claims from tenants for overpaid water charges as a similar agreement was in place with the water company.
- (f) Provision for legal costs relating to the disrepair of Council properties
- (g) Provision for settlements or costs incurred in employment disputes

22 Usable Reserves

31 March 2019 £'000		31 March 2020 £'000
(17,478)	General Fund	(24,612)
(44,640)	Housing Revenue Account	(48,210)
(152,116)	Earmarked Reserves	(157,866)
(190,700)	Capital Receipts Reserve	(134,156)
(158,453)	Capital Grants Reserve	(194,163)
	- Major Repairs Reserve	-
(563,387)	Total Usable Reserves	(559,007)

More details regarding the movements in the Council's General Fund and Housing Revenue Account are detailed in the Movement in Reserves Statement and in Note 8. Details regarding the movement in Earmarked Reserves can be found in Note 9. Details of the Major Repairs Reserve can be found under the Notes to the Housing Revenue Account.

Capital Receipts Reserve

2018/19 £'000		2019/20 £'000
(194,554)	Balance at 1 April	(190,700)
(23,429)	Capital Receipts in year	(12,895)
4,284	Capital Receipts Pooled	24,415
22,999	Capital Receipts used for financing	45,024
(190,700)	Balance at 31 March	(134,156)

Capital Grants Reserve

2018/19 £'000		2019/20 £'000
(141,666)	Balance at 1 April	(158,453)
(15,171)	Community Infrastructure Levy (CIL) recognised in year	(39,463)
(23,249)	Other Capital grants recognised in year	(26,226)
677	CIL applied	11,466
20,956	Other Capital grants and contributions applied	18,513
(158,453)	Balance at 31 March	(194,163)

Of the Capital Grants Reserve balance above, CIL balances as at 31st March 2019 and 2020 are £64.869m and £92.868m respectively.

23 Unusable Reserves

31 March 2019 £'000		31 March 2020 £'000
(584,891)	Revaluation Reserve	(793,374)
(1,421,970)	Capital Adjustment Account	(1,503,398)
17,417	Financial Instruments Adjustment Account	16,982
705,400	Pensions Reserve	428,749
11,198	Collection Fund Adjustment Account	24,334
2,969	Accumulating Compensated Absences Adjustment Account	2,969
538	Pooled Investments Fund Adjustment Account	6,334
(1,269,339)	Total Unusable Reserves	(1,817,404)

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.

2018/19 £'000		2019/20 £'000
(914,556)	Balance at 1 April	(584,891)
(46,308)	Upward revaluation of assets	(223,532)
367,649	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	9,499
321,341	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(214,033)
6,747	Difference between current value depreciation and historical cost depreciation	5,253
1,577	Accumulated gains on assets sold or scrapped	297
8,324	Amount written off to the Capital Adjustment Account	5,550
(584,891)	Balance at 31 March	(793,374)

23 Unusable Reserves (continued)

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 current 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 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2018/19 £'000		2019/20 £'000
(1,460,337)	Balance at 1 April	(1,421,970)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
38,908	<i>Charges for depreciation and impairment of non current assets</i>	38,606
71,272	<i>Revaluation losses and reversals on Property, Plant and Equipment</i>	(13,619)
17,955	<i>Revenue expenditure funded from capital under statute</i>	19,247
9,571	<i>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</i>	3,938
137,706		48,172
(8,324)	Adjusting amounts written out of the Revaluation Reserve	(5,550)
129,382	Net written out amount of the cost of non current assets consumed in the year	42,622
	Capital financing applied in the year:	
(22,999)	<i>Use of the Capital Receipts Reserve to finance new capital expenditure</i>	(45,024)
(22,349)	<i>Use of the Major Repairs Reserve to finance new capital expenditure</i>	(16,295)
(37,880)	<i>Application of grants and contributions to capital financing from the Capital Grants Unapplied Account</i>	(49,232)
(8,639)	<i>Statutory provision for the financing of capital investment charged against the General Fund and HRA balances</i>	(11,306)
852	<i>Capital expenditure charged against the General Fund and HRA balances</i>	(2,193)
(91,015)		(124,050)
(1,421,970)	Balance at 31 March	(1,503,398)

23 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 HRA Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the HRA 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.

A £60m LOBO loan was repaid prematurely in November 2018. The premium is being charged to revenue over the remaining life of the loan.

2018/19 £'000		2019/20 £'000
	- Balance at 1 April	17,417
	Proportion of premiums incurred in previous financial years to be charged against the HRA Balance in accordance with statutory requirements	(435)
17,417	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in	
17,417	Balance at 31 March	16,982

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.

2018/19 £'000		2019/20 £'000
600,906	Balance at 1 April	705,400
75,532	Actuarial gains or losses on pensions assets and liabilities	(321,655)
74,258	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	94,338
(30,840)	Employer's pensions contributions and direct payments to pensioners payable in the year	(34,872)
(14,456)	Adjustment for unwinding of pre-payment	(14,462)
705,400	Balance at 31 March	428,749

23 Unusable Reserves (continued)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of tax income in the Comprehensive Income and Expenditure Statement as it falls due from tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2018/19 £'000		2019/20 £'000
9,027	Balance at 1 April	11,198
2,171	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	13,136
11,198	Balance at 31 March	24,334

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2018/19 £'000		2019/20 £'000
3,187	Balance at 1 April	2,969
(3,187)	Settlement or cancellation of accrual made at the end of the preceding year	(2,969)
2,969	Amounts accrued at the end of the current year	2,969
(218)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory	-
2,969	Balance at 31 March	2,969

Pooled Investment Fund Adjustments Account

The Pooled Investment Fund Adjustment Account contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through profit and loss. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

2018/19 £'000		2019/20 £'000
-	Balance at 1 April	538
(321)	Upward revaluation of investments	-
859	Downward revaluation of investments	5,796
538		5,796
538	Balance at 31 March	6,334

24 Notes to the Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2018/19 £'000		2019/20 £'000
5,357	Interest received	5,092
(9,997)	Interest paid	(9,159)
(4,640)		(4,067)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2018/19 £'000		2019/20 £'000
38,908	Depreciation	38,606
71,272	Impairment and Downward valuations	(13,619)
262	Increase/(Decrease) in Creditors	12,331
(29,285)	(Increase)/Decrease in Debtors	(20,753)
43,418	Movement in Pension Liability	59,466
15,930	Other non-cash items charged to the net surplus or deficit on the provision of services	(2,194)
9,571	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	3,938
150,076		77,775

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2018/19 £'000		2019/20 £'000
-	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	-
(23,429)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(12,895)
(36,815)	Any other items for which the cash effects are investing or financing cash flows	(84,942)
(60,244)		(97,837)

25 Notes to the Cash Flow Statement - Investing Activities

2018/19 £'000		2019/20 £'000
(113,660)	Purchase of property, plant and equipment, investment property and intangible assets	(150,880)
(292,000)	Purchase of short-term and long-term investments	(100,000)
(632)	Other payments for investing activities	(373)
23,429	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	12,895
321,000	Proceeds from short-term and long-term investments	258,000
52,375	Other receipts from investing activities	58,791
(9,488)	Net cash flows from investing activities	78,433

26 Notes to the Cash Flow Statement - Financing Activities

2018/19 £'000		2019/20 £'000
50,000	Cash receipts of short- and long-term borrowing	-
(17,852)	Other payments for financing activities	(12,382)
9,522	Other receipts from financing activities	-
(2,417)	Cash payments for the reduction of the outstanding liabilities relating to finance	(2,806)
(60,669)	Repayments of short- and long-term borrowing	(2,006)
(21,416)	Net cash flows from financing activities	(17,194)

27 Cash Flow- Reconciliation of Financial Liabilities from Financing Activities

2019/20	Balance at 1 April 2019 £'000	Financing Cash Flows £'000	Non Cash Changes £'000	Balance at 31 March 2020 £'000
Long Term Borrowings	(72,289)	-	755	(71,534)
Short Term Borrowings	(2,413)	2,006	(755)	(1,162)
Lease Liabilities	(28,041)	875	-	(27,166)
PFI Liabilities	(33,415)	1,929	-	(31,486)
Net cash outflow from financing activities	(136,158)	4,810	-	(131,348)

2018/19	Balance at 1 April 2018 £'000	Financing Cash Flows £'000	Non Cash Changes £'000	Balance at 31 March 2019 £'000
Long Term Borrowings	(83,293)	10,000	1,004	(72,289)
Short Term Borrowings	(2,010)	669	(1,072)	(2,413)
Lease Liabilities	(28,915)	874	-	(28,041)
PFI Liabilities	(34,957)	1,542	-	(33,415)
Net cash outflow from financing activities	(149,175)	13,085	(68)	(136,158)

28 Pooled Budgets

Under the terms of a Section 75 Agreement (National Health Service Act 2006), the Council has one Pooled Budget and Lead Commissioning agreement with Tower Hamlets Clinical Commissioning Group for the Better Care Fund (BCF). This provides a single framework partnership agreement relating to the commissioning of health and social care services to deliver the Tower Hamlets BCF plan, incorporating the Integrated Community Equipment Service and the Improved Better Care Fund.

The Council manages and delivers statutory functions, alongside Tower Hamlets Clinical Commissioning Group, to collaboratively deliver efficient, joined up health and social care services to residents.

A summary memorandum Income and Expenditure Account for the pooled budget is shown below. The Council's contribution to the pool is included in the Adult Social Care gross expenditure figure disclosed in the Comprehensive Income and Expenditure Statement.

Better Care Fund		2018/19 £'000	2019/20 £'000
Income	The Council	(23,165)	(27,086)
	Tower Hamlets Clinical Commissioning Group (CCG)	(25,465)	(26,697)
		(48,630)	(53,783)
Expenditure		48,630	53,783
Surplus/(Deficit) for the year		-	-

29 Officers' Remuneration

Senior Employees

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

2019/20	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive	206,931	603	-	40,530	-	248,064
Corporate Directors						
Children's Services	146,553	220	-	-	-	146,773
Health, Adults & Community	135,039	-	-	26,223	-	161,262
Governance & Monitoring Officer	128,619	-	-	24,946	-	153,565
Place	138,999	200	-	27,011	-	166,210
Public Health	106,725	-	-	15,347	-	122,072
Resources	129,996	-	-	25,220	-	155,216

2018/19	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive ¹	202,872	-	-	39,735	15,564	258,171
Corporate Directors						
Children's Services	143,679	328	-	-	-	144,007
Health, Adults & Community	134,193	-	-	26,067	-	160,260
Governance & Monitoring Officer	126,096	-	-	24,456	-	150,552
Place	129,969	-	-	25,226	-	155,195
Public Health	104,631	-	-	15,046	-	119,677
Resources ²	89,105	37	-	16,246	-	105,388
Resources (Acting) ³	49,208	-	-	9,547	-	58,755

¹ Other item is a one off payment for untaken leave in lieu of election preparation.

² Left 11/11/2018

³ Commenced 12/11/2018

29 Officers' Remuneration (continued)

Other Employees

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 (£)	2019/20				
	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff
50,000 - 54,999	300	-	177	(8)	477
55,000 - 59,999	221	-	85	(1)	306
60,000 - 64,999	138	-	44	(6)	182
65,000 - 69,999	55	-	34	(5)	89
70,000 - 74,999	40	-	23	(3)	63
75,000 - 79,999	34	-	36	(1)	70
80,000 - 84,999	29	-	12	(3)	41
85,000 - 89,999	17	-	5	(1)	22
90,000 - 94,999	14	-	5	(3)	19
95,000 - 99,999	9	-	5	(2)	14
100,000 - 104,999	7	-	3	-	10
105,000 - 109,999	7	-	8	-	15
110,000 - 114,999	6	-	3	(2)	9
115,000 - 119,999	-	-	1	-	1
120,000 - 124,999	3	-	-	-	3
125,000 - 129,999	3	-	1	-	4
130,000 - 134,999	-	-	-	-	-
135,000 - 139,999	1	-	-	-	1
140,000 - 144,999	1	-	1	-	2
145,000 - 149,999	-	-	1	-	1
	885	-	444	(35)	1,329

Remuneration band (£)	2018/19				
	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff
50,000 - 54,999	354	(1)	138	(11)	492
55,000 - 59,999	289	(2)	49	(5)	338
60,000 - 64,999	142	(2)	36	(4)	178
65,000 - 69,999	84	(1)	23	(7)	107
70,000 - 74,999	49	-	28	(5)	77
75,000 - 79,999	32	-	30	(1)	62
80,000 - 84,999	35	(1)	7	(3)	42
85,000 - 89,999	16	-	4	(1)	20
90,000 - 94,999	21	(1)	8	(3)	29
95,000 - 99,999	8	(1)	2	(2)	10
100,000 - 104,999	8	-	6	(1)	14
105,000 - 109,999	2	-	4	-	6
110,000 - 114,999	1	-	5	(5)	6
115,000 - 119,999	2	(1)	1	(1)	3
120,000 - 124,999	5	-	2	(1)	7
125,000 - 129,999	-	-	-	-	-
130,000 - 134,999	2	-	-	-	2
135,000 - 139,999	1	-	-	-	1
140,000 - 144,999	-	-	-	-	-
	1,051	(10)	343	(50)	1,394

29 Officers' Remuneration (continued)

Exit Payments

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below.

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£000)	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
0 - 20,000	3	6	79	101	82	107	741	977
20,001 - 40,000	1	3	47	39	48	42	1,335	1,226
40,001 - 60,000	1	3	11	17	12	20	570	980
60,001 - 80,000	-	1	14	7	14	8	954	551
80,001 - 100,000	1	2	3	4	4	6	364	553
100,001 - 150,000	-	-	4	12	4	12	495	1,459
150,001 - 200,000	-	-	2	-	2	-	345	-
200,001 - 250,000	-	1	2	-	2	1	444	230
250,001 - 300,000	-	-	-	1	-	1	-	254
Total	6	16	162	181	168	197	5,248	6,230

The above table includes any compensation for loss of office payments included within the senior officer remuneration note on previous page. During 2018/19, a payment of £372,707 was made as compensation for wrongful dismissal.

30 Members' Allowances

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

	2018/19 £'000	2019/20 £'000
Allowances	1,016	1,062
Total	1,016	1,062

31 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 - Deloitte LLP.

	2018/19 £'000	2019/20 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year*	252	212
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	29	-
Fees payable in respect of other services provided by external auditors during the year	7	12
	288	224

* These figures will be updated after the auditors, Public Sector Audit Appointments, and the Council agree additional fees based on the standard scale rate and the additional time spent.

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

	2018/19 £'000	2019/20 £'000
Expenditure		
Property, Plant and Equipment	117,509	160,317
Heritage Assets	-	684
Revenue Expenditure Funded from Capital Under Statute	17,955	19,247
TOTAL	135,464	180,248
Sources of Finance		
Borrowing	53,088	67,504
Capital Grants and Contributions	37,880	49,232
Capital Receipts	22,999	45,024
Major Repairs Reserve	22,349	16,295
Direct Revenue Funding	(852)	2,193
TOTAL	135,464	180,248

	2018/19 £'000	2019/20 £'000
Opening Capital Financing Requirement	310,637	355,086
Capital investment		
Property, Plant and Equipment	117,509	160,317
Heritage Assets	-	684
Revenue Expenditure Funded from Capital under Statute	17,955	19,247
Sources of finance		
Capital Grants and Contributions	(37,880)	(49,232)
Capital Receipts	(22,999)	(45,024)
Major Repairs Reserve	(22,349)	(16,295)
Sums set aside from revenue:		
• Direct Revenue Funding	852	(2,193)
• Minimum Revenue Provision	(8,188)	(9,247)
• HRA Revenue Provision for Debt Repayment on Finance Lease Principal	(451)	(2,059)
Closing Capital Financing Requirement	355,086	411,284

33 Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Education - 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 (ISB), 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 2019/20	Central Expenditure £'000	ISB £'000	Total £'000
A	DSG for 2019/20 before Academy Recoupment			345,851
	Academy figure Recouped 2019/20			(66,886)
	Total DSG after Academy Recoupment 2019/20			278,965
	Brought forward from 2018/19			(4,572)
B	Carry forward to 2020/21 agreed in advance			-
C	Agreed initial budgeted distribution in 2019/20	80,701	193,692	274,393
D	In-year adjustments	757	-	757
E	Final budget distribution for 2019/20	81,458	193,692	275,150
F	Less actual central expenditure	(92,538)		(92,538)
G	Less actual ISB deployed to schools		(193,692)	(193,692)
H	Council contribution for 2019/20	-	-	-
I	Carry forward to 2020/21	(11,080)	-	(11,080)

- A DSG figure as issued by DfE in March 2020.
- B The amount which the Council decided after consultation with the schools forum to carry forward to 2020/21.
- C Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
- D Changes to Initial distribution in 2019/20.
- E Budgeted distribution of DSG at year end.
- F Actual amount of central expenditure items in 2019/20.
- G Amount of ISB distributed to schools.
- H Contribution from the Council in 2019/20 which substituted for DSG in funding the Schools Budget.
- I Difference between budgeted distributions and actuals plus carry forward agreed in advance.

Notes	DSG Receivable for 2018/19	Central Expenditure £'000	ISB £'000	Total £'000
A	DSG for 2018/19 before Academy Recoupment			343,336
	Academy figure Recouped 2018/19			(66,957)
	Total DSG after Academy Recoupment 2018/19			276,379
	Brought forward from 2017/18			185
B	Carry forward to 2019/20 agreed in advance			-
C	Agreed initial budgeted distribution in 2018/19	83,338	193,226	276,564
D	In-year adjustments	786	-	786
E	Final budget distribution for 2018/19	84,124	193,226	277,350
F	Less actual central expenditure	(88,663)		(88,663)
G	Less actual ISB deployed to schools		(193,226)	(193,226)
H	Council contribution for 2018/19	(33)	-	(33)
I	Carry forward to 2019/20	(4,572)	-	(4,572)

- A DSG figure as issued by DfE in March 2019.
- B The amount which the Council decided after consultation with the schools forum to carry forward to 2019/20.
- C Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
- D Changes to Initial distribution in 2018/19.
- E Budgeted distribution of DSG at year end.
- F Actual amount of central expenditure items in 2018/19.
- G Amount of ISB distributed to schools.
- H Contribution from the Council in 2018/19 which substituted for DSG in funding the Schools Budget.
- I Difference between budgeted distributions and actuals plus carry forward agreed in advance.

34 Grant Income

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

	2018/19 £'000	2019/20 £'000
Credited to Taxation and Non Specific Grant Income		
<i>Non-Ringfenced Government Grants</i>		
Business Rate Related Grants	(12,503)	(9,272)
Local Service Support Grant	(34)	(36)
New Homes Bonus	(20,749)	(19,202)
Covid-19 Grant	-	(10,449)
Total Non-Ringfenced Government Grants	(33,286)	(38,959)
<i>Capital Grants and Contributions</i>		
Schools-funded Capital Programme	(2,753)	(722)
Special Provision Capital Fund	-	(4,834)
Transport for London Funding	(3,012)	(3,008)
Major Works Contributions	(9,547)	(7,156)
Capital Maintenance Grant	(2,599)	(2,704)
Community Infrastructure Levy (CIL)	(15,171)	(39,463)
GLA Building Council Homes for Londoners	(3,250)	(1,527)
Developers' Contributions (capital)	(11,877)	(15,982)
Other Capital Grants	(2,299)	(1,134)
Total Capital Grants and Contributions	(50,508)	(76,530)
Credited to Services		
Capital Grants funding REFCUS	(1,756)	(2,085)
Developers' Contributions (capital) funding REFCUS	(2,403)	(6,325)
Developers' Contributions (revenue)	(3,147)	(2,478)
Community Infrastructure Levy (CIL)	-	(7,840)
Dedicated Schools Grant	(277,165)	(279,722)
PFI Credits	(8,706)	(9,380)
School Sixth Form Grant	(13,316)	(12,702)
Pupil Premium Grant	(18,273)	(17,557)
Public Health Grant	(35,129)	(34,124)
Housing Benefit Subsidy	(228,123)	(215,320)
Better Care Fund	(11,907)	(14,851)
NHS Contributions	(13,870)	(16,851)
Community Infrastructure Levy (revenue)	(663)	(2,472)
Teachers' Pensions Grant	-	(4,103)
Flexible Homelessness Support	(4,590)	(3,885)
Universal Infant Free School Meals	(2,737)	(2,723)
Community Learning	(2,474)	(2,568)
Adult Social Care Support	(916)	(2,503)
Teachers' Pay Grant	(900)	(2,101)
Unaccompanied Asylum Seeker Grant	(991)	(2,040)
Adult Social Care Winter Pressures		(1,465)
Physical Education and Sport	(1,199)	(1,197)
Tackling Troubled Families	(1,474)	(1,028)
London Enterprise Panel Programme	(2,300)	(287)
Other Revenue Grants	(9,986)	(10,482)
Total Credited to Services	(642,025)	(656,089)
Total Grant Income in Comprehensive Income & Expenditure Account	(725,819)	(771,578)

34 Grant Income (continued)

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:

Receipt in Advance Grant Balances	31 March 2019	31 March 2020
	£'000	£'000
Capital Grants Receipts in Advance		
Developers' Contributions (capital)	(88,312)	(92,330)
South Dock Bridge	-	(1,750)
Building Council Homes for Londoners	-	(1,773)
Other conditional capital grants and contributions	(1,101)	(241)
Total Capital Grants Receipts in Advance	(89,413)	(96,094)
Revenue Grants Receipts in Advance		
Developers' Contributions (revenue)	(8,230)	(9,939)
Business Rate Related Grants	-	(10,419)
Other conditional revenue grants	(792)	(158)
Total Revenue Grants Receipts in Advance	(9,022)	(20,516)
Total Grant Receipt in Advance Balances	(98,435)	(116,610)

35 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

The UK Government has significant influence 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). Details of grants received from central government departments and other grant making bodies are set out in Note 34. Grant receipts outstanding at 31 March 2020 are within the creditors note.

Other public bodies (subject to common control by central government)

The Council works closely with a number of NHS bodies. This includes a pooled budget that it operates with the Tower Hamlets Clinical Commissioning Group, details of which are set out in Note 28. It also has significant transactions with the East London NHS Trust. The total amounts due from NHS bodies in total at the year end are shown in the creditors note.

The Council works closely with many other Local Authorities and related bodies. Note 34 contains details of grants received by the Council, including those from other Local Authorities and the debtors and creditors notes detail amounts due to or from other Local Authorities at the year end.

Pension Fund

The Council oversees the administration of the Pension Fund. The Pension Fund accounts are presented on later pages to this Statement.

35 Related Parties (continued)

Entities controlled or significantly influenced by the Council

Tower Hamlet Homes

Tower Hamlets Homes is a wholly owned subsidiary of London Borough of Tower Hamlets and the Council has representation on the Board of the Company.

It is an arms length management organisation responsible for management of the Council's housing stock.

During the year the Council paid a management fee of £35.536m (18/19 £33.965m) and received income of £5.721m (18/19 £6.765m) for the provision of services. At the 31 March 2020 £1.165m was due from Tower Hamlet Homes (18/19 £0.994m).

King George's Field, Mile End

The Council is the sole trustee of the King George's Field, Mile End charity and members of the Cabinet of the Council are also Members of the charity's Board.

The charity is responsible for maintaining the area of Mile End Park, and the other open spaces within King George's Field, Mile End. The land is managed by the Council on behalf of the charity.

During the year the charity received funding of £0.250m (18/19 £0.366m) from the Council and paid £0.449m (18/19 £0.400m) for services provided. At the 31 March 2020 £0.020m cash was owed to the Council as an overdraft held on behalf of the charity (18/19 £0.460m cash was held on behalf of the charity).

Sea Horse Homes

Seahorse Homes Ltd is a wholly owned subsidiary of the London Borough of Tower Hamlets. £0.030m was due from the subsidiary at 31 March 2020 (18/19 £0.030m).

Mulberry Housing Society

Mulberry Housing is a Community Benefit Society which hadn't commenced trading by the 31 March 2020.

£0.010m was due from the Society at 31 March 2020 (18/19 £0.010m).

The Council has the right to appoint two out of five Board Members.

Ocean Regeneration Trust

The Ocean Regeneration Trust is a charity which has the aim of supporting residents on the Ocean Estate.

During the year the Trust received £0.118m funding and rental income from the Council (18/19 £0.235m) and paid £0.026m (18/19 £0.035m) for services provided.

The Council has representation on the Board of the Charity, with the right to appoint two out of twelve directors.

Capital Letters (London)

Capital Letters is a pan-London accommodation and procurement company with membership drawn from a number of London Boroughs including Tower Hamlets. Members of the company have representation on the Board of the Company.

During the year the company received £0.084m from the Council (18/19 £Nil) and paid £0.300m (18/19 £nil) for services provided.

Norton Folgate Almshouse

Norton Folgate Almshouse is a charity which has the aim of providing affordable housing in Spitalfields.

The Council has representation on the Board of the Charity with the right to appoint three out of the seven trustees.

PLACE Ltd

Pan-London Accommodation Collaborative Enterprise Ltd (PLACE Ltd) is intended to provide modular temporary accommodation. Tower Hamlets is one of four London Boroughs who are key stakeholders and members of the company, and is deemed the lead borough for the programme. Members have representation on the Board of the Company.

Rich Mix Cultural Foundation

Rich Mix Cultural Foundation is a charity which has the aim of advancing education of the public in arts and culture and the elimination of racial discrimination. Tower Hamlets has the right to appoint two Trustees to the Board of the Charity but a third Trustee was a Councillor during the year. During the year the Council paid £0.011m (18/19 £0.019m) to the charity and subsidiary

35 Related Parties (continued)

Blackwall Reach Trust

Blackwall Reach Trust is a charity incorporated in August 2019 with the aim of providing open space for the Blackwall Reach Community and members of the public for recreation and social welfare purposes. It was dormant until September 2021. The Council can appoint two Trustees to the Board.

Tower Hamlets Community Housing

Tower Hamlets Community Housing was a company limited by guarantee that converted to a registered society in 2018. It aims to provide good quality affordable housing to those on low incomes in housing need. As a registered society the Council has the power to appoint two Trustees to the Board. The Council received services to the value of £0.101m (18/19 £0.125m) from the organisation in 19/20 and charged £0.235m (18/19 £0.285m), of which £0.230m related to Community Infrastructure Levy, the same as in 2018/19. £0.004m was due from the organisation (18/19 £0.247m) and £0.001m (18/19 £0.001m) was due to the organisation at the year end.

Tower Hamlets LEP Limited

Tower Hamlets LEP Limited is involved in schools projects within Tower Hamlets under the Building Schools for the Future programme. The Council is a shareholder and has representation on the board of the company.

Tower Hamlets Education Partnership

Tower Hamlets Education Partnership is a registered charity and a company limited by guarantee, with three out of four members being LBTH maintained schools. The purpose of the charity is the advancement of education through member schools and other educational settings, with an initial focus on the London Borough of Tower Hamlets. The administrative centre of the Council (ie excluding schools) provided funding of £0.892m in 19/20 (18/19 £0.674m) in pursuit of these aims and charged the charity £0.030m (18/19 £0.024m) for the provision of services and premises. The Council also recovered the cost of staff seconded to the charity during the year, amounting to £0.635m (18/19 £0.201m). At the end of 19/20, the charity owed £0.636m (18/19 £0.052m) to the Council and the Council owed £0.690m (18/19 £0.004m) to the charity. The charity also receives a significant proportion of its remaining income from maintained schools within the borough.

The Davenant Centre

The Davenant Centre is a registered charity which provides two community centres for educational and social benefit within Tower Hamlets. The council has provided a loan facility (secured on the properties) to the charity with £0.595m (18/9 £0.586m) outstanding. £0.009m (18/19 £0.009m) interest accrued on the loan during the year. The council has voting rights of 26% to amend certain specific clauses of the memorandum and articles of association at meetings of the charity.

Membership of and relationship with other organisations

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2019/20 is shown in Note 30. During the year eight Members (18/19 eight Members) or their close personal family had an interest in external organisations outside of those listed above, which undertook financial transactions with the Council. Total expenditure of £0.419m (18/19 £0.735m) was incurred with these organisations for goods and services, and £0.093m (18/19 £0.118m) income was recorded from them for goods and services provided. In addition a payroll service was provided for one organisation with payroll costs of £4.710m (18/19 £5.859m) being recovered from them. At the end of the year £1.115m was due from these organisations (18/19 £0.763m) and £0.012m was due to them (18/19 £0.088m).

36 Leases

Authority as Lessee

Finance Leases

As a Lessee the Council has acquired a residential development under finance leases. The assets acquired under the leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts.

Depreciation policy on leased assets is consistent with the policy on owned assets and subject to revaluation in the same way as any other asset.

	Buildings 31 March 2019 £'000	Buildings 31 March 2020 £'000
Poplar Baths Leisure Centre	18,020	20,596
Poplar Baths Housing	5,013	4,998
Dame Colet Residential Development	3,350	3,712
Total	26,383	29,306

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	Buildings 31 March 2019 £'000	Buildings 31 March 2020 £'000
Finance lease liabilities (net present value of minimum lease payments)	28,041	27,166
Finance costs payable in future years	61,233	59,323
Minimum lease payments	89,274	86,489

The minimum lease payments will be payable over the following periods:

	Minimum Lease payments*		Finance Lease Liabilities	
	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000
Not later than one year	2,785	2,785	875	875
Later than one year and not later than five years	11,139	11,139	3,498	3,498
Later than five years	75,350	72,565	23,668	22,793
	89,274	86,489	28,041	27,166

*The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

36 Leases (continued)

Operating Leases

The Council leases in some properties (including office accommodation, car parks and business units), as well as a number of vehicles (including minibuses and vans), and 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:

	Land & Buildings 31 March 2019 £'000	Vehicles Plant & Equipment 31 March 2019 £'000	Land & Buildings 31 March 2020 £'000	Vehicles Plant & Equipment 31 March 2020 £'000
Health, Adults and Communities				
Not later than one year	149	-	-	-
Later than one year and not later than five years	597	-	-	-
Later than five years	1,071	-	-	-
Governance				
Not later than one year	-	20	-	-
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
Children's Services				
Not later than one year	-	150	-	67
Later than one year and not later than five years	-	156	-	80
Later than five years	-	1	-	-
Place				
Not later than one year	2,874	240	4,110	218
Later than one year and not later than five years	1,009	410	8,365	138
Later than five years	2,101	-	2,122	-
Total				
Not later than one year	3,023	410	4,110	285
Later than one year and not later than five years	1,606	566	8,365	218
Later than five years	3,172	1	2,122	-
	7,801	977	14,597	503

36 Leases (continued)

The expenditure charged to the Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	Land & Buildings 31 March 2019 £'000	Vehicles Plant & Equipment 31 March 2019 £'000	Land & Buildings 31 March 2020 £'000	Vehicles Plant & Equipment 31 March 2020 £'000
Health, Adults and Communities				
Minimum Lease Payments	149	-	37	-
Governance				
Minimum Lease Payments	-	55	-	20
Children's Services				
Minimum Lease Payments	-	258	-	104
Place				
Minimum Lease Payments	2,873	315	4,018	491
TOTAL	3,022	628	4,055	615

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:

	31 March 2019 £'000	31 March 2020 £'000
Not later than one year	(4,063)	(4,283)
Later than one year and not later than five years	(12,603)	(12,200)
Later than five years	(22,466)	(20,842)
	(39,132)	(37,325)

37 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 Grouped Schools schemes - until the years 2029 and 2028 respectively. The contracts specify minimum standards for the services to be provided by the contractors, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractors took on the obligation to construct or refurbish schools and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the schools. The buildings and any plant and equipment installed in them at the end of the contracts will be transferred to the authority for nil consideration, other than those that relate to academies, being Mulberry, Clara Grant, Stepney Green and Old Ford schools. The authority only has rights to terminate the contracts if it compensates the contractors in full for costs incurred and future profits that would have been generated over the remaining term of the contract.

The Council entered into a third PFI contract, with an energy services company, to provide heating and hot water to around 500 homes in the Barkantine district in March 2000 and this contract will continue until October 2025. No re-negotiation of the contract terms are expected, and the Council is working with the Department of Levelling Up, Housing and Communities in preparation for arrangements after contract expiry. It is classed as a user pay arrangement (with the consequence that payments to contractors do not meet the definition of "unitary payments").

The authority makes an agreed payment each year to each of the contractors which is increased annually by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Unitary payments remaining to be made under the PFI contracts at 31 March 2020 (excluding any estimation of inflation and availability/performance deductions) are as follows:

Payments due under PFI schemes	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
Liability				
Within 1 year	(314)	(1,626)	(198)	(2,138)
Within 2 - 5 years	(1,871)	(11,577)	(791)	(14,239)
Within 6 - 10 years	(2,711)	(12,003)	(395)	(15,109)
	(4,896)	(25,206)	(1,384)	(31,486)
Interest				
Within 1 year	549	3,966	-	4,515
Within 2 - 5 years	1,789	12,519	-	14,308
Within 6 - 10 years	777	3,501	-	4,278
	3,115	19,986	-	23,101
Service Charges				
Within 1 year	673	4,216	-	4,889
Within 2 - 5 years	2,694	9,198	-	11,892
Within 6 - 10 years	2,694	7,200	-	9,894
	6,061	20,614	-	26,675

The payments made to the contractors have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable while the capital expenditure remains to be reimbursed. The liability outstanding to be paid to the contractor for capital expenditure incurred (or simply the amortisation of the liability recognised in the case of the Energy PFI) is as follows:

Movement on PFI Liabilities	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
Liabilities at 31 March 2019	(5,265)	(26,569)	(1,581)	(33,415)
Repayments/Amortisation of deferred liability	369	1,363	197	1,929
Liabilities at 31 March 2020	(4,896)	(25,206)	(1,384)	(31,486)
Consisting of:				
Long term liability	(4,582)	(23,580)	(1,186)	(29,348)
Short-term liability	(314)	(1,626)	(198)	(2,138)
Liability value at 31 March 2020	(4,896)	(25,206)	(1,384)	(31,486)

37 Private Finance Initiatives and Similar Contracts (continued)

The assets associated with the PFI contracts have been recognised on the Council's balance sheet, with movements in valuation as per below.

Movement on PFI Assets	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
Asset value at 31 March 2018	268,169	2,226	270,395
Depreciation	(2,242)	(178)	(2,420)
Revaluations	(74,536)	-	(74,536)
Enhancements	1,784	-	1,784
Asset value at 31 March 2019	193,175	2,048	195,223
Depreciation	(1,894)	(181)	(2,075)
Revaluations	26,396	-	26,396
Enhancements	7,439	-	7,439
Asset value at 31 March 2020	225,116	1,867	226,983

Comparatives for the 2018/19 year are presented below.

Payments due under PFI schemes, as at 31 March 2019	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
Liability				
Within 1 year	(370)	(1,363)	(198)	(1,931)
Within 2 - 5 years	(1,585)	(9,501)	(791)	(11,877)
Within 6 - 10 years	(3,310)	(15,705)	(592)	(19,607)
	(5,265)	(26,569)	(1,581)	(33,415)
Interest				
Within 1 year	591	4,180	-	4,771
Within 2 - 5 years	1,967	14,014	-	15,981
Within 6 - 10 years	1,148	5,972	-	7,120
	3,706	24,166	-	27,872
Service Charges				
Within 1 year	673	3,618	-	4,291
Within 2 - 5 years	2,694	10,169	-	12,863
Within 6 - 10 years	3,367	10,445	-	13,812
	6,734	24,232	-	30,966

Movement on PFI Liabilities, as at 31 March 2019	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
Liabilities at 31 March 2018	(5,593)	(27,584)	(1,780)	(34,957)
Repayments/Amortisation of deferred liability	328	1,015	199	1,542
Liabilities at 31 March 2019	(5,265)	(26,569)	(1,581)	(33,415)
Consisting of:				
Long term liability	(4,895)	(25,206)	(1,383)	(31,484)
Short-term liability	(370)	(1,363)	(198)	(1,931)
Liability value at 31 March 2019	(5,265)	(26,569)	(1,581)	(33,415)

38 Defined Benefit Pension Schemes

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 those payments, which needs to be disclosed at the time the employees earn their future entitlement.

The Council participates in four pension schemes:

- The Local Government Pension Scheme (LGPS) administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority (LPFA)
- The Teachers' Pension Scheme (TPS), administered now by Teachers' Pensions on behalf of the Department for
- The NHS Pension Scheme, administered by NHS Business Services Authority on behalf of the Department of Health and Social Care

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 London Borough of Tower Hamlets pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of the Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Corporate Director of Resources of the Council and Investment Fund managers.

The principal risks to the authority of the LGP schemes are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the general fund and HRA the amounts required by statute as described in the accounting policies note.

The TPS and NHS scheme are explained further in the next note (Pension Schemes Accounted for as Defined Contribution Schemes), since it is accounted for on a different basis.

Transactions Relating to Retirement Benefits

The cost of LGPS retirement benefits is recognised in the Comprehensive Income and Expenditure Statement 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	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT						
<i>Cost of Services</i>						
Current service costs	57,848	71,933	262	211	58,110	72,144
Past service costs	978	5,234	111	76	1,089	5,310
Impact of settlements	-	-	-	-	-	-
<i>Finance and Investment Income and Expenditure</i>						
Interest cost on defined benefit obligation	50,643	51,418	1,583	1,435	52,226	52,853
Interest income on plan assets	(35,713)	(34,586)	(1,454)	(1,383)	(37,167)	(35,969)
Net charge to the Surplus or Deficit on Provision of Service	73,756	93,999	502	339	74,258	94,338
<i>Other Comprehensive Income and Expenditure</i>						
Changes in demographic assumptions	-	(63,486)	(1,970)	920	(1,970)	(62,566)
Changes in financial assumptions	119,326	(160,593)	2,660	(4,519)	121,986	(165,112)
Other experience	-	(116,765)	-	282	-	(116,483)
Return on plan assets excluding amounts included in net interest	(43,901)	21,935	(4,086)	1,706	(47,987)	23,641
Actuarial losses*	-	-	3,503	(1,135)	3,503	(1,135)
Total charge in CIES	149,181	(224,910)	609	(2,407)	149,790	(227,317)
MOVEMENT IN RESERVES STATEMENT						
Reversal of net charges made for retirement benefits	(73,756)	(93,999)	(502)	(339)	(74,258)	(94,338)
Actual amount charged against the General Fund/HRA balance:	44,884	48,879	412	455	45,296	49,334

* Note this line also incorporates adjustments due to an asset ceiling

In addition, the Council is responsible for all pension payments and annual increases in respect of discretionary awards made to teachers upon retirement. In 2019/20 there were such payments of £0.802m (£0.781m in 2018/19).

38 Defined Benefit Pension Schemes (continued)

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of scheme liabilities:

	The Council		LPFA		Total	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Opening balance at 1st April	(1,945,978)	(2,133,246)	(64,971)	(64,283)	(2,010,949)	(2,197,529)
Current service cost	(57,848)	(71,933)	(262)	(211)	(58,110)	(72,144)
Past service costs	(978)	(5,234)	(111)	(76)	(1,089)	(5,310)
Effect of settlements	-	-	-	-	-	-
Interest cost	(50,643)	(51,418)	(1,583)	(1,435)	(52,226)	(52,853)
Contributions	(10,318)	(10,391)	(47)	(38)	(10,365)	(10,429)
Benefits paid	51,845	57,878	3,381	3,906	55,226	61,784
Remeasurement gains / (losses):						
Changes in demographic assumptions	-	63,486	1,970	(920)	1,970	62,566
Changes in financial assumptions	(119,326)	160,593	(2,660)	4,519	(121,986)	165,112
Other experience	-	116,765	-	(282)	-	116,483
31st March	(2,133,246)	(1,873,500)	(64,283)	(58,820)	(2,197,529)	(1,932,320)

Reconciliation of fair value of the scheme assets:

	The Council		LPFA		Total	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Opening fair value of scheme assets	1,376,054	1,444,569	62,907	62,022	1,438,961	1,506,591
Interest income	35,713	34,586	1,454	1,383	37,167	35,969
Contributions						
Employees into the scheme	10,318	10,391	47	38	10,365	10,429
Employer	30,428	34,417	412	455	30,840	34,872
Benefits paid	(51,845)	(57,878)	(3,381)	(3,906)	(55,226)	(61,784)
Remeasurement gains / (losses):						
Return on plan assets	43,901	(21,935)	4,086	(1,706)	47,987	(23,641)
Actuarial gains/(losses)*	-	-	(3,503)	1,135	(3,503)	1,135
31st March	1,444,569	1,444,150	62,022	59,421	1,506,591	1,503,571

* Note: this line incorporates adjustments due to an asset ceiling in 2018/19

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.

Pension assets and liabilities recognised in the Balance

	The Council		LPFA		Total	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
Present value of scheme liabilities	(2,133,246)	(1,873,500)	(64,283)	(58,820)	(2,197,529)	(1,932,320)
Fair value of plan assets	1,444,569	1,444,150	62,022	59,421	1,506,591	1,503,571
Total deficit in the schemes	(688,677)	(429,350)	(2,261)	601	(690,938)	(428,749)

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 £428.7 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 further contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The Council expects to make total contributions of £46.7 million in the year to 31st March 2021.

38 Defined Benefit Pension Schemes (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 Council and THH reports, Barnett Waddingham the LPFA report.

	The Council		LPFA	
	2018/19	2019/20	2018/19	2019/20
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	22.1 years	21.5 years	19.8 years	20.4 years
Women	24.1 years	23.5 years	22.7 years	23.3 years
Longevity at 65 for future pensioners:				
Men	23.9 years	22.6 years	21.6 years	21.8 years
Women	25.8 years	25.0 years	24.4 years	24.9 years
Rate of inflation	2.5%	1.9%	2.5%	2.0%
Rate of increase in salaries	2.3%	2.1%	4.0%	2.5%
Rate of increase in pensions	2.5%	1.9%	2.5%	2.0%
Rate for discounting scheme liabilities	2.4%	2.3%	2.3%	2.3%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses as presented in Note 5 have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis did not change from those used in the previous period.

Impact on the authority's cash flows

With regard to the Council-administered pension fund, the objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 20 years based on the last triennial valuation. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed based on data as at 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

As at the last triennial valuation based on 31 March 2019, the weighted average duration of the defined benefit obligation for scheme members is 16.9 years (and this figure will remain unchanged until the next triennial valuation).

38 Defined Benefit Pension Schemes (continued)

Major categories of assets as a proportion of total assets

The categories of assets are as follows.

	The Council		LPFA	
	2018/19	2019/20	2018/19	2019/20
Equities	0%	0%	40%	41%
Private Equity	0%	0%	10%	10%
Bonds	5%	0%	5%	5%
Property	10%	10%	9%	10%
Investment/Hedge Funds and Unit Trusts:			14%	13%
Equity-based	62%	51%		
Bond-based	19%	0%		
Hedge Funds	0%	29%		
Other	0%	9%		
Credit - unquoted	0%	0%	8%	8%
Infrastructure - unquoted	0%	0%	6%	7%
Cash	4%	1%	8%	6%

39 Pension Schemes Accounted for as Defined Contribution Schemes

Teachers Pension Scheme

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes, though it is estimated at approximately 0.4%. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2019/20 the Council paid £19.237 million into the Teachers' Pension Scheme, representing 16.5% of pensionable pay for the period 1 April 2019 - 31 August 2019, and 23.7% for the remaining months of the year, due to an increase in employer contributions that came into effect from 1 September 2019 onwards. The figures for 2018/19 were £14.664 million and 16.5% respectively. The contributions due to be paid in the next financial year are estimated to be £21.964m (23.7% of pensionable pay).

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These payments are accounted for as incurred and detailed in Note 38.

The authority is not liable to the scheme for any other entities' obligations under the plan.

NHS Pension Scheme

In 2013/14, former NHS employees transferred to the Council. These employees have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and, as with the TPS, the Council is unable to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes though it is much less than 0.1%. It is therefore accounted for on the same basis as a defined contribution scheme.

£0.164 million was payable into the scheme in 2019/20 by the Council (2018/19: £0.138m). The contributions due to be paid in the next financial year are estimated to be £0.114m. These amounts represent 20.7% of pensionable pay for 2019/20 onwards, and 14.3% for 2018/19.

The authority is not liable to the scheme for any other entities' obligations under the plan.

40 TRUSTS

The Council serves as sole trustee of the King George's Field, Mile End charity. The charity is governed by a Trust Deed, and is unincorporated, being established by a Scheme of the Charity Commission dated 28th February 2000.

The King George's Field, Mile End Charity Board (which sits as a committee of the Council) is responsible for managing the Trust's affairs and discharging the Council's duties as trustee.

The Charity's objectives are set out in Trust Deeds, which are as follows "To preserve in perpetuity the covenanted land and to apply the land to such charitable purposes as are set out in the Recreational Charities Act 1958, including the construction of indoor recreational facilities, subject to the approval of the National Playing Fields Association and the Charity Commission in respect of any additional purposes".

The funds of the Trust do not represent income, expenditure, assets or liabilities of the Council. The value of income and expenditure, the underlying assets, extent of any liabilities are disclosed as follows:

2018/19 £'000		2019/20 £'000
(1,267)	Income	(1,138)
1,277	Expenditure	1,526
10	(SURPLUS)/DEFICIT FOR THE YEAR	388
16,158	Fixed assets	16,075
582	Current assets	161
(344)	Creditors - amounts falling due within one year	(228)
16,396	NET CURRENT ASSETS	16,008
16,113	Endowment funds	16,008
283	Unrestricted reserves	-
16,396	TOTAL CHARITY FUNDS	16,008

The Council acts as trustee for a number of smaller trusts, which were disclosed in this note in previous years. However, since they are not material to the accounts, those detailed disclosures will no longer be provided here.

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	2018/19 £'000	2019/20 £'000
EXPENDITURE			
Repairs and maintenance		18,929	20,963
Supervision and management		38,954	39,642
Rents, rates, taxes and other charges		12,334	11,575
Depreciation of non-current assets	6		-
On dwellings		15,912	15,382
On other assets		952	913
Revaluation losses (and reversals)		44,789	(25,349)
Debt management costs		79	83
Movement in the allowance for bad debts		(589)	33
Sums directed by the Secretary of State that are expenditure in accordance with the Code		9,013	8,073
TOTAL EXPENDITURE		140,373	71,315
INCOME			
Gross rental income			
Dwelling rents		(64,651)	(63,357)
Non dwelling rents		(4,195)	(4,631)
Charges for services and facilities		(19,426)	(29,062)
Contributions towards expenditure		(269)	(526)
TOTAL INCOME		(88,541)	(97,576)
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT		51,832	(26,261)
HRA services share of Corporate and Democratic Core		145	143
NET COST OF HRA SERVICES		51,977	(26,118)
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, including unattached capital receipts		(14,605)	(7,304)
Interest payable and similar charges ¹		21,444	3,581
Interest and investment income		(523)	(661)
Net interest on the net defined benefit liability	7	20	245
Capital grants and contributions receivable		(12,878)	(9,053)
DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES		45,435	(39,310)

¹ 2018/19 figure includes £17,852k of finance costs relating to the repayment of LOBO loans.

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.

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward		(47,561)		(44,640)
Deficit / (Surplus) for the year on the HRA Income and Expenditur	45,435		(39,310)	
Net additional amount required by statute to be debited to the HRA balance for the year	(42,514)		35,740	
Decrease (Increase) in the HRA Balance		2,921		(3,570)
Balance on the Statutory HRA Carried Forward		(44,640)		(48,210)

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year				
Gain or loss on sale of HRA non-current assets	14,605		7,304	
Revenue expenditure funded from capital under statute	(9,013)		(8,073)	
Capital grants and contributions	12,878		9,053	
Depreciation of non-current assets	(16,864)		(16,295)	
Reversal of revaluation losses on non-current assets	(44,789)		25,349	
Net charges made for retirement benefits in accordance with IAS19	813		(387)	
		(42,370)		16,951
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	(42)		-	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	(17,417)		435	
Transfer to Capital Adjustment Account for Minimum Revenue Provision	451		2,059	
Transfer to Major Repairs Reserve	16,864		16,295	
		(144)		18,789
Net additional amount required by statute to be debited to the HRA Balance for the year		(42,514)		35,740

2 HOUSING STOCK

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

	2018/19 £'000	2019/20 £'000
Low-rise flats (1-2 storeys)	257	255
Medium-rise flats (3-5 storeys)	6,694	6,666
High-rise flats (6 or more storeys)	3,751	3,783
Houses and bungalows	774	773
TOTAL AT 31st MARCH	11,476	11,477

3 NON-CURRENT ASSETS

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

	2018/19 £'000	2019/20 £'000
Dwellings	1,030,754	1,136,458
Other Land and Buildings	58,294	60,608
Surplus Assets Not Held for Sale	13,724	14,770
Assets Under Construction	17,706	39,221
Assets Held for Sale	160	-
TOTAL	1,120,638	1,251,057

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 £'000	Assets Under Construction £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 31st March 2018	1,201,143	58,166	11,878	9,507	-	1,280,694
Additions, disposals, transfers and revaluations	(170,389)	128	1,846	8,199	160	(160,056)
Total value at 31 st March 2019	1,030,754	58,294	13,724	17,706	160	1,120,638
Additions, disposals, transfers and revaluations	105,704	2,314	1,046	21,515	(160)	130,419
TOTAL VALUE AT 31st MARCH 20	1,136,458	60,608	14,770	39,221	-	1,251,057

The vacant possession value of dwellings within the Council's HRA was £4,561 million in 2019/20 (£4,319 million in 2018/19). 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

	2018/19 £'000	2019/20 £'000
Balance at 1st April	(5,485)	-
Transfer from Capital Adjustment Account - depreciation	(16,864)	(16,295)
Financing of capital expenditure	22,349	16,295
Balance at 31st March	-	-

5 CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	2018/19			2019/20		
	Dwellings £'000	Other £'000	Total £'000	Dwellings £'000	Other £'000	Total £'000
Expenditure	25,162	13,150	38,312	29,011	28,110	57,121
Sources of finance						
Borrowing	895	544	1,439	25,403	89	25,492
Capital Receipts	1,248	394	1,642	1,888	2,563	4,451
Capital Grants and Contributions	9,725	3,199	12,924	1,526	9,357	10,883
Major Repairs Reserve	13,336	9,013	22,349	194	16,101	16,295
Direct Revenue Financing	(42)	-	(42)	-	-	-
TOTAL CAPITAL FINANCING	25,162	13,150	38,312	29,011	28,110	57,121

(ii) Capital Receipts

Capital receipts (gross) in 2019/20 from the disposal of non-current assets within the HRA amounted to £9.547 million (£22.591 million in 2018/19) as follows:

	2018/19 £'000	2019/20 £'000
Dwellings	22,591	9,145
Other land and buildings	-	402
TOTAL CAPITAL RECEIPTS	22,591	9,547

6 DEPRECIATION

	2018/19 £'000	2019/20 £'000
Dwellings	15,912	15,382
Other Land and Buildings	952	913
TOTAL DEPRECIATION	16,864	16,295

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	Total	
	2018/19 £'000	2019/20 £'000
HRA INCOME AND EXPENDITURE STATEMENT		
<i>Cost of Services</i>		
Current service costs	4,414	5,414
Past service costs	1	112
Impact of settlements	-	-
<i>Finance and Investment Income and Expenditure</i>		
Interest cost on defined benefit obligation	2,827	2,929
Interest income on plan assets	(2,807)	(2,684)
Net charge to the HRA Surplus or Deficit on Provision of Services	4,435	5,771
STATEMENT OF MOVEMENT IN HRA RESERVES		
Reversal of net charges made for retirement benefits	(4,435)	(5,771)

8 RENT ARREARS

	2018/19 £'000	2019/20 £'000
Gross rent arrears at 31 st March	5,011	5,239
Arrears as % of rent receivable	7.6	8.1
Provision made for bad debts	4,098	4,168

COLLECTION FUND

The Collection Fund Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the Council as billing authority in relation to the collection from tax payers and distribution to precepting bodies and the Government of Council Tax and Non-Domestic Rates.

2018/19				2019/20		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
INCOME						
-	(122,619)	(122,619)	Council Tax Receivable	-	(132,268)	(132,268)
(431,394)	-	(431,394)	Business Rates Receivable	(433,441)	-	(433,441)
(14,829)	-	(14,829)	Transitional Protection Payments Receivable	(8,408)	-	(8,408)
(15,062)	-	(15,062)	Business Rates Supplements Receivable	(14,498)	-	(14,498)
(461,285)	(122,619)	(583,904)	Total amounts to be credited	(456,347)	(132,268)	(588,615)
EXPENDITURE						
Apportionment of Previous Year Surplus/(Deficit):						
(15,028)	-	(15,028)	Central Government	271	-	271
(11,357)	1,500	(9,857)	Tower Hamlets	319	-	319
(11,473)	429	(11,044)	Greater London Authority	345	-	345
Precepts, demands and shares						
-	-	-	Central Government	117,036	-	117,036
292,816	93,777	386,593	Tower Hamlets	224,709	100,331	325,040
164,709	27,980	192,689	Greater London Authority	126,399	31,537	157,936
Business Rate Supplement						
15,045	-	15,045	Payment to levying authority's BRS Revenue Account	14,478	-	14,478
17	-	17	Administrative Costs	20	-	20
Charges to the Collection Fund						
(18,450)	1,626	(16,824)	Increase/(decrease) in allowance for impairment	3,572	2,371	5,943
24,000	-	24,000	Increase/(decrease) in allowance for appeals	(7,977)	-	(7,977)
1,029	-	1,029	Charge to General Fund for allowable collection costs	1,021	-	1,021
441,308	125,312	566,620	Total Amounts to be debited	480,193	134,239	614,432
(19,977)	2,693	(17,284)	(Surplus)/Deficit arising during the year	23,846	1,971	25,817
37,037	(2,693)	34,344	(Surplus)/Deficit b/f at 1 April	17,060	-	17,060
17,060	-	17,060	(Surplus)/Deficit c/f at 31 March	40,906	1,971	42,877

(Surplus)/Deficit on the Collection Fund

2018/19				2019/20		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
(718)	-	(718)	Central Government	5,281	-	5,281
11,198	-	11,198	Tower Hamlets	22,514	1,501	24,015
6,580	-	6,580	Greater London Authority	13,111	470	13,581
17,060	-	17,060	(Surplus)/Deficit c/f at 31 March	40,906	1,971	42,877

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

Council Tax, introduced in 1993, is charged on residential properties depending on the nature and degree of occupation of the 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. The tax for each Band is set as a fraction of Band D. The number of properties in each band and calculation of the tax base (adjusted to reflect relevant discounts and exemptions) was approved by Full Council in February 2019 and is summarised in the table below:

Band	Valuation Bands	Ratio to Band D	2018/19 Number of chargeable dwellings	2018/19 Equivalent number of band D dwellings	2019/20 Number of chargeable dwellings	2019/20 Equivalent number of band D dwellings
A	Up to £40,000	6/9	669	446	725	483
B	£40,001 and up to £52,000	7/9	21,872	17,012	22,171	17,244
C	£52,001 and up to £68,000	8/9	35,212	31,299	35,687	31,722
D	£68,001 and up to £88,000	9/9	25,156	25,156	26,123	26,123
E	£88,001 and up to £120,000	11/9	18,950	23,161	19,488	23,818
F	£120,001 and up to £160,000	13/9	9,034	13,050	9,234	13,338
G	£160,001 and up to £320,000	15/9	3,770	6,283	3,902	6,504
H	Over £320,001	18/9	631	1,262	654	1,308
			115,294	117,669	117,984	120,540
Adjustment for Reduction Scheme & Collection Rate				(22,574)		(22,144)
Council Tax Base				95,095		98,396

2. NATIONAL NON-DOMESTIC RATES (NNDR)

The Council collects business rates for its local area. The amount due to be paid by a business for their property is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The rateable value is determined by the Valuation Office Agency, a government executive agency. The national uniform rate in 2019/2020 was 50.4p (49.3p for 2018/19) and the rate for small businesses was set at 49.1p (48.0p for 2018/19). The total rateable value in the borough as at 31st March 2020 was £1,022 million (£1,039 million at 31 March 2019).

3. BUSINESS RATE SUPPLEMENT (BRS)

Under the Business Rate Supplement Act 2009, the Greater London Authority (GLA) has introduced a supplement to help towards the financing of the costs of the Crossrail project. The Council collects the supplement on behalf of the GLA.

The Crossrail BRS multiplier for 2019/20 is 2p per pound of rateable value (unchanged from previous years), it is only paid on properties with a rateable value in excess of £70,000.

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2018/19 £'000	2019/20 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers			
Normal	7	(31,885)	(35,145)
Augmentation	7	(1,796)	(2,321)
Deficit funding	7	(53)	(53)
From members	7	(11,102)	(11,156)
Transfers in			
Transfers in from other pension funds	8	(6,157)	(7,608)
Benefits			
Pensions	9	45,194	47,620
Lump sum benefits	9	13,580	12,798
Payments to and on account of leavers			
Refunds of contributions	10	224	756
Transfers out to other pension funds	10	4,848	6,079
Administrative expenses	11	1,151	1,196
NET DEDUCTIONS FROM DEALINGS WITH MEMBERS		14,004	12,166
RETURN ON INVESTMENTS			
		2018/19 £'000	2019/20 £'000
Investment income	12	(16,473)	(20,580)
Taxes on Income	12	73	7
Change in market value of investments			
Realised	14a	(7,530)	(44,152)
Unrealised	14a	(65,098)	75,782
Investment management expenses	11	2,774	10,121
NET RETURN ON INVESTMENTS		(86,254)	21,178
Net (increase)/decrease in the Fund during the year		(72,250)	33,344
Add: Opening net assets of the scheme		(1,480,656)	(1,552,906)
CLOSING NET ASSETS OF THE SCHEME		(1,552,906)	(1,519,562)
NET ASSETS STATEMENT AS AT 31ST MARCH			
		2018/19 £'000	2019/20 £'000
Long Term Investments			
London CIV Share capital		0	150
Investments Assets			
Pooled Investment Vehicles			
Unit Trusts	14	1,390,480	1,360,710
Property	14	157,351	147,556
Legacy	14	4	0
Other	14	(38)	(33)
		1,547,797	1,508,233
Cash Deposits			
Cash Balances (held directly by the Fund)	14	6,512	3,033
Cash Balances (held by the Fund's external managers)	14	2,710	8,894
Other investment balances	14	980	734
Current Assets	21	1,187	1,171
Current Liabilities	22	(6,280)	(2,653)
NET ASSETS		1,552,906	1,519,562

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

The London Borough of Tower Hamlets Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by London Borough of Tower Hamlets.

a) General

The LGPS is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Fund is a contributory defined benefit pension scheme administered by London Borough of Tower Hamlets to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies.

Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the London Borough of Tower Hamlets Pension Committee which is a Committee of the London Borough of Tower Hamlets Pension Fund.

b) Membership of the Fund

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the London Borough of Tower Hamlets Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table sets out the membership of the London Borough of Tower Hamlets Pension Fund as at 31st March 2020

	31st March 2019	31st March 2020
Number of employees in the scheme		
LBTH	5,944	6,602
Other employers	836	921
	6,780	7,523
Number of pensioners		
LBTH	5,847	6,108
Other employers	397	432
	6,244	6,540
Number of deferred pensioners		
LBTH	7,340	7,437
Other employers	489	523
	7,829	7,960
Total number of members in pension scheme	20,853	22,023

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employers' contributions are set based on triennial actuarial valuations. The last such valuation was at 31 March 2019 although these rates will not apply until 2020/21. Currently, employer contribution rates range from 15.8% to 41.4% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits are explained on the LGPS website.

NOTE 2: BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2019/20 financial year and its financial position at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Pension Fund accounts have been prepared on a going concern basis.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution income

Normal contributions from both the members and the employer are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all schemes which rise according to pensionable pay. They are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund's actuary in the Rates and Adjustment Certificate issued to the relevant employing body.

Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Augmentations such as additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund. Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement. This does not include insourcing of 323 Veolia employees back to the Fund which took place on 29th March 2020.

c) Investment income

Investment income arising from the underlying investments in pooled funds is either reinvested or taken as a cash dividend to support the Fund's cash requirements. Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits 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, providing that payment has been approved.

e) Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis.

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Investment management expenses include transaction costs and custody fees.

Where an investment manager's fee has not been received by the year end date an estimate is used based upon the market value of their fund.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Administrative expenses

All staff costs of the pensions administration team are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Oversight and governance

All staff costs associated with governance and oversight are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Investment management expenses

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments or to increase income if netted off from income received. Transaction costs met from the net asset value of the Fund are also grossed up and reported in Note 11A.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net assets statement

g) Financial assets

Investment assets are included in the financial statements 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 asset are recognised in the Fund account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16).

h) Freehold and leasehold properties

The Fund has no direct investment in property

i) Derivatives

The Fund uses derivative financial instruments as part of its equity protection portfolio managed by Schroders Investment Management to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

j) Cash and cash equivalents

Cash comprises cash in hand and internally managed cash and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Loans and receivables

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e the outstanding principal receivable as at the year-end date plus accrued interest.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

l) Financial liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the Fund account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS26) and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

n) Additional voluntary contributions

The London Borough of Tower Hamlets Pension Fund provides an additional voluntary contribution AVC scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 23.

o) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events. A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably. Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

p) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the council to charge administration costs to the Fund. A proportion of the relevant costs have been charged to the Fund on the basis of time spent on pension fund activity. Costs incurred are shown in Note 25.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The net pension fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted actuarial guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

In response to the government's guidance and criteria on pooling investments issued in 2015, the London Borough of Tower Hamlets Pension Fund is a founding member of the London Collective Investment Vehicle (LCIV) established as a Collective Investment Vehicle for LGPS Funds. At the end of 31 March 2020, the Fund has £673.4m (44.3%) under LCIV management. A further £319.7m (21.0%) is invested in Legal and General Passive Pool.

NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statements for which there is a significant risk of material adjustment the following year are as follows:

a) Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied

For example:

a 0.5% decrease in the discount rate used would result in a decrease in the pension liability of £181m.

a 0.5% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £14m.

b) Valuation of Investments at Level 3

The Pension Fund contains investments in unithised pooled property funds that are classified within the financial statements as level 3 investments. These funds are valued at £148m according to non-exchange based market valuations. As a result of this, the final realised value of the pooled units may differ from the valuations presented in the accounts. In particular, the Nuveen UK Retail Warehouse Fund valued at £2.1m has restricted withdrawals due to current market conditions and therefore increases uncertainty over its realisable value.

NOTE 6: EVENTS AFTER THE REPORTING DATE

The first quarter of 2020 saw global stock markets fall by over 20% in response to the emergence of a virus named COVID 19 with the World Health Organisation declaring a pandemic on 11 March 2020. The response of many governments was to declare 'lockdowns' to slow the spread of the virus. This resulted in many sectors of the economy effectively closing down for several months with the corresponding adverse impact on economic growth and the rise of government borrowing to support the economy. The expectation is that this will be a short, sharp shock to the global economy with global markets recovering by 20% in quarter 2. The Fund's investment assets have increased by £222m, or 15%, to stand at £1.743m at 30 June 2020. However, there are fears of a second wave later in the year unless a vaccine is developed. The longer term impact on individual asset classes is unclear.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 7: CONTRIBUTIONS RECEIVABLE

	2018/19 £'000	2019/20 £'000
Employees		
Council Employees' Normal Contributions	(9,458)	(9,491)
Admitted Bodies Employees' Normal Contributions	(115)	(119)
Scheduled Bodies Employees' Normal Contributions	(1,529)	(1,546)
Total	(11,102)	(11,156)
Employers		
Council Employer's Normal Contributions	(27,059)	(30,462)
Admitted Bodies Employers' Normal Contributions	(602)	(517)
Scheduled Bodies Employers' Normal Contributions	(4,224)	(4,166)
Total	(31,885)	(35,145)
Employers' Special Contribution	(1,796)	(2,321)
Deficit Funding	(53)	(53)
Total	(1,849)	(2,374)

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

	2018/19 £'000	2019/20 £'000
Transfer Values		
Transfer Values Received - Individual	(6,157)	(7,608)
Total	(6,157)	(7,608)

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 9: BENEFITS PAYABLE

	2018/19 £'000	2019/20 £'000
Pensions	45,194	47,620
Lump Sums Retirement Benefits	11,899	11,486
Lump Sums Death Benefits	1,681	1,312
Total	58,774	60,418
By type of employer		
Administering authority	56,399	54,852
Scheduled bodies	1,525	2,906
Admitted bodies	850	2,660
Total	58,774	60,418

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2018/19 £'000	2019/20 £'000
Transfer values paid	4,848	6,079
Refunds to members leaving service	224	756
Total	5,072	6,835

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 11: MANAGEMENT EXPENSES

	2018/19 £'000	2019/20 £'000
Administration	976	742
Investment management expenses	2,774	10,121
Oversight & Governance	175	454
Total	3,925	11,317

NOTE 11A: MANAGEMENT EXPENSES

	2018/19 £'000	2019/20 £'000
Management Fees	2,605	6,105
Custody Fees	51	50
Transaction Costs	118	3,966
	2,774	10,121

NOTE 12: INVESTMENT INCOME

	2018/19 £'000	2019/20 £'000
Fixed interest securities	(9)	0
Equity dividends	(49)	0
Pooled property Investments	(5,885)	(6,425)
Pooled Investments -unit trusts and other managed funds	(10,475)	(14,094)
Interest on cash deposits	(55)	(61)
	(16,473)	(20,580)

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 13: EXTERNAL AUDIT COSTS

	2018/19 £'000	2019/20 £'000
Audit Fees Payable in respect of external audit	21	21
Total	21	21

NOTE 14: INVESTMENTS

	2018/19 £'000	2019/20 £'000
Equities	4	0
Pooled Investments	1,390,480	1,360,710
Pooled Property Investments	157,351	147,556
Other	(38)	(33)
Total	1,547,797	1,508,233
Other Investment Balances		
Cash Deposits	2,710	8,894
Cash Deposits	6,512	3,033
Amounts Receivable for Sales of Investments	99	0
Investment Income Due	881	734
Total	10,202	12,661
Total Investment Assets	1,557,999	1,520,894

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 31 Mar 2019 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2020 £'000
Equities	4	0	0	(4)	0
Pooled Investments	1,390,480	53,362	(57,889)	(25,243)	1,360,710
Pooled Property Investments	157,351	4,896	(8,311)	(6,380)	147,556
Other	(38)	5			(33)
	1,547,797	58,263	(66,200)	(31,627)	1,508,233
Other Investment Balances					
Cash Deposits held by Managers	2,710			(3)	8,894
Cash Deposits held Internally	6,512				3,033
Amounts Receivable for Sales of Investments	99				0
Investment Income Due	881			0	734
Net Investment Assets	1,557,999			(31,630)	1,520,894

	Market Value 31 Mar 2018 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31 Mar 2019 £'000
Fixed Interest Securities	0	0	(71,904)	71,904	0
Equities	13	0	0	(9)	4
Pooled Investments	1,302,826	312,512	(222,767)	(2,091)	1,390,480
Pooled Property Investments	142,803	16,996	(5,178)	2,730	157,351
Other	0	(38)	0	0	(38)
	1,445,642	329,470	(299,849)	72,534	1,547,797
Other Investment Balances					
Cash Deposits held by Managers	8,733			1	2,710
Cash Deposits held Internally	26,484				6,512
Amounts Receivable for Sales of Investments	0			93	99
Investment Income Due	832				881
Net Investment Assets	1,481,691			72,628	1,557,999

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14B: ANALYSIS OF INVESTMENTS

	2018/19 £'000	2019/20 £'000
Equities		
UK		
Quoted	4	0
	4	0
Pooled Funds - additional analysis		
UK		
Fixed income unit trust - quoted	91,800	79,089
Equity unit trust - quoted	130,574	234,063
Overseas		
Fixed income unit trust - quoted	334,399	367,686
Equity unit trust - quoted	696,885	536,367
UK & Overseas		
Diversified Growth	136,822	143,505
	1,390,480	1,360,710
UK Pooled property investments	157,351	147,556
	157,351	147,556
Other	(38)	(33)
Investment Assets		
Cash Deposits held by Managers	2,710	8,894
Cash Deposits held Internally	6,512	3,033
Investment Income Due	881	734
Amounts Receivable from Sales	99	0
	10,202	12,661
Net Investment Assets	1,557,999	1,520,894

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

	2018/19 £'000	2019/20 £'000
Investments managed by regional asset pool		
London LGPS CIV	705,087	673,356
	705,087	673,356
Investments managed outside of regional asset pool		
Schroder	395,041	428,391
Legal & General	350,994	319,684
Goldman Sachs	52,542	50,806
Insight Investment	46,901	45,051
Legacy	922	573
Internally managed cash	6,512	3,033
	852,912	847,538
	1,557,999	1,520,894

The following investments represent over 5% of the net assets of the Fund. All of these companies are registered in the UK Security

Security	Market value as at 31st March 2019 £'000	% total of fund	Market value as at 31st March 2020 £'000	% total of fund
London Lgps Civ Lt Global Alpha Growth A	345,890	22%	294,846	19%
Mfo Gpcu - Msciworldlowcarbtargetin Dgcurhofc	244,453	16%	241,537	16%
Schroder Matching Plus Bespoke Investment Fund 9 I Acc	234,956	15%	271,829	18%
London Lgps Civ Lt Diversified Growth A	136,822	9%	143,505	9%
London Lgps Civ Lt Rf Absolute Return A Gbp Di	130,574	8%	155,916	10%
Epoch Investment P Cqs Credit Multi-Asset A Gb	91,800	6%	0	0%
Gpcf - All World Index (Ofc)	83,774	5%	0	0%
LCIV CQS CREDIT MULT ASSET-A	0	0%	79,089	5%
GPCL - MSCIWORLDLW CARBONTARGETINDOFC	0	0%	78,147	5%
	1,268,269	81%	1,264,869	82%

NOTE 14D: STOCK LENDING

The Fund does not participate in stock lending.

NOTE 14E: PROPERTY HOLDINGS

The Fund's investment in property portfolio does not comprise directly owned properties.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 15: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

NOTE 16: FAIR VALUE – BASIS OF VALUATION

Description of asset	Valuation hierarchy 18/19	Valuation hierarchy 19/20	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Quoted UK and Overseas Bonds	Level 1	Level 2	Fixed income securities are priced based on evaluated price provided by independent pricing services	Evaluated price feeds	Not required
Pooled Investments - Property Funds	Level 3	Level 3	Closing bid price where bid and offer prices are published	Adjusted for net capital current assets	Estimated acquisition and disposal costs
Pooled Investments - Multi Asset Credit	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	Evaluated price feeds	Not required

Fair Value Hierarchy

	Market Value as at 31 Mar 2020	Quoted market price	Using observable inputs	With significant observable inputs	Total
	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial assets at fair value	1,508,233	0	1,360,677	147,556	1,508,233
Loans and receivables	12,661	12,661	0	0	12,661
	1,520,894	12,661	1,360,677	147,556	1,520,894

	Market Value as at 31 Mar 2019	Quoted market price	Using observable inputs	With significant observable inputs	Total
	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial assets at fair value	1,548,777	4	1,391,422	157,351	1,548,777
Loans and receivables	9,222	9,222	0	0	9,222
	1,557,999	9,226	1,391,422	157,351	1,557,999

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

On the 1 April 2019 the Fund re-assessed the holdings in London CIV Global Equity Fund and Goldman Sachs STAR fund as Level 2 which have a value at 31 March 2020 of £295m and £51m respectively.

NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 Apr 2019 £'000	Transfers in/out of level 3	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses)	Market Value 31 Mar 2020 £'000
UK Property Funds	157,351	0	4,896	(6,899)	(10,264)	2,472	147,556
Total	157,351	0	4,896	(6,899)	(10,264)	2,472	147,556

	Assessed valuation range (+/-) %	Value 31 Mar 2020 £'000	Value on Increase £'000	Value on Decrease £'000
UK Property Funds	10%	147,556	162,312	132,800
Total		147,556	162,312	132,800

	Market Value 1 Apr 2018 £'000	Transfers in/out of level 3	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses)	Market Value 31 Mar 2019 £'000
UK Property Funds	142,803	0	16,995	(5,177)	1,054	1,676	157,351
Total	142,803	0	16,995	(5,177)	1,054	1,676	157,351

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2019			Market Value as at 31 Mar 2020		
Designated as fair value through profit and loss £	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Designated as fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
Financial assets					
4	0	0	150	0	0
1,390,480	0	0	1,360,710	0	0
157,351	0	0	147,556	0	0
0	2,710	0	0	8,894	0
0	6,512	0	0	3,033	0
99	0	0	734	0	0
0	2,068	0	0	1,171	0
1,547,934	11,290	0	1,509,150	13,098	0
Financial liabilities					
(38)	0	0	(33)	0	0
0	0	(6,280)	0	0	(2,653)
(38)	0	(6,280)	(33)	0	(2,653)
1,547,896	11,290	(6,280)	1,509,117	13,098	(2,653)
1,552,906			1,519,562		

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

Financial Assets	2018/19 £'000	2019/20 £'000
Fair value through profit or loss	(72,534)	31,627
Loans and receivables	(94)	3
Total Financial Assets	(72,628)	31,630

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 18: 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. (i.e. promised benefits payable to members). To mitigate this risk the Fund has established various policies that include the Funding Strategy Statement and the Investment Strategy Statement. The Fund also keeps a Risk Register that addresses specific risks on governance, funding and investments. These documents are available on the Fund's website.

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk-management strategy rests with the Pensions Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed by the Pensions Committee and Pensions Board in the light of changing market and other conditions.

Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The Fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers.

Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

The Fund employs a custodian to provide secure safe-keeping of the Fund's assets and to ensure that all trades are settled in a timely manner.

Liquidity risk

This is the risk that the Fund might not have the cash flow required in order to meet its financial obligations when they become due. Over the years contributions have tended to be greater than benefits and this has ensured that sufficient cash has been available to meet payments.

The Fund currently operates two bank accounts. One is held by the Fund's custodian (Northern Trust 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.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont.)

Liquidity Risk (cont.)

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. As at 31 March 2020, liquid assets were £1,371m representing 90.3% of total assets of the Fund assets (£1,396m as at 31 March 2019). The majority of these investments can be in fact liquidated within a matter of days.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of hedging. The Pensions Committee recognises that a strengthening /weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

Overseas equities, fixed interest securities and equity protection swaps and some elements of the pooled investment vehicles are exposed to currency risk. The currency risk table demonstrates the change in value of these assets had there been a 10% change strengthening/weakening of the pound against foreign currencies.

Market risk

This is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument or its issuer factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities regardless of being in a pool represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments with the exception of derivatives.

The Fund manages price risk of its portfolio by diversifying its investments across different asset classes and fund managers as required by regulations. Further, the Fund has a long-term investment horizon and can accept the price risk in its portfolio. The Fund can mitigate the price risk by regular reviews of its investment strategy in consultation with its investment advisors.

The price risk table below demonstrates the change in the net assets available to pay benefits if the market price has increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward exchange as these financial instruments are not subject to price risk.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont.)

Market risk (cont.)

As the Fund is a long term investor the Fund accepts the risk of volatility in asset values year on year. The price risk is managed through the Fund's Investment Strategy Statement and its Funding Strategy Statement. The Fund uses a combination of investment returns and pension contributions by employers and employees to meet its liabilities.

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Pensions Committee and its advisors regularly monitor the Fund's interest rate risk exposure during the year.

Fixed interest securities, cash and cash equivalents are exposed to 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.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS(cont.)

OTHER PRICE RISK - sensitivity analysis

Asset type	Market Value as at 31/03/2020 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	11,927	0.6%	11,999	11,855
Investment portfolio assets:				
UK fixed Income unit trusts	79,089	5.6%	83,518	74,660
Overseas fixed Income unit trusts	367,686	5.6%	388,276	347,096
UK equity unit trusts	234,063	13.3%	265,193	202,933
Overseas equity unit trusts	536,384	13.3%	607,723	465,045
Pooled property Investments	147,556	2.3%	150,950	144,162
Other PIV	143,455	5.8%	151,828	135,182
Investment income due	734	0.0%	734	734
Total assets available to pay benefits	1,520,894		1,660,221	1,381,667

Asset type	Market Value as at 31/03/2019 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	9,222	0.2%	9,240	9,204
Investment portfolio assets:				
UK equities	4	9.0%	4	4
UK fixed Income unit trusts	91,800	4.3%	95,747	87,853
Overseas fixed Income unit trusts	334,399	4.3%	348,778	320,020
UK equity unit trusts	130,574	9.0%	142,326	118,823
Overseas equity unit trusts	696,885	9.0%	759,605	634,165
Pooled property Investments	157,351	1.7%	160,026	154,676
Other PIV	136,784	4.1%	142,392	131,176
Investment income due	980	0.0%	980	980
Total assets available to pay benefits	1,557,999		1,659,098	1,456,901

CURRENCY EXPOSURE - asset type

Asset type	Market Value as at 31/03/2020 £'000	Change in year in the net assets available to pay benefits	
		7.4%	-7.4%
Overseas Equities			
Overseas Fixed Income Funds	367,686	394,895	340,477
Overseas Equity Funds	536,384	576,076	496,692
Total change in assets available	904,070	970,971	837,169

Asset type	Market Value as at 31/03/2019 £'000	Change in year in the net assets available to pay benefits	
		+8.2%	-8.2%
Overseas Equities			
Overseas Fixed Income Funds	334,399	361,820	306,978
Overseas Equity Funds	696,885	754,030	639,740
Total change in assets available	1,031,284	1,115,850	946,718

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (con

INTEREST RATE RISK

Asset type	Market Value as at 31/03/2020 £'000	Market Value as at 31/03/2019 £'000
Cash and cash equivalents		
Cash	11,927	9,222
Total	11,927	9,222

Interest rate risk sensitivity analysis

Asset type	Market Value as at 31/03/2020 £'000	Change in year in the net assets available to pay benefits	
		+100 bps £'000	-100bps £'000
Cash and cash equivalents			
Cash	11,927	119	-119
Total change in assets available	11,927	119	-119

Asset type	Market Value as at 31/03/2019 £'000	Change in year in the net assets available to pay benefits	
		+100 bps £'000	-100bps £'000
Cash and cash equivalents			
Cash	9,222	92	-92
Total change in assets available	9,222	92	-92

CREDIT RISK

Summary	Rating	Market Value as at 31/03/2020 £'000	Market Value as at 31/03/2019 £'000
Money Market Fund	AAA	0	6,000
Bank current accounts			
Northern Trust custody cash account	AA	8,894	2,710
National Westminster Bank Plc	AA	3,033	512
Total		11,927	9,222

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 19: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation that took place as at 31 March 2016 covered the period up to 31 March 2020. The latest triennial valuation of the Fund was carried out by Hymans Robertson, the Fund's actuary as at 31 March 2019. The results were published in the triennial valuation dated 31 March 2020, with the funding level rising to 102%. This report details fund assumptions and employer contributions for the three years following 2019/20.

The key elements of the funding policy are:

- 1) to ensure the long-term solvency of the Fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment
- 2) to ensure that employer contribution rates are as stable as possible
- 3) to minimise the long-term cost of the LGPS by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- 4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so and
- 5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The triennial valuation undertaken as at 31 March 2016 covers the financial assumptions for 2019/20. The actuary estimated the deficit of the Fund to be £235m and the funding level to be 82.8%. This compared to a deficit at the previous valuation in 2013 of £365m and a corresponding funding level of 71.8%. The triennial valuation also sets the individual contribution rate to be paid by each employer from 1 April 2017 to 31 March 2020.

The contribution rates are made of two values, the Primary and Secondary rate.

The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer Secondary rates (before applying any pre-payment or capitalisation of future contributions).

The table below summarises the whole Fund Primary and Secondary Contribution rates at the 2016 triennial valuation:

Primary Rate (% of pay)	2017/18 £'000	2018/19 £'000	2019/20 £'000
19.90%	13,974	14,603	15,256
	13,974	14,603	15,256

50:50 option

it is assumed that 1% of members opt into the 50:50 option in the LGPS 2014 scheme.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Actuarial Value of Promised Retirement Benefits

IAS26 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 £1,949 million (£2,188 million in 2018/19). This includes both vested and non-vested benefits.

Year ended	31 Mar 2019 £m	31 Mar 2020 £m
Active members	933	684
Deferred members	554	475
Pensioners	701	790
	2,188	1,949

Assumptions

To assess the value of the employer's liabilities the actuary rolls forward the values from the liabilities calculated from the funding valuation as at March 2019 using financial assumptions that comply with IAS19. The figures at 31 March 2020 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

Demographic assumptions

The demographic assumptions used are consistent with those used for the funding valuation as at March 2019

Average future life expectancies at age 65 years	Male	Female
Current pensioners	21.5	23.5
Future pensioners	22.6	25.0

Commutation assumptions

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post -April 2008 service.

Financial assumptions

The financial assumptions used for the purpose of the calculation is set out in the table below

Year ended	31 March 2019	31 March 2020
Inflation/pension increase rate assumption	2.5%	1.9%
Salary increase	2.3%	2.1%
Discount rate	2.4%	2.3%

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 21: CURRENT ASSETS

	2018/19 £'000	2019/20 £'000
Short term debtors		
Contributions due - employees	35	30
Contributions due - employers	527	920
Sundry debtors	536	128
Other	89	93
Total	1,187	1,171

NOTE 22: CURRENT LIABILITIES

	2018/19 £'000	2019/20 £'000
Sundry creditors	(1,279)	(1,756)
Transfer values payable (leavers)	(1,548)	(22)
Benefits payable	(3,415)	(875)
Other investment	(38)	0
Total	(6,280)	(2,653)

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

	2018/19 £'000	2019/20 £'000
Aviva	19	27
Equitable Life / Utmost Life	2	2
	21	29

Additional voluntary contributions (AVC's) were paid to Aviva and Equitable Life (taken over by Utmost Life on 1 January 2020) during the year.

NOTE 24: AGENCY SERVICES

The Fund is fully reimbursed of all agency services costs paid on behalf of the administering authority.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 25: RELATED PARTY TRANSACTIONS

The LBTH pension fund is administered by the LBTH

The Council incurred costs of £669k (£669k 2018/19) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. 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 31 March 2020, the Fund held an average investment of £6.0m (£11.5m 31 March 2019), earning interest of £32k, (£55k 2018/19)

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.3m (£3.0m 2018/19) from this company.

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

Fund Administration Expenses

Payroll/HR Support
Central Finance

2018/19 £'000	2019/20 £'000
494	494
175	175
669	669

NOTE 25A: KEY MANAGEMENT PERSONNEL

Employees holding key positions in the financial management of the Fund as at 31st March 2020 include:

Corporate Director Resources

As at 31 March 2019 this included:

Corporate Director Resources
Service Head - Finance & Procurement
Chief Accountant
Investment & Treasury Manager

The value of their relationship with the Fund, in accordance with IAS24 is as set out below:

Short term benefits

Long term/post retirement benefits

2018/19 £'000	2019/20 £'000
34	8
22	11

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund may be required by government regulations to increase benefits paid on the guaranteed minimum pension (GMP) for new pensioners after 6 April 2021. This will increase the pension liability of the Fund as detailed in Note 20.

Auditors' Report 2019/20 – to follow.

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 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.

Certificate of the Corporate Director or Resources

I certify that the Statement of Accounts 2019/20 presents a true and fair view of the financial position of the Council in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice") as at 31st March 2020 and its income and expenditure for the year ended 31st March 2020.

Caroline Holland

Interim Corporate Director of Resources

Annual Governance Statement

2019/2020

Our Annual Governance Statement

Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and responsible manner.

We recognise the importance of having good governance, which includes effective leadership and management, policies, and procedures, to ensure we have a well-run Council that delivers high quality, value for money services to the local community. The Council has adopted a Code of Corporate Governance that is based on the recommended guidance: *Delivering Good Governance in Local Government*.

We recognise our responsibility for ensuring that the Council conducts its business in accordance with the law and proper standards and that public money is safeguarded. We have reviewed our governance processes and how they have operated over the course of 2019/20 and reflected on any significant governance changes since. This report summarises our review and conclusions.

A previous version of this Annual Governance Statement was presented to the Audit Committee for approval at its meeting held on 28th January 2021, which was signed off by the Chief Executive and the previous Executive Mayor, John Biggs as part of this process. Due to the fact the corresponding 2019/20 Statement of Accounts has not been signed off, in order to ensure this Annual Governance Statement remains relevant at the point of sign off, this statement has been updated with any key governance matters since 2019/20.

In summary, the Council strengthened its governance arrangements in many areas during 2019/20, which included introducing a new consultation hub, appointing an independent person to the Audit Committee, actively pursuing and successfully prosecuting incidents of fraud, updating the financial regulations, introducing a budget managers' handbook and providing more briefings for budget managers. Despite these positive improvements there were some significant challenges over the course of 2019/20, which included closing our financial accounts, administering the pension scheme, and consistently applying good risk management practices across the Council.

In particular, we acknowledge that the failure to obtain sign-off of the financial accounts within the statutory timetable has continued to be a significant weakness for the organisation.

We recognise the need to improve and are determined to do so. We put action plans in place to address these issues and have continued to regularly report progress via the Corporate Leadership Team and relevant Committees. For completeness, we have included an update on these actions within this Annual Governance Statement.

Signed on behalf of the London Borough of Tower Hamlets

Will Tuckley, Chief Executive

Lutfur Rahman, Executive Mayor

Introduction

All local authorities are required to report publicly about how they have complied with their governance arrangements and do so through an Annual Governance Statement (AGS). Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and responsible manner.

The Council has adopted a Code of Corporate Governance. The Code is based on the principles of good governance recommended by Chartered Institute of Public Finance and Accountancy (CIPFA) and SOLACE in a joint document entitled *'Delivering Good Governance in Local Government'*.

The Code of Corporate Governance sets out the commitment of the London Borough of Tower Hamlets to continue to uphold the highest possible standards of good governance. This is essential for ensuring we conduct our business in accordance with the law and proper standards and that public money is properly accounted for.

To assess the effectiveness of key elements of the governance framework, including partnership arrangements and alternative delivery models, we have reviewed our performance against each of the seven principles of good governance:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimize the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

When evaluating our performance, we have taken into consideration reviews and inspections of the Council by others, such as Ofsted, as well as the work of internal and external audit. We have also reviewed our progress against improvement actions that were identified as part of the 2018/19 Annual Governance Statement.

In addition, each Corporate Director is required to confirm that their directorates are run efficiently, effectively, and with proper risk management and governance arrangements, including a sound system of internal control. They are required to review internal controls to ensure they are adequate and effective, whilst considering the following:

- Outcomes from risk assessments and evaluations
- Self-assessment of key service areas within the directorate
- Internal audit reports and results of follow ups regarding implementation of recommendations
- Outcomes from reviews of services by other bodies, including inspectorates, external auditors, etc.
- Linkage between business planning and the management of risk

Where areas for improvement are required an action plan must be developed.

We have used these returns to further enhance our review of the Council's governance framework.

To conclude the assessment, we have provided an overall opinion on our governance arrangements and included an action plan to record how we will address any areas requiring improvement.

Our Assessment

To assess the effectiveness of key elements of the governance framework, including partnership arrangements and Council owned companies, we have reviewed our performance against each of the seven principles of good governance. When evaluating our performance, we have taken into consideration reviews and inspections of the Council by others such as Ofsted, as well as the work of internal and external audit.

Principal	Governance Arrangements
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.</p>	<p><u>2019/20</u></p> <p>The Council’s constitution records the rules and laws under which the Council operates, including the Financial Regulations. The constitution is published on the Council’s website. The constitution was reviewed and updated and agreed at full Council in July 2019. In addition, there are a range of policies and procedures to direct and guide Members and staff, as well as codes of conduct that set out standards of behaviour expected from Members and staff. During 2019/20, it was noted that some of the Council’s policies and procedures were overdue for a review. Given the global pandemic, all overdue policies and procedures were reviewed as soon as practicable.</p> <p>The Council has appointed the required statutory officers which includes the Head of Paid Service (Chief Executive), the Monitoring Officer (Corporate Director, Governance) and the Chief Finance Officer, also referred to as the Section 151 Officer (Corporate Director, Resources). These three officers meet regularly to discuss governance issues.</p> <p>The Council operates a Standards Advisory Committee to oversee and promote high standards of conduct by the Mayor, Councillors and Co-opted Members of the Council, including in relation to the Code of Conduct and the Register of Interests. Half the Committee membership allocation is for independent Co-opted Members and there are also two separately appointed statutory Independent Persons who advise in relation to alleged breaches of the Code of Conduct. The Committee takes an active role in this work receiving regular reports, monitoring complaints</p>

against Members, the Register of Interest/Gifts and Hospitality, Member Development, and reports from the work of the Committee on Standards in Public Life amongst other matters. All members positively acknowledge the Code when they join the Council. A consultation was launched in June 2020 to review the model code of conduct for Members and a revised code has since been published – see updates below.

The Council has adopted a whistleblowing policy to guide and support staff about how to raise any concerns. It is readily available on the Intranet. The Monitoring Officer maintains a central record of all whistleblowing concerns and how they have been resolved. In July 2020, the Monitoring Officer reported a summary of concerns raised and their outcomes to the Audit Committee for the year 2019/20.

Committee reports and key decisions have been published online to ensure transparency and Executive decisions made by the Mayor and Cabinet are subject to the ‘Call-In’ process by backbench Councillors who can raise any concerns they may have. However, officer decisions are not routinely published. An audit during 2019/20 identified that there had been only three officer decisions published on the Council’s website since May 2017. The Corporate Leadership Team and their Divisional Directors were reminded of the requirements for publication and supported to ensure decisions are published when appropriate.

The Council maintains a Register of Interests (for officers and Members) which includes a requirement to declare interests at meetings ensuring that potential issues are recorded, and Members do not take part in meetings in an inappropriate way. This includes the need to leave the room when any items for which they have a Pecuniary Interest are discussed. We recognise that the number of officers declaring interests via self-service declined during 2019/20. We instructed officers to update their declarations in 2020/21. A revised guide to declaring interests at meetings has been attached to all meeting agendas from May 2020 onwards. Now that the Council is operating on-line meetings (via Teams) attendants of the meeting that declare an interest are required to leave the virtual meeting room.

	<p>The Council has also maintained a Gifts and Hospitalities register to ensure that Members and officers declare any gifts and hospitality in an open and transparent manner. The Gifts and hospitality policy required a review, as it was last reviewed in 2011. It was also recognised there's been a reduction in gifts and hospitality being declared by officers during 2019/20, whilst this may be because less gifts and hospitality have been offered or accepted, but to ensure all gifts and hospitality are recorded, we promoted the requirements for officers throughout 2020/21.</p> <p>The Council has sought feedback from the public through its complaints and comments procedures and has responded to the outcomes, as appropriate.</p> <p>The Council's Audit Committee met throughout 2019/20 and considered reports from internal and external audit as well as other updates, reports, and advice from the Chief Financial Officer and Monitoring Officer. In 2019, the Audit Committee adopted the terms of reference recommended by the Chartered Institute of Public Finance and Accountancy and in accordance with best practice appointed an Independent Person to support the Committee. In July 2020, the Committee agreed its first annual report to be presented to full Council.</p> <p>The Council routinely provides training for its Members on ethics during their induction. Further member training on ethics and probity was planned for January 2020, but was re-scheduled to April 2020, and then rescheduled again due to Covid-19. The training was eventually provided in 2020/21.</p> <p><u>Further Updates since 2019/20</u></p> <p>In addition to the specific references to actions that have been completed since 2019/20, the following key governance updates have occurred since:</p> <ul style="list-style-type: none"> • A consultation was launched in June 2020 to review the model code of conduct for Members and the new code was approved by Council in November 2021 and came into
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	<p>force following the 5 May 2022 local elections. A reminder of the new Member Code of Conduct was presented, as part of the Council’s constitution, to full Council at its meeting held on 25 May 2022.</p> <ul style="list-style-type: none"> • The Gifts and Hospitality Policy was reviewed during 2021/22 and was launched in May 2022. Individual teams have been instructed to adopt the revised policy, hold details of any gifts and hospitality offered, accepted, and declined, whilst reporting up into Directorate-held registers for completeness. There has been a continued reduction in gifts and hospitality being declared by officers; whilst this is likely to be related to the pandemic (less gifts and hospitality have been offered), there is an expectation that this may increase during 2022/23, therefore, to ensure all gifts and hospitality are recorded we have been promoting the requirements for officers throughout 2022/23. • The Council routinely provides training for its Members, on numerous topics including financial management, risk, governance, and ethics. Given the results of the 5 May 2022 local elections have resulted in numerous Member changes, member training on ethics and probity, as well as other topics, is being provided during 2022/23. • The Council as administering authority of the fund now ensures pension fund monies are not comingled with the Council’s own funds. In addition to the improvements identified in the Finance Improvement Plan, the Pensions Committee approved a Pensions Remediation Plan in June 2020. Since then officers continue to put in place recommendations from the plan, some of which involve overall data improvement by employers in the scheme, and as such are likely to require further work.
<p>B. Ensuring openness and comprehensive stakeholder engagement.</p>	<p><u>2019/20</u> Council meetings and Committees are routinely held in public unless there are good reasons for not doing so on the grounds of confidentiality/disclosure of exempt information which are provided for in statutory provisions.</p> <p>The Council invested in the technology to facilitate the webcasting of meetings meaning that stakeholders and residents can attend meetings if they wish to or watch them online. This</p>

technology proved particularly effective during the Covid-19 pandemic (spanning 2019/20 to 2021/22) and enabled critical Committees to continue and be available to the public.

An online library of meeting agendas, attendance, supporting papers, decisions and minutes is maintained on the Council's website. As a result, the decision-making process can be considered and reviewed by stakeholders and the public from inception through to final decision and any ultimate scrutiny.

The Council sought community views on a wide range of issues and undertook regular consultation and engagement with citizens and service users. The Council recognised that its consultations needed to be improved and during 2019/20 launched a Consultations Hub to better facilitate consultations. Details of current, planned, and past consultations have been made available on the Council's website along with information on how the public/stakeholders can put forward their views.

The Council's Overview and Scrutiny Committee engaged with stakeholders, residents, and community groups to review services and drive improvement in service delivery. The Overview and Scrutiny Committee includes co-opted residents with relevant knowledge and has encouraged residents to attend its meetings, which are open to the public and webcast. Further, residents, community groups and expert witnesses have been invited to participate in Scrutiny review and challenge sessions so the Committee can hear directly from those whose interests are represented.

Social media channels have been used extensively to support the Council's engagement with stakeholders. The Council adopted a Social Media Policy to provide advice and guidance on the use of social media.

	<p><u>Further Updates since 2019/20</u></p> <ul style="list-style-type: none"> As the Council has exited the restrictions enforced by the pandemic, Council meetings and Committees have returned to face-to-face meetings, with the option to attend virtually to observe, during the latter part of 2021/22 and into 2022/23.
<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	<p><u>2019/20</u></p> <p>The Strategic Plan is the main business planning document of the Council. It sets out the corporate priorities and outcomes, the high-level activities that will be undertaken to deliver the outcomes, as well as the measures that will help determine whether the Council is achieving the outcomes. The Council has a structured set of plans which turn the vision into actions, through key council strategies and service plans. The plan is refreshed annually.</p> <p>The performance of the Council against measurable outcome-led targets has been assessed through performance monitoring reports that have been considered within directorates, by the Corporate Leadership Team, Committees, Cabinet and subsequently at other meetings of relevance. Any such reports can also be called in for scrutiny and reviewed by the Audit Committee.</p> <p>As a result of the Covid-19 pandemic the priorities and outcomes of the Council have been reviewed and presented to the Mayoral Advisory Board in 2019/20. The Corporate Leadership Team agreed a recovery and reconstitution plan. Themed boards, such as 'Workforce and Wellbeing' and 'Back to Business' were created and led by Corporate Directors. The Council focussed on managing and recovering from the impact of the pandemic and achieving the best outcomes for residents whilst maximising the opportunities presented through new ways of working.</p>

<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes.</p>	<p><u>2019/20</u> The Council, Cabinet and Committees have received regular reports on performance monitoring, the strategic plan and other policies and procedures which demonstrate the level to which intended outcomes are being achieved and any interventions planned to address issues.</p> <p>All decisions being considered have been objectively and rigorously analysed by the Monitoring Officer and the Chief Financial Officer and all reports have set sections for legal and finance comments to be recorded. Reports have been cleared by finance and legal officers before publication.</p> <p>The Council’s Performance Management and Accountability Framework (PMAF) sets out how we establish whether performance improvement is necessary. The Performance Improvement Board is the main board responsible for identifying and determining interventions to bring about improvements and this board has met regularly.</p> <p>The Council’s Performance Improvement Board challenges services where there are identified concerns, takes a trouble-shooting approach, acts as a “critical friend” to drive improvement in performance, and makes recommendations about where to focus resources to drive improvement.</p>
<p>E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it.</p>	<p><u>2019/20</u> The roles of all officers (including statutory roles) have been defined in agreed job descriptions and person specifications. Staff performance is reviewed on an annual basis. A new ‘My Annual review’ process was adopted to improve the process and increase staff and management engagement, with more details outlined below.</p> <p>The Council has articulated its values and behaviours in ‘TOWER values’ which includes a behaviours framework to support officers.</p>

	<p>The Council's transformation programme called SMARTER TOGETHER, which is led by CLT, is focussed on ensuring the Council is more agile, leaner, and strategic to achieve the best outcomes with limited resources.</p> <p>All members have been provided with a Member Induction Programme and wider Member Development Programme. Members also have an online portal to give them access to many useful documents and materials.</p> <p>Cabinet Members and the Mayor are held to account through regular attendance at Overview and Scrutiny Committee and Sub-Committee meetings as well as through monthly Portfolio meetings with the Mayor and quarterly performance and budget monitoring meetings.</p> <p>All staff are provided with a corporate Induction and provided with additional documents and policies to support their induction, this includes mandatory training in areas such as data protection, anti-fraud, and whistleblowing.</p> <p>Staff are provided with opportunities for further development through the new My Annual Review process.</p> <p>The Council has adopted a range of supporting plans and strategies including the People Resource Plan, Corporate Training Programme and Workforce Development Strategies.</p> <p><u>Updates since 2019/20</u></p> <ul style="list-style-type: none"> • Staff performance is now reviewed twice during the year: Start (1 April-31 May) and then Mid-Year (1 October to 30 November). An approach called 'My Annual Review (MAR)' was introduced during 2020/21 to improve the process and make it simpler to facilitate a two-way conversation. The MAR process has had a positive impact on staff, as it has become embedded across the Council, with metrics suggesting engagement has
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	<p>increased. Management will continue to monitor compliance with the process and address areas of weakness.</p> <ul style="list-style-type: none"> • The MAR process and recruitment is underpinned by the TOWER values and behaviours framework that was introduced back in 2018/19. • A weekly Member Bulletin email is sent to all Members to keep them updated with the work of the Council. • The Council now has a mandatory training programme covering areas such as data protection, anti-fraud, and whistleblowing. Completion of the mandatory training programme is monitored. Whilst completion has previously been low, there are suggestions this has been improving during 2022. Management will continue to monitor compliance with the process and address areas of non-compliance.
<p>F. Managing risks and performance through robust internal control and strong public financial management.</p>	<p><u>2019/20</u> The Council has adopted a risk management strategy and approach with the main priorities of providing robust systems of identification, evaluation, and control of risks which threaten the Council's ability to meet its objectives to deliver services to the community. The five-year Risk Management Strategy was reviewed and agreed by CLT at the end of 2019/20 and the Audit Committee in July 2020. An audit of Risk Management in 2019/20 identified that whilst the framework, strategy and procedures were well documented, directorate and service level compliance with the procedures was variable. The audit also found that, for the Corporate Risk Register, there was insufficient management review and challenge by the Corporate Leadership Team. An action plan was put in place to address these issues but progress was delayed by the pandemic and a lack of risk resources. The Corporate Risk Register has been reviewed and updated by CLT and presented to the Audit Committee for review. Progress against the remaining actions in the plan have been reported to CLT and the Audit Committee.</p> <p>Risk management is part of the Council's day-to-day activities and decision-making and regular reports have been provided at divisional level, directorate level, and cross-organisation with relevant Committees and Cabinet receiving regular updates and advice. The Corporate Risk</p>

	<p>Register is independently reviewed by the Audit Committee. During the Covid-19 pandemic a bespoke risk register was created and closely monitored by the Gold and Silver groups to ensure that significant risks were acknowledged and mitigated. Engagement with risk management was strong at all levels of the business throughout the pandemic and this has continued into 2020/21.</p> <p>The Corporate Director, Resources is responsible for the proper administration of all aspects of the Council’s financial affairs including ensuring appropriate advice is given to the Council on all financial matters.</p> <p>The Council’s system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. During 2019/20, the Council adopted a new Scheme of Financial Delegation and updated its Financial Regulations. In addition, a new Budget Management Handbook was published to support Budget Managers. An increased level of briefings for budget managers has also been put in place.</p> <p>A Medium-Term Financial Strategy is in place. Revenue and capital budget planning based on corporate priorities are led by the Corporate Leadership Team and are presented for approval by the Council. Revenue and Capital Budget Monitoring reports have been presented to the Cabinet on a regular basis, this includes the annual outturn. Members have been able to scrutinise budget monitoring through the relevant Committee to ensure performance and risks are managed.</p> <p>The Council has faced significant financial challenges (increased costs, significantly reduced income, and undeliverable savings) throughout 2019/20 and the position worsened as a result of the Covid-19 pandemic. During 2019/20, the Council introduced a curb on non-essential spending and an Agency Panel (to review the use of agency staff). Whilst there was a reduction</p>
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	<p>in agency staff costs, the initiatives did not result in significant improvement of the Council's overall financial position. In response the Council reviewed its Medium-Term Financial Strategy, introducing enhanced budget management meetings and implemented a revised approach to capturing and approving savings and efficiency proposals to increase the level of confidence in their delivery. The Senior Leadership Team were tasked to prepare savings proposals.</p> <p>Throughout 2019/20 Finance focussed on rectifying significant issues with the 2018/19 statement of accounts and producing the 2019/20 statements. The Corporate Director, Resources commissioned an independent review to identify the lessons that need to be learned to avoid similar issues in the future that was presented to the Audit Committee in November 2020.</p> <p>The significant issues referred to above included serious failings in the administration and governance of pensions. As a result, the Council self-reported to The Pensions Regulator in 2019 and prepared a robust improvement plan. Issues included a failure to provide Annual Benefit Statements to 100% of members due to incomplete records, missing payroll data, back logs of work and a lack resources; outstanding scheme HMRC returns from previous years; failure to issue Annual Allowance Statements to all members and a lack of policy documents as well as data quality issues. Additional resources for the Pensions Administration team were approved and an improvement plan established to tackle the issues highlighted. A number of these problems have been resolved with the improvement plan subject to regular monitoring at the Pensions Board and Committee.</p> <p>The Council has a proactive, holistic approach to tackling fraud, theft, corruption, and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably. The outcomes of anti-fraud work have been reported to, and reviewed by, the Audit Committee. The Council has successfully prosecuted numerous incidents of housing fraud and recovered over £300,000 in compensation and costs as well as 40 social housing properties which can now be used by those in genuine need during 2019/20.</p>
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All reports to Council, Cabinet and Committees are required to set out key implications and information in areas such as risk, equalities, safeguarding and environmental impact.

The Audit Committee is responsible for considering the Council's arrangements for internal governance and financial management and to recommend any actions accordingly. It received a number of relevant reports such as annual internal audit plans, reports from external audit, anti-fraud and corruption initiatives and risk management.

The Council's Internal Audit service undertakes an annual programme of audits which includes providing assurance over the council's risk management processes. If any areas for improvement are identified Internal Audit makes recommendations for management to consider and implement. Progress against the plan and the outcomes of audits are reported to the Audit Committee.

Further Updates since 2019/20

- The aforementioned five-year Risk Management Strategy and progress against any actions outlined within it are monitored and reported to the Audit Committee annually.
- During the Covid-19 pandemic a bespoke risk register was created and closely monitored by the Gold and Silver groups to ensure that significant risks were acknowledged and mitigated. Engagement with risk management was much improved at all levels of the business throughout the pandemic and this continued in 2020/21. This risk register has since been retired, as the risks have been mitigated to an acceptable level as the Council moved out of the pandemic restrictions, and for those risks that have not reduced to an acceptable level, these were transferred over to business-as-usual risk registers to be monitored on an ongoing basis.
- In July 2021 the Audit Committee received the annual report for risk management for the 2020/21 period. The report concluded that "Risk management remains an important feature of good governance and the Council's approach to risk management had matured

	<p>during 2020/21 which has been demonstrated through the proactive risk management during the response to Covid-19 pandemic. The current risk management arrangements are reasonable, but there is some room for improvement to better integrate risk management into the day-to-day operations and culture of the Council and this has been and will continue to be a key focus of work during 2022-23.” An improvement action plan for 2021/22 was agreed by the same Audit Committee. Further reporting on progress was made to the Audit Committee at its meeting on 24 November 2022.</p> <ul style="list-style-type: none"> • Since 2018/19, the Council has faced significant financial challenges throughout as costs associated with Covid and losses in income continued to impact the financial position for a number of years, and up to the first half of the 2021/22. The Council applied £34m of COVID grants and discharge funding received from the CCG to balance its budget, resulting in a slight underspend at outturn for 2021/22. Continued COVID recovery alongside a spike in inflation, fuel prices and the impacts of these on the cost of living will be key aspects for the council to consider in its medium-term financial planning going forward. • Since 2019/20 Finance has been focussed on rectifying significant issues with the 2018/19 and 2019/20 Statement of Accounts. The Mayor, Cabinet Members, CLT and the Audit Committee have been provided with regular updates on progress to finalise the accounts. • Production and publication of the 2020/21 Statement of Accounts were also delayed and the statutory deadline to publish an audited set of accounts was not met. Similarly, the 2021/22 Statement of Accounts has not been produced within the statutory timetable, and it is anticipated that there will be knock-on impacts on time-lines in achieving audit sign-off of 2021/22 and eventually 2022/23 accounts. • The Council established a detailed and far reaching Finance Improvement Plan designed to address the significant issues that have been identified from the Independent Review commissioned following the initial production of the 2018-19 Statement of Accounts; the initial external audit feedback from Deloitte’s on both outstanding Statement of Accounts; the CIPFA review of Financial Management reported in 2017 and a range of matters
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	<p>identified by officers of the Council that require rectification. Progress has been reported periodically to the Finance Improvement Board introduced to govern such improvements, with necessary reporting shared with the Mayor, Cabinet Members, CLT and the Audit Committee too.</p> <ul style="list-style-type: none"> • A follow-up report from the Independent Reviewer presented to Audit Committee in November 2022 indicated that there had been significant improvements in processes for future years.
<p>G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.</p>	<p><u>2019/20</u> The Council has a published constitution setting out how decisions are taken and how the public can get involved in decision making, including access to information, petitions, and ways of getting involved in decision making. The constitution was reviewed in early 2019 and agreed by Council in July 2019.</p> <p>The Council seeks to write and communicate reports and other information for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.</p> <p>The Council webcasts it's Council, Cabinet, Strategic Development Committee, Development Committee and Overview and Scrutiny Committee meetings to ensure maximum transparency. As a result of the Covid-19 pandemic the Council introduced virtual meetings and has also webcast the Licencing Sub Committee and the Audit Committee.</p> <p>The Council maintains an up-to-date website which provides a mechanism for the Council to publish information important in ensuring transparency of its actions.</p> <p>The Council's constitution sets out the terms of reference of all Committees to ensure information is presented to the appropriate Committees. Access to Information rules set out how the Council maintains good public access to information and reports.</p>

	<p>The Council updated its Code of Corporate Governance and it was presented to the Corporate Leadership Team and the Audit Committee for approval in July 2020.</p> <p>There are governance arrangements for the partnership structure. The Tower Hamlets Plan identifies how the partnership will work together through the Partnership Executive Group to deliver cross-cutting activities.</p> <p>The Head of Internal Audit provides an independent and objective annual opinion on the effectiveness of internal control, risk management, and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The Head of Internal Audit delivers a quarterly progress report to the Audit Committee setting out the outcome of Internal Audit and Counter Fraud activity.</p> <p>The Council responds to the findings and recommendations of External Audit, Scrutiny, and Inspection bodies. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control, risk management and governance. However, management’s responsiveness to internal audit is inadequate for some audits with the implementation of agreed recommendations taking many months. The Head of Internal Audit has raised these concerns with the senior officers and the Audit Committee and introduced new procedures to improve engagement with management.</p> <p>As senior Council decision-making bodies, the Audit Committee, and any other relevant Non-Executive Committee including Scrutiny, can report any concerns they have regarding actions that have not been undertaken.</p> <p><u>Updates since 2019/209</u></p> <ul style="list-style-type: none"> • The constitution was last agreed by Council and published in March 2022 and subsequently, May 2022 following the results of the 5 May 2022 local elections.
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	<ul style="list-style-type: none"> • As a result of the Covid-19 pandemic the Council introduced virtual meetings and has also webcast all committee meetings as outlined above. As restrictions eased, meetings returned to “in-person” with a virtual option available. • The Council updated its Code of Corporate Governance, and it was again presented to the Corporate Leadership Team and the Audit Committee for approval in July 2021. This has since gone again to the Audit Committee meeting on 24 November 2022 for its periodic review.
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Internal Audit

The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole of the Council’s activities. It is a requirement for the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of governance, risk management and internal controls within the Council. The Head of Internal Audit reported the 2019/20 annual opinion to the Audit Committee in July 2020.

2019/20 Head of Internal Audit Annual Opinion Issued in July 2020

*On the basis of the audit and anti-fraud activity undertaken during the year, in particular the audit of risk management, and taking into consideration external assurances and other relevant matters including the significant issues with the closure of the Council’s 2018/19 Statement of Accounts and associated accounting procedures that have emerged throughout 2019/20, as well as the breaches of law in relation to Pensions Administration, it is my opinion that I can provide **Limited**¹ assurance that the authority has adequate systems of governance, risk management and internal control.*

Limitations of Scope

¹ A **limited assurance** opinion means that significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives.

Internal Audit does not audit the Council's annual statement of accounts and this opinion does not cover the associated financial statements and disclosures. The Council's external auditors (Deloitte) are responsible for the audit of the annual statement of accounts and reporting whether, in their opinion, they present a true and fair view of the financial position of the Council. At the time of preparing this report neither the 2018/19 nor 2019/20 accounts have been audited, although as previously stated there were significant issues with the 2018/19 and 2019/20 accounts.

The internal audit plan cannot address all risks across the Council and the opinion is based on our best use of the available resources. The annual opinion draws on the work carried out by Internal Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit plan. Not all risks fall within our audit plan.

Paul Rock, Head of Internal Audit, Fraud and Risk (in post at the time of producing the Annual Internal Audit Opinion, original AGS collation and presentation to Audit Committee).

External Audit & Inspections

External Audit

From 1 September 2018 Deloitte LLP was appointed as the Council's external auditor, this was following the decision of the Council to opt into the Public Sector Audit Appointments Limited (PSAA) arrangement. The PSAA Board appointed Deloitte to audit the accounts of the Council for a period of five years (2018/19 to 2022/23).

Deloitte were unable to complete their audit of the 2018/19 or 2019/20 financial statements before the statutory deadlines. There were significant issues with the Council's 2018/19 statement of accounts, and it has taken over three years for these issues to be largely resolved; similarly there were issues with the production of the 2019/20 statement of accounts. The Council developed an action plan that was overseen by the Corporate Director of Resources (the s151 Officer) and the Deputy s151 Officer; additional resources were sourced to complete the plan and produce a revised set of accounts and a dedicated finance improvement team was created for additional support. To support this improvement, a Finance Improvement Board was created and chaired by the Interim

Corporate Director of Resources (s151 Officer). From 2019/20 to 2021/22, the Board has monitored, challenged, and supported the delivery of the Finance Improvement Plan. Internal Audit has also been embedded in this process, performing specific reviews over process redesigns and improvements suggested to ensure they mitigate the risks posed and address the recommendations that derived from the initial review. Progress has been reported to the Council's Statutory Officers, Mayor, Cabinet Members and the Audit Committee.

The Corporate Director, Resources commissioned an independent review to identify lessons learned and avoid similar issues with the accounts in the future. The outcome of this review was presented to the Audit Committee in November 2020.

The Council has in parallel been working to produce the 2019/20 accounts. As a result of the Covid-19 pandemic the timetable for publishing the accounts was extended via new regulations. The final, audited accounts for 2019/20 were required to be published by 30 November 2020. Due to ongoing issues with the 2018/19 and 2019/20 accounts, the statutory deadline for publishing the 2019/20 statement of accounts was missed.

The Council is in the process of re-presenting its 2020/21 accounts, and producing a draft set of accounts for 2021/22, both of which have surpassed statutory deadlines.

Other Inspections

During 2019/20 external inspectors from Ofsted have completed an inspection of Children's Social Care Services, summary details are as follows.

Ofsted

In June 2019 Ofsted inspected Children's Social Care Services. The report was published in July 2019. Ofsted rated the performance as Good in all areas and concluded the following:

Services for children in Tower Hamlets are now good and have substantially improved since they were found to be inadequate in 2017. Since then, leaders and managers have had a relentless focus to improve practice to deliver good experiences and progress for children and their families. At all levels, there is effective management oversight and a direct understanding of the quality of significantly improved frontline practice.

Effective and well-coordinated universal and early help provision means that children and families receive good help when they need it. Children in need, including those in need of protection, benefit from good assessments that inform plans to reduce risk and improve children's circumstances. The workforce reflects the diversity of the local population and staff sensitively take account of, and respond appropriately to, the cultural and religious needs of children and families in Tower Hamlets

Children in care and care leavers receive good support from workers who know them well and are appropriately ambitious for them. They live in stable homes, which helps them to do their best in all aspects of their lives.

The full report is available on request.

Since 2019/20, numerous additional inspections have been conducted, relevant to the financial years 2020/21 and 2021/22. For further details, please refer to the statements collated for the corresponding periods.

Companies, Arms-Length Management Organisations and Charities

The Council is involved in a number of companies as well as an Arms-Length Management Organisations and Charities, the significant ones of which are detailed below. To support better governance going forward the Council will be provided with an annual report on each of the organisations to encourage openness and transparency over their activities and performance.

Tower Hamlets Homes

The Council has in place a well-established Arm's Length Management Organisation - Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage the Council's housing stock. Tower Hamlets Homes has a formal governance structure

and manages its internal affairs and delegated budgets through the Company Board. Performance is monitored through a formal review process with senior council officers and elected members. The company operates its own risk management strategy and is subject to internal and external audit and inspection activities in compliance with the Companies Act.

The Council's Internal Audit team provides internal audit services to THH. In keeping with the Public Sector Internal Audit Standards, the Head of Internal Audit issued an annual opinion for 2019/20 about the governance, risk management and internal control arrangements. The opinion was as follows:

*On the basis of the audit work undertaken during the 2019/20 financial year, my overall opinion on the organisation's system of governance, risk and control is that **Substantial²** assurance can be provided that the internal control environment (including the key financial systems, risk and governance) is in the main well established and operating effectively in practice. However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give this assurance.*

Paul Rock, Head of Internal Audit, Fraud and Risk.

King George's Field Trust

The Council serves as sole trustee of the King George's Field, Mile End charity. The charity is governed by a Trust Deed, and is unincorporated, being established by a Scheme of the Charity Commission dated 28th February 2000. The Charity's objectives are set out in Trust Deeds, which are as follows "To preserve in perpetuity the covenanted land and to apply the land to such charitable purposes as are set out in the Recreational Charities Act 1958, including the construction of indoor recreational facilities, subject to the approval of the National Playing Fields Association and the Charity Commission in respect of any additional purposes".

The Trust has no employees of its own, and is dependent on staff of the Council for its operations; its standing orders with respect to controls for procurement, expenditure and income are aligned to those of the Council.

² A **substantial** assurance opinion means there was a generally sound system of governance, risk management and control in place.

However, for the 2018/19 and 2019/20 financial years, the Trust's financial statements were not submitted within statutory timeframes.

Significant Governance Issues

Corporate Directors are required to consider whether there have been any significant governance issues. For the purposes of this review we have defined a significant governance issue as something that:

- Seriously prejudiced or prevented achievement of one or more principal objectives.
- Resulted in the need to seek additional funding to resolve the issue.
- Required a significant diversion of resources.
- Had a material impact on the accounts.
- Resulted in significant public interest or has seriously damaged the reputation of the Council.
- Resulted in formal actions by the Section 151 (Corporate Director, Resources) or Monitoring Officer (Corporate Director, Governance).
- Received significant adverse commentary in an external inspection report and was not or cannot be addressed in a timely manner.

Progress against Significant Governance Issues Identified in 2018/19

The 2018/19 the AGS included 9 significant governance issues which needed to be addressed during 2019/20. A summary of progress/outcomes against these actions is outlined as follows:

No.	Issue identified in 2018/19	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
1	Outstanding Payments to care providers end of year accrual process and implementation of Electronic Home Care Monitoring. Associated adverse	Outstanding Payments Hub established to recover position on monies owed to providers – external input to design (Socitm) and CPMO oversight and support.	Completed The contract with our electronic home care monitoring system ended March 2020. All outstanding monies owed to providers has been paid in 2021 to inform accurate year-end position.

No.	Issue identified in 2018/19	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
	end of year budget position in relation to adult social care.	<p>Review of accruals process and improvements to monthly budget process particularly around home care.</p> <p>Commissioned review of Electronic Home Care Monitoring from Socitm – final report now prepared and recommendations being discussed and implemented.</p>	<p>Alternative block payment arrangements have been put in place as a response to the pandemic. This was to ensure continuity of supply. These will need to be reviewed after the pandemic and a transition to more permanent arrangements – but not a requirement of the actions to mitigate the concerns raised in 2018/19.</p> <p>Longer term arrangements are also being explored as part of plans for homecare re-procurement.</p>
2	Adult Social Care Improvement – consistent practice and quality	<p>Improvement Board replaced by Quality Assurance Board during 2018/19.</p> <p>Independent input from LGA Care & Health Improvement Advisor. Internal audits (& follow ups of relevant areas). Further actions include need for improved data to support performance & quality improvement and recruitment and retention of social workers.</p>	<p>In Progress (with a completion date in 2022/23)</p> <p>A restructure of adult social care has been completed and it was implemented on 1st September 2019.</p> <p>Issues with practice and adult social care improvements are embedded in the restructure. Along with various methods introduced to improve practice across the service (e.g., Risk panels, Care support plan assurance meetings (CSPAM) etc). In addition, the Council developed and implemented various practice guides and training / briefing to improve practice across the service.</p> <p>The Council has proactively responded to audits carried out in various teams to ensure services are practising in a safe and transparent way. (No recourse to public fund, Management of client fund, CLDS, and client financial affairs completed during 2019/20 and 2020/21).</p> <p>With the implementation of Mosaic, there is ongoing work happening to ensure we can maximise the benefits of Mosaic and improve our data input and performance reporting.</p>

No.	Issue identified in 2018/19	Action to be taken, as first identified	Progress / Outcome (as at January 2023)									
			<p>Since 2019/20, further improvements were identified in a SCIE/CIPFA report regarding practice (alongside financial/savings opportunities) as part of a comprehensive transformation and improvement programme. Improvement plan has been developed following the SCIE/CIPFA report regarding practice, is funded and underway, with progress reported periodically. This, alongside implementing specific internal audit recommendations for audits conducted previously, and throughout the year, is contributing to significant improvements.</p> <p>Whilst progress has seen significant improvement in the areas of consistency and quality, there is recognition that data quality issues do remain, especially as further development to Mosaic is needed. As a result, work will remain in progress and therefore, this action has been carried forward as outlined in the action plan within the draft 2021/22 AGS, with actions as below:</p> <table border="1" data-bbox="1294 948 2042 1323"> <thead> <tr> <th data-bbox="1294 948 1720 1018">Action</th> <th data-bbox="1720 948 1895 1018">Responsible Officer</th> <th data-bbox="1895 948 2042 1018">Timescale</th> </tr> </thead> <tbody> <tr> <td data-bbox="1294 1018 1720 1203">Implement further developments to Mosaic (IT system) and improve the quality of data on the system as part of the Adult Social Care Improvement Programme</td> <td data-bbox="1720 1018 1895 1203">Divisional Director, Adult Social Care and Divisional Director, IT</td> <td data-bbox="1895 1018 2042 1203">2022/23</td> </tr> <tr> <td data-bbox="1294 1203 1720 1323">Strengthen the governance in relation to implementation of recommendations from Safeguarding Adults Reviews.</td> <td data-bbox="1720 1203 1895 1323">Divisional Director, Adult Social Care</td> <td data-bbox="1895 1203 2042 1323">2022/23</td> </tr> </tbody> </table>	Action	Responsible Officer	Timescale	Implement further developments to Mosaic (IT system) and improve the quality of data on the system as part of the Adult Social Care Improvement Programme	Divisional Director, Adult Social Care and Divisional Director, IT	2022/23	Strengthen the governance in relation to implementation of recommendations from Safeguarding Adults Reviews.	Divisional Director, Adult Social Care	2022/23
Action	Responsible Officer	Timescale										
Implement further developments to Mosaic (IT system) and improve the quality of data on the system as part of the Adult Social Care Improvement Programme	Divisional Director, Adult Social Care and Divisional Director, IT	2022/23										
Strengthen the governance in relation to implementation of recommendations from Safeguarding Adults Reviews.	Divisional Director, Adult Social Care	2022/23										

No.	Issue identified in 2018/19	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
3	<p>There are significant issues with the 2018/19 accounts closure which continues to require extensive remedial actions. This has included:</p> <ul style="list-style-type: none"> • Valuations of Property, Plant and Equipment (and supporting control processes) • Point of recognition for income from grants and contributions. • Pension fund deficit and accounting. • Accounting processes for the collection and general funds. • Robust processes for determining the requirement for provisions • Disclosure deficiencies, where presentation and information requirements have not been fulfilled 	<p>An action plan has been developed and is being overseen by the S.151 Officer and the Deputy Section 151 Officer.</p> <p>Additional resources have been sourced to complete the plan and produce a revised set of accounts.</p> <p>Advice and support is being support from other London Boroughs and Grant Thornton.</p> <p>A dedicated finance improvement team is being created for additional support.</p>	<p>In Progress (with a completion date in 2022/23)</p> <p>An independent review was commissioned by the Corporate Director of Resources to determine lessons learned and avoid similar issues with the accounts in the future. The Council established a detailed and far-reaching Finance Improvement Plan designed to address the significant issues that have been identified from the Independent Review, but also the initial external audit feedback from Deloitte on both the 2018/19 but also 2019/20 SoAs, the CIPFA review of Financial Management reported in 2018 and a range of matters identified by officers of the Council that require rectification.</p> <p>It should be recognised that slippage on finalising the 2018/19 and 2019/20 accounts is leading to knock-on impacts on 2020/21 and 2021/22 accounts and audits.</p> <p>The Council has completed most of the actions identified in the Finance Improvement Plan (FIP) and an update was provided to the Audit Committee in a separate report at its meeting held on 28th June 2022.</p>
4	<p>The Council is in an overspend position.</p>	<p>The Corporate Leadership Team is committed to meeting the financial challenges. All directorates will monitor</p>	<p>Completed (with recognition this remains a challenge)</p>

No.	Issue identified in 2018/19	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
	<p>There has been significant slippage in the achievement of savings targets c. £10 million. The position may change (for the worse) as the accounts need to be restated.</p>	<p>and find ways to proportionally respond to the increasingly challenging financial and demand position whilst delivering statutory duties and existing savings targets. The financial position will be closely monitored and reported to CLT and MAB.</p>	<p>The pandemic placed further financial strain on the Council and more than half of the planned savings for 2019/20 were not delivered. The provisional outturn for 2019/20 was overspent by circa £10 million for the General Fund and £7m for the Dedicated Schools budget.</p> <p>Measures were introduced in 2020/21 to reduce future spending including a freeze on recruitment, a freeze on agency contracts, a review of staffing levels, a review of posts funded from reserves and a non-essential spending freeze.</p> <p>In addition, the corporate leadership team initiated a programme to identify savings proposals and ensure a balanced budget. This continues to be an area of focus.</p> <p>Furthermore, the Council has applied £34m of COVID funding during 2021/22 and discharge funding received from the CCG to balance its budget, resulting in a slight underspend at outturn for 2021/22. Continued COVID recovery alongside a spike in inflation, fuel prices and the impacts of these on the cost of living will be key aspects for the council to consider in its medium-term financial planning going forward.</p>
5	<p>Budget Management needs to be improved across the Council</p>	<p>A new budget handbook has been produced and will be launched imminently.</p> <p>Finance will provide training and guidance to budget managers. The finance improvement team will provide additional support.</p>	<p>Completed</p> <p>During 2019/20, a number of actions were undertaken to address these concerns, including:</p> <ul style="list-style-type: none"> • A new Budget Handbook was published, and training was provided to budget managers.

No.	Issue identified in 2018/19	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
		<p>CLT will adopt a more challenging approach to the delivery of Recovery Plans and discretionary spending decisions.</p>	<ul style="list-style-type: none"> • Detailed budget challenge meetings have been introduced for high-risk budgets. • A new savings proposals process for scrutiny and approval has been adopted. <p>Although the Council had to postpone the Agresso upgrade planned for 2020, work to improve the processes undertaken within Agresso as part of the Council's Finance Improvement Plan was completed, with better reporting for budget managers to inform their monthly forecasting.</p> <p>There is recognition that work remains ongoing in this area, with specific focus areas such as Adult Social Care flagged, which is also not aided by ongoing budget pressures – but work has been performed to address these concerns through the actions outlined.</p>
6	<p>There are a number of performance, administration and governance issues, some of which are breaches of law and it is necessary that the Council informs The Pensions Regulator of these breaches and provide the Regulator with a robust improvement plan and work programme. These issued include:</p> <ul style="list-style-type: none"> • Failure to provide Annual Benefit Statements to 	<p>The actuary is completing urgent reviews of annual allowances.</p> <p>Additional interim resources are being recruited to current establishment as a matter of urgency.</p> <p>The software provider has completed a review of scheme member data in line with guidance notes set down by The Pensions Regulator (TPR). Results have been quantified to provide guidance on corrective action required.</p> <p>TPR was notified of key breaches identified.</p>	<p>In Progress</p> <p>The remediation plan was submitted to the Pensions Committee in June 2020 and the Pensions Board in July 2020.</p> <p>Work on a program of drafting policy documents and procedures as required was performed. Four policy documents were drafted and submitted to the Pensions Committee for approval, covering: admin strategy, risk register and a host of Fund documents.</p> <p>Outstanding, there is the ongoing problem of validation of data received by the Pension Fund from employers and the Council, where historic records may require correction. The Council will endeavour to complete the work required</p>

No.	Issue identified in 2018/19	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
	<p>100% of scheme members.</p> <ul style="list-style-type: none"> • Outstanding scheme tax returns from previous years. • Failure to issue Annual Allowance Statements to all scheme members who require one. • A lack of policy documents and data quality issues. 	<p>Remediation plan to be submitted to Pensions Board in March 2020.</p>	<p>on data correction and validation as soon as possible, but it acknowledges that this may slip into 2023/24 now.</p>
7	<p>There is an overspend on the Dedicated Schools Grant. In addition, there is demand and budget pressure on SEND and the associated transportation.</p>	<p>The financial position will be closely monitored and reported to CLT and MAB.</p> <p>A financial recovery plan has been produced and submitted to the Department for Education.</p> <p>A wider review of SEND is being undertaken and will be focussed on demand and funding management.</p> <p>SEND Transportation has recently been reviewed by Grant Thornton and options to manage demand and costs have been presented to the Directorate for their consideration and implementation.</p>	<p>Completed</p> <p>In response to this action, the High Needs Block (HNB) of the DSG was monitored as described during 2019/20, with pressures reported through the Monthly Budget monitoring cycle. This was also part of a wider HNB recovery Plan which was monitored as part of a monthly monitoring cycle – being reviewed by the required parties as across the Council.</p> <p>Top up funding for schools was reduced. Demand management was managed through the development of guidance for schools on expectations of mainstream schools regarding inclusion of children with additional needs and appropriate requests for an EHCP.</p> <p>The level of retained funding decreased once the restructure of the Support for Learning Service was completed and the newly formed service continues to be</p>

No.	Issue identified in 2018/19	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
			<p>deployed more flexibility to speed up the completion of EHCPs.</p> <p>A Transport Review Board was also set up which is focuses on demand management in SEND transport across children’s and adults; and the TSU also attend. The Board is chaired by the Divisional Director Youth and Commissioning. The Board oversaw the 2019/20 Children’s Services SEND Audit Action Plan through to completion to inform necessary improvements.</p>
8	<p>Internal Audit has been under resourced as a result of vacancies, misaligned work force and no external delivery partner. There is a risk that the current and future annual opinions will be limited in scope and/or unsafe.</p>	<p>All vacancies to be filled as a matter of urgency.</p> <p>Existing temporary staff, where appropriate, to be moved to permanent contracts. External delivery partner to be sourced urgently.</p>	<p>Completed</p> <p>An external delivery partner was initially sourced in 2020 (BDO) for internal audit and specialist IT services, which ran until 2021. This was extended into 2022, with a recent procurement exercise completed which BDO was successful in being re-appointed through to 2024 to provide consistency.</p> <p>At the time, all temporary staff vacancies were advertised and recruited to permanently. Recently, further recruitment exercises were conducted to fill the remaining vacancies, with successful applicants identified and offered roles at the point of updating this statement (November 2022).</p>
9	<p>The Council’s consultation and engagement activities with the community and stakeholders are currently managed by individual services and departments, with significant differences in process.</p>	<p>In line with our Community Engagement Framework 2018-21, a Transforming Consultation and Engagement programme has been set up to deliver:</p>	<p>Completed</p> <p>To improve the council’s consultation and engagement approach, the Council launched our new platform, Let’s Talk Tower Hamlets, and published their consultation and engagement handbook on the intranet for staff during 2019/20.</p>

No.	Issue identified in 2018/19	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
	<p>Although some very good practice exists, the quality of the community involvement activities across the council is variable. Issues include:</p> <ul style="list-style-type: none"> • An absence of accepted set of standards or guidance on conducting consultation and engagement activities. • Consultation responses often being held by the consulting team and thus inaccessible to colleagues – who may then go out to consult on similar issues. • The lack of a standard means of providing feedback to the community on the impact of their contributions. 	<ul style="list-style-type: none"> • Guidance for staff on conducting consultation and engagement activities which will provide a standardised, streamlined approach to community involvement activities as well as enable compliance with standards. • An online hub to facilitate community involvement which will provide central repository of all engagement and consultation activities undertaken by the Council and open a range of innovative and engaging multimedia tools and reporting. 	<p>Both key milestones were delivered in February 2020 and are already significantly helping the Council to ensure there's a consistent standard of consultation and that we are using new digital tools to engage our residents. The consultation handbook was quality assured and supported by the Consultation Institute, which also provided core training and advice to relevant staff across the Council. Consultation activity was largely paused at the end of 2019/20 as a result of coronavirus but resumed during quarter one of 2020/21.</p> <p>The communications and SPP teams together continue to focus on embedding our new way of working between our teams and across the council.</p>
10	<p>Contemporaneously acknowledged (rather than in the earlier drafts of this document), an audit of Risk Management in 2019/20 identified that whilst the framework, strategy and procedures were well</p>		<p>In progress</p> <p>At the last update provided to Audit Committee, in November 2022, it was stated that some progress had been made in identification and review of risks, but also that some of the underlying processes that underpin a robust risk register are targeting a delivery date of June 2023.</p>

No.	Issue identified in 2018/19	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
	documented, directorate and service level compliance with the procedures was variable. The audit also found that, for the Corporate Risk Register, there was insufficient management review and challenge by the Corporate Leadership Team.		

Significant Governance Issues Identified in 2019/20

All five Corporate Directors submitted their returns for 2019/20 to the Chief Executive. Due to this AGS being updated to the point the Statement of Accounts for 2019/20 are being signed, we have reflected on progress of actions identified to address the concerns identified in 2019/20:

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
1	The Government imposed lockdown of the Country in response to the COVID-19 pandemic is anticipated to have a material impact on the Council's income sources and expenditure requirements. The pandemic impacts in a number of ways including the	Modelling of impacts particularly in relation to the Council's tax bases for business rates and Council tax has been undertaken and MTFS modelling updated Review of Strategic Plan objectives and establishment and operation of GOLD and Silver management structures	Completed The outturn position for 2020/21 was an underspend. The MTFS was updated to reflect ongoing challenges resulting from the financial impact of COVID-19. Necessary review, monitoring, and reporting was presented to Gold and Silver throughout the COVID-

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
	<p>achievement of corporate objectives, the need for additional extraordinary government funding and has necessitated the diversion of resources into critical services.</p> <p>There is no guarantee that all additional costs will be reimbursed and indeed the government has raised the prospect of Council reserves being used to support some of the activity.</p>	<p>Production of returns to MHCLG setting out additional costs and utilization of additional monies provided.</p>	<p>19 period and their operation, with appropriate returns submitted to MHCLG in a timely manner.</p>
2	<p>The issues identified with the 2018/19 Statement of Accounts (SoA) and reflected in the 2018/19 AGS have been worked on during the year. A revised SoA was presented to the Audit Committee in May 2020 and are now subject to external audit review (by Deloitte). Further adjustments will be required through the audit process.</p>	<p>A commitment was made to the Audit Committee for an independent review to be undertaken to understand and ensure that the lessons to be learnt from these issues have been fully identified and steps taken to address them.</p> <p>The review was completed and presented to the Audit Committee in November 2020. An action plan is being prepared to address the issues.</p>	<p>In Progress (with a completion date in 2022/23)</p> <p>The Council established a detailed and far-reaching Finance Improvement Plan designed to address the significant issues that were identified from the Independent Review commissioned following the initial production of the 2018-19 Statement of Accounts (SoA); the external audit feedback from Deloitte's on both outstanding SoAs; the CIPFA review of Financial Management reported in 2017 and a range of matters identified by officers of the Council that require rectification.</p> <p>The Council developed action plan was overseen by the S.151 Officer and the Deputy Section 151 Officer, additional resources were sourced to complete the plan and produce a revised set of SoAs and a dedicated finance improvement team was</p>

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
			<p>created for additional support. To support this improvement, a Finance Improvement Board was created and chaired by the Interim Corporate Director of Resources (s151 Officer). From 2019/20 to 2021/22, the Board has monitored, challenged, and supported the delivery of the Finance Improvement Plan. Internal Audit has also been embedded in this process, performing specific reviews over process redesigns and improvements suggested to ensure they mitigate the risks posed and address the recommendations that derived from the initial review. Progress has been reported to the Council’s Statutory Officers, Mayor, Cabinet Members, and the Audit Committee.</p> <p>The Council has completed most of the actions identified in the Finance Improvement Plan (FIP) and an update was provided to the Audit Committee in a separate report at its meeting held on 28th June 2022.</p>
3	<p>Budget Management remains a concern with overspending remaining a significant risk. Agreed action to mitigate budget pressures and savings slippage, such as the Agency Review Panel, the non-essential expenditure embargo and the</p>	<p>An additional set of budget challenge sessions based on an assessment of financial risk were held with budget managers and relevant Corporate Directors.</p> <p>Immediate measures were introduced to reduce future spending including a freeze on recruitment, a freeze on agency</p>	<p>Completed</p> <p>The outturn position for 2020/21 was an underspend. The MTFS was updated to reflect ongoing challenges resulting from the financial impact of COVID-19.</p>

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
	production of Recovery Plans, have been largely unsuccessful.	contracts, a review of staffing levels and a review of posts funded from reserves. In addition, the senior leadership team have prepared saving proposals to ensure a balanced budget.	
4	The reduction in General Reserves arising from the overspend has required a review of earmarked reserves in order to maintain an appropriate level of General Fund balances. This has impacted on delivery of other priorities and has led to a further reduction in the overall level of the Council's usable reserves.	The level of usable reserves needs to be kept under review during the year and is clearly linked to the maintenance of robust budget management processes set out above.	Completed The outturn position for 2020/21 was an underspend which resulted in a lower draw on reserves than anticipated. The MTFS was updated to reflect ongoing challenges resulting from the financial impact of COVID-19.
5	The COVID-19 pandemic has resulted in the potential failure of the Council's Leisure Services provider; with a request for financial support being made to avoid service failure once lockdown is ended. The refinancing of the Poplar Baths project has also been impacted by the pausing of the	Detailed financial analysis of the position that the provider finds themselves in was undertaken on an open book basis to inform a decision about options for support and/ or provision of services in the future. Continued engagement with the project company and respective legal and financing specialists to minimize risk to the Council through the refinancing process.	Completed Detailed financial analysis of the Council's Leisure Services provider's position was undertaken on an ongoing basis throughout 2020/21, and the issue of risk of failure was largely mitigated through the following Cabinet decisions and funding secured: 29 Jul 2020 - Cabinet Report: The Safe & Viable Reopening of Leisure Centre –

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
	<p>proposed project finance in the light of COVID-19. This brings additional risk to the Council from project failure in addition to provider failure on the leisure contract.</p>		<ol style="list-style-type: none"> 1. authorised the Corporate Director Resources to negotiate and agree a management fee sum of up to £181k for Poplar Baths. 2. authorised the Corporate Director Resources to negotiate and agree the removal of the Leisure Management service element from the main Poplar Baths PPP agreement, to bring it in line with the main leisure management contract or as a continuation of the current arrangements between LBTH and Folera. 3. approved a contract variation to the main leisure management contract to provide a management fee of up to £593k to GLL, pending further negotiation of the repayment schedule and share of surplus and following further consultation with the Mayor and Lead Member. 4. approved increased pricing schedule 5. approved the phased restoration of safe and viable leisure centre activities in three phases with decisions upon implementation of each phase to be determined following a review of guidance, implementation, demand and lessons learned and following consultation with the Mayor and Lead Member in advance of each phase of restoration. <p>27 January 2021 - Cabinet Report: Procurement of the Leisure Management Contract – Authorised the extension of the leisure</p>

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
			<p>management contract and Poplar Baths contracts to 2024</p> <p>Mar 2021 – National Leisure Relief Fund (NLRF) funding £803k secured</p>
6	<p>The COVID-19 pandemic has resulted in requests from Social Care providers for additional payments and for payments in advance of service delivery. This must also be seen in the context of the discontinued use of the electronic home care monitoring system in Adults Services and reversion to a manual system.</p>	<p>Alternative block payment arrangements have been put in place as a response to the pandemic. This was to ensure continuity of supply. These will need to be reviewed after the pandemic and a transition to more permanent arrangements.</p> <p>Longer term arrangements are also being explored as part of plans for homecare re-procurement.</p>	<p>Completed</p> <p>Additional financial support measures were put in place to assist Social Care Providers through the use of the Government specific COVID-19 Grant funding, Adult Social Care Infection Control Fund, Adult Social Care Rapid Testing Fund and the Adult Social Care Workforce Capacity Fund. Adult Social Care Providers were allocated funding, within the grant conditions of these funding regimes, for specific items of expenditure they were incurring. This included providers with which the Local Authority did not have a contract with.</p> <p>Further funding to Adult Social Care Providers continued for the period 1st April to 30th September 2021 under the continued Adult Social Care ring-fenced Infection Control and Testing Grant.</p> <p>A new reporting template and homecare monitoring process was piloted with Homecare providers as part of a programme of 4 workstreams that was delivered during 2021/22, in line with the re-procurement of domiciliary care services.</p>

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)						
7	<p>Towards the end of 2019/20 the Council engaged an external consultant to review the extent of video surveillance system usage and compliance with the relevant Code of Practice. The consultant concluded the following:</p> <p><i>...the London Borough of Tower Hamlets can be considered not to comply with the Council's obligations to show due regard to the provisions of the Protection of Freedoms Act 2012 (PoFA), thus failing to meet the Code of Practice compiled under that Act by the Home Office Surveillance Camera Commissioner (SCC) for the operation of video surveillance systems by the Council or on behalf of the Council.</i></p> <p><i>It can also be considered that the Council fails to meet the requirements to comply with the Data Protection Act 2018 Legislation and GDPR regulations the use and</i></p>	<p>A comprehensive action plan to improve compliance and reduce the risks has been agreed and implementation has begun.</p>	<p>In progress</p> <p>Progress with the plan and project continued throughout 2020/21 (led within the directorate but covering systems across the whole Council) to ensure compliance with standards.</p> <p>Recognising this was a Council-wide issue, the two-year programme remains in progress at the point of updating this AGS. As progress continues, this action has been carried forward as outlined in the action plan for 2022/23 below:</p> <table border="1" data-bbox="1366 699 2038 1193"> <thead> <tr> <th data-bbox="1366 699 1702 770">Action</th> <th data-bbox="1702 699 1892 770">Responsible Officer</th> <th data-bbox="1892 699 2038 770">Timescale</th> </tr> </thead> <tbody> <tr> <td data-bbox="1366 770 1702 1193">Continue with project (led within the directorate but covering systems across the whole Council) to ensure compliance with standards</td> <td data-bbox="1702 770 1892 1193">Divisional Director, Community Safety, Head of Information Governance & all Divisional Directors across the Council with responsibility for the use of surveillance systems</td> <td data-bbox="1892 770 2038 1193">2022/23</td> </tr> </tbody> </table>	Action	Responsible Officer	Timescale	Continue with project (led within the directorate but covering systems across the whole Council) to ensure compliance with standards	Divisional Director, Community Safety, Head of Information Governance & all Divisional Directors across the Council with responsibility for the use of surveillance systems	2022/23
Action	Responsible Officer	Timescale							
Continue with project (led within the directorate but covering systems across the whole Council) to ensure compliance with standards	Divisional Director, Community Safety, Head of Information Governance & all Divisional Directors across the Council with responsibility for the use of surveillance systems	2022/23							

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
	<p><i>management of video surveillance systems. Considering the current situation, the risks to the organisation are three-fold – financial, legal and reputational.</i></p>		
8	<p>Failure to adequately maintain Chater House resulting in inadequate insurance, increases in premiums and a breach of the lease conditions.</p>	<p>Programme put in place to review the stock condition of community shops portfolio and undertake any necessary repairs and maintenance. Fire Risk Assessments to be being undertaken on all commercial portfolio.</p>	<p>Completed (with recognition ongoing review is required)</p> <p>An inspection regime is now in place, and the Council continues to review the stock condition of community shops portfolio and undertake any necessary repairs and maintenance.</p> <p>Recognising this is a risk that needs to be maintained going forward, a risk relating to this issue has been recognised on the risk register to ensure insurance matters are dealt with.</p>
9	<p>Weaknesses or non-compliance regarding the system of governance, risk management and control in the Capital Programme</p> <p><i>(Recommendation from Audit report on governance of capital programme).</i></p>	<p>Undertake a ‘fundamental review’ of the current year’s Capital Programme plus two years and report funding to Cabinet for oversight.</p> <p>Ensure the capital programme has adequate profiling of expenditure to capture any slippage / overspend over more than one year.</p> <p>Ensure Capital Growth Bids and Project approvals are completed and authorised by</p>	<p>Completed</p> <p>Capital programme reviewed including profiling of expenditure in full and agreed at Cabinet.</p> <p>Capital monitoring and compliance with procedures has now improved. Capital budgets are now incorporated into Agresso. Slippage can be identified quickly, and appropriate action taken.</p> <p>Bids are reviewed and approved at the Capital Delivery Board which is Chaired by the Corporate</p>

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
		the originating officer prior to approval of the capital scheme.	director of Place and includes representation from key officers.
10	A need to improve the financial governance of capital programmes (<i>Recommendation from Audit Report on governance of acquisition of properties for Temporary Accommodation</i>).	<p>Governance arrangements for the acquisition programme to be reviewed and aligned to the Council's Programme and Project Management Office (PPMO) requirements</p> <p>Plan to be put in place to ensure property acquisitions are financially assessed for value for money and the Officer's Authority for properties and accord to the scheme of delegation</p>	<p>Completed</p> <p>Capital programme reviewed in full and agreed at Cabinet – as above.</p> <p>Financial analysis of housing procurements to identify yields and if yields are insufficient purchase does not proceed, which is now the implemented process as recommended through the internal audit review.</p>
11	Outdated governance (Directors) and purpose of traded companies in particular Seahorse Limited & Mulberry Housing Society.	Undertake a review and refresh of governance and purpose of traded housing companies (Seahorse Limited & Mulberry Housing Society)	<p>Completed</p> <p>Review of company governance arrangements completed. Future governance arrangements and purposes of companies remains an area under review by the Council.</p>
12	Stronger client monitoring of capital expenditure of LBTH over Tower Hamlets Homes to mitigate risks of breaches in procurement guidelines.	<p>THH Management Agreement to be strengthened to include an operational subgroup on procurement and management of contracts.</p> <p>Programme of training for project managers to be delivered to raise awareness and understanding of the governance arrangements.</p>	<p>Completed</p> <p>Management Agreement: The Management Agreement was reviewed, agreed, and signed off by both THH and LBTH in July 2020.</p> <p>Project Managers: All Project Managers are now trained on Framework, procurement, governance, contract management (JCT Contract).</p> <p>Client Capital Monitoring: A Capital Programme and Community Safety Delivery group was created to</p>

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
			<p>enhance monitoring of capital and fire safety works delivery. The group is fully functioning, meets bi-monthly, and among other things, agrees in principle the detailed profile and configuration of the Housing capital, fire safety and FRAs programmes for consideration prior to formal approval by the Council.</p> <p>In addition, the group regularly reviews reports on the spend against budget/ forecasts for all the capital and fire safety schemes, monitors expenditure against budgets of the agreed Capital Programme ensuring that schemes are within approved budgets and variances appropriately addressed.</p> <p>Improved Procurement and Contract Management by THH: THH has a dedicated procurement team to improve its procurement approaches and ensure compliance and accountability for the activities delegated via the MA. THH has also strengthened the governance arrangements that support procurement and contracts. Some of the improvements made include:</p> <p>Improved visibility and procurement planning: This is provided by THH procurement plan, which captures all procurement activity delivered on behalf of the Council (and the company). The plan details procurement projects earmarked for the next 12-24months and tracks the progress of each project to</p>

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
			<p>ensure compliance with the council's procurement rules.</p> <p>Early engagement on procurement strategy: The Client Team are sighted on all PIFs, Appendix 1's, Tollgate 1 and Tollgate 2 reports as they are submitted to the Council's procurement team.</p> <p>Enhanced procurement and contract governance: A THH procurement Board has been set up with representatives from LBTH (procurement and Client teams). This supports and provides oversight of THH's procurement. The Board meets monthly and monitors progress against the plan. THH's Executive Management Team also receives quarterly reports on the progress of the plan.</p> <p>THH/LBTH procurement SLA: The SLA was re-negotiated in June 2020 and is working well. THH works closely with the Councils procurement team to ensure that the council's procedures are followed, and all procurement projects are compliant</p>
13	<p>Contemporaneously acknowledged (rather than in the earlier drafts of this document), an audit of Risk Management in 2019/20 identified that whilst the framework, strategy and procedures were well documented, directorate and service level compliance with the</p>		<p>In progress</p> <p>At the last update provided to Audit Committee, in November 2022, it was stated that some progress had been made in identification and review of risks, but also that some of the underlying processes that underpin a robust risk register are targeting a delivery date of June 2023.</p>

No.	Issue identified in 2019/20	Action to be taken, as first identified	Progress / Outcome (as at January 2023)
	<p>procedures was variable. The audit also found that, for the Corporate Risk Register, there was insufficient management review and challenge by the Corporate Leadership Team.</p>		

Conclusion

The Council strengthened its governance arrangements in many areas during 2019/20 which included introducing a new consultation hub, appointing an independent person to the Audit Committee, actively pursuing and successfully prosecuting incidents of fraud, updating the financial regulations, introducing a budget managers handbook and providing more briefings for budget managers. Despite these positive improvements there were some significant challenges over the course of 2019/20, which included ensuring we were financially sound whilst still meeting growing community needs, closing our financial accounts, administrating the pension scheme and consistently applying good risk management practices across the Council. We recognised the need to improve and were determined to do so as demonstrated by progress outlined above. We put action plans in place to address these issues and regularly reported progress via the Corporate Leadership Team and relevant Committees.



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 2016.

Arms 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.

Better Care Fund (BCF) – A pooled budget between the Council and the local Clinical Commissioning Group, supported by grants from Central Government.

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.



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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 (BRS) – 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 - This is a potential "one-off" future liability or loss, but the level of uncertainty is such that the establishment of a provision is not appropriate.

Contingent Asset - This is a potential "one-off" future receipt or acquisition of an asset, but the level of uncertainty is such that the recognition of the gain is not appropriate.

Corporate and Democratic Core - This includes corporate policy making, activities that relate to the corporate management of the Council and all other member-based activities.

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 Liabilities - 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.

Depreciated Replacement Cost (DRC) - a valuation method that is based on the cost of recreating the asset in its current condition and use. This can be the cost of creating a modern equivalent asset where appropriate.

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 – The use of revenue monies to pay for capital expenditure. Also referred to as Revenue Contributions to Capital Outlay.

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.

External Audit – An independent examination by an appointed Auditor (currently Deloitte LLP) of the Council's activities and accounts to ensure that legal requirements have been met, proper practices followed and appropriate arrangements made to secure value for money.

Fair Value - It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 (FIAA) - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWLB) debt.

General Fund (GF) - The Council's main revenue account from which 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.

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.

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 Strategy (MTFS) – 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) – Local Businesses contribute to Council expenditure based on a rate in the pound decided by Central Government, this is applied to the rateable value of their premises.

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.

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.

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 - 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.

Section 151 Officer - The Responsible Finance Officer for the Council as required by Section 151 of the Local Government Act 1972.

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)
AVC – Additional Voluntary Contribution
BCF – Better Care Fund
BRS – Business Rates Supplement
BSF - Building Schools for the Future
BVIB – Best Value Improvement Board
CBS – Community Benefit Society
CCG - Clinical Commissioning Group
CFR - Capital Financing Requirement
CIES - Comprehensive Income and Expenditure Statement
CIL - Community Infrastructure Levy
CIPFA - Chartered Institute of Public Finance and Accountancy
CLG – Company Limited by Guarantee
CPB – Corporate Parenting Board
CPI - Consumer Price Index
DfE - Department for Education
DRC – Depreciated Replacement Cost
DSG - Dedicated Schools Grant
EIR - Effective Interest Rate
EUV – Existing Use Value
EUV-SH – Existing Use Value-Social Housing
FIAA – Financial Instruments Adjustment Account
GF - General Fund
GLA - Greater London Authority
HMT – HM Treasury
HRA - Housing Revenue Account
IAS - International Accounting Standard
IFRS - International Financial Reporting Standards
LASAAC - Local Authority (Scotland) Accounts Advisory Committee
LBTH - London Borough of Tower Hamlets
LGA – Local Government Association



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LGPS - Local Government Pension Scheme
LOBO - Lender's Option – Borrower's option
LPFA - London Pensions Fund Authority
MHCLG – Ministry of Housing, Communities & Local Government
MRP - Minimum Revenue Provision
MTFS - Medium Term Financial Strategy
NDC - New Deal for the Community
(N)NDR - (National) Non-Domestic Rates
NPV - Net Present Value
PFI - Private Finance Initiative
PMAF – Performance Management and Accountability Framework
PMO – Project Management Office
PPE - Property, Plant and Equipment
PSIAS – Public Sector Internal Audit Standards
PWLB - Public Works Loans Board
REFCUS - Revenue Expenditure Funded by Capital Under Statute
RPI - Retail Price Index
RSG - Revenue Support Grant
SDPS - Surplus or Deficit on the Provision of Services
SEN – Special Educational Needs
SOLACE – Society of Local Authority Chief Executives
TA – Temporary Accommodation
TH - Tower Hamlets
THH - Tower Hamlets Homes
TIB - Transformation & Improvement Board
VFM - Value For Money

