

# LONDON BOROUGH OF TOWER HAMLETS

**DRAFT**

## **ANNUAL FINANCIAL REPORT 2018-19**

(UNAUDITED)

## DRAFT ANNUAL FINANCIAL REPORT 2018-19

### CONTENTS

	Page
Narrative Report	1
The Accounting Statements	16
Movement in Reserves Statement	17
Comprehensive Income and Expenditure Statement	18
Balance Sheet	19
Cash Flow Statement	20
Notes to the Core Financial Statements	21
Housing Revenue Account	87
Statement of Movement on the Housing Revenue Account	88
Notes to the Housing Revenue Account	89
Collection Fund	93
Pension Fund Accounts	95
Notes to the Pension Fund Accounts	96
Auditor's Report (to follow)	125
Statement of Responsibilities	126
Annual Governance Statement	127
Glossary and Abbreviations	154

## **Narrative Report – 2018/19**

### **Introduction**

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2018/19, which reports our financial results for the year.

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 International Financial Reporting Standards, the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and the Service Reporting Code of Practice. These constitute "proper accounting practice" with which councils must comply by statute.

Kevin Bartle

Interim Corporate Director of Resources (Section 151 Officer)

### **Introduction to Tower Hamlets**

Tower Hamlets is a dynamic, exciting and rapidly changing borough. We are the fastest growing borough in the country, with our population estimated to increase by 25% by 2024. We have the fourth youngest population in the country, where the average age for the borough is 31. This trajectory is set to define Tower Hamlets as a young and growing borough, in contrast to the vast majority of Councils outside London, which presents the most significant challenges to the Council in meeting the associated demand for services.

In addition to a growing population, Tower Hamlets has seen a rapidly growing business and financial sector, centred around Canary Wharf. In total, Tower Hamlets has the third largest economic output in the country, which means the number of jobs in the borough far outweighs the number of residents. However, many residents still struggle to access the opportunities which arise from living in Tower Hamlets.

Deprivation continues to be a considerable factor in the borough. By some measures, Tower Hamlets is the most deprived borough in the country. Like many London boroughs, Tower Hamlets is becoming an increasingly unaffordable borough in which to live, but this issue is exacerbated by the particular changes taking place in Tower Hamlets. As we grow and develop economically, our attractiveness as an inner-London borough, with outstanding assets and first-class transport connections to central London, creates additional pressures on the availability and cost of housing.

One of our biggest strengths is our community and its diversity. There is a proud history in Tower Hamlets of welcoming new communities and ensuring different groups live in harmony. The majority of residents are from Black and Minority Ethnic backgrounds, nearly half of residents were born outside the UK and over ninety different languages are spoken in the borough. It is the Council's desire to reflect the different needs of its residents through its provision of services.

## **Organisational Context**

In July 2018, the Council and its major partners adopted a five-year strategy for the borough: The Tower Hamlets Plan. The Plan provides the overarching strategy for Tower Hamlets and brings together the shared vision and outcomes we want to achieve with our partners.

At the same time, the Council adopted its Strategic Plan, which sets the corporate priorities and outcomes, including 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 best outcomes for our residents, our partners and the wider community. The Strategic Plan is a central part of the Council's Performance Management and Accountability Framework and is the main strategic business planning document of the Council.

The Strategic Plan identifies three priorities on which to focus over the next three years:

- Priority 1: People are aspirational, independent and have equal access to opportunities
- Priority 2: A borough that our residents are proud of and love to live in
- Priority 3: A dynamic, outcomes-based council using digital innovation and partnership working to respond to the changing needs of our borough

In April 2019, the Council published a refreshed Strategic Plan, which incorporates the administration's manifesto commitments. In line with the budget setting process, the Strategic Plan is a rolling three-year plan, which is updated annually so that it accurately reflects the Council's priorities.

In order to deliver the Strategic Plan, the Council's ambition is to become a dynamic, outcomes-based organisation using digital innovation and partnership working to respond to the changing needs of the borough. This approach is contained within the Council's Smarter Together programme, which drives corporate improvement across the organisation.

## **Operational Model**

Over the last year we have focussed on how we operate and deliver services just as much as what we deliver. This means concentrating on outcomes, digital solutions and partnership working, so that we can respond to the changing needs of our borough.

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 is used to inform continuous learning and delivery is reviewed regularly to ensure impact on outcomes. Flexibility and agility are key to delivery as it will enable us to make adjustments in response to evidence about impact and the changing needs of the community.

Diagram 1 illustrates the Council's Corporate Target Operating Model and the 'Golden Thread' from the Tower Hamlets Plan and the Strategic Plan through to Delivery Plans, Team Plans and Individual Objectives.

**Diagram 1 – LB Tower Hamlets Corporate Target Operating Model:**



## **Key Achievements**

Throughout 2018/19 we have accelerated the pace of delivery and started to implement the Mayor's manifesto, which has been incorporated in our Strategic Plan.

In June 2018 we invited the Local Government Association (LGA) to conduct a Corporate Peer Challenge, designed to reflect on and inform our improvement journey. The outcome and recommendations arising from the LGA review informed part of the Government's decision to fully remove directions on the Council in September 2018. The Peer Challenge represented a significant milestone in our improvement journey.

We are making Tower Hamlets safer by working more closely in partnership with other agencies and our communities. Earlier in the year we successfully introduced a multi-agency exploitation team to better protect children and young people from harm and violence. We now have a violent crime officer and caseworker in post at the Royal London Hospital which enables us to have direct and timely contact with those young adults who have been admitted to hospital with violent crime related injuries. We piloted a new approach to dealing with crime and anti-social behaviour at neighbourhood level and are currently evaluating this before developing it further.

We are investing in additional police officers through the Partnership Taskforce; a team of police officers, which is tasked by the council jointly with the police, enabling us to focus on areas of concern for our residents. Since 2017, Operation Continuum (a joint Council and police operation cracking down on drug dealing to make neighbourhoods safer and cleaner) has made a total of 345 arrests, referred 119 arrested people into drug treatment, seized £0.331m under the Proceeds of Crime Act and executed 417 ASB warnings.

We are putting young people at the heart of what we do. Over the past year, we have continued our performance improvement journey in children's social care. We are working more closely with our partners in a multi-agency approach to provide a more holistic way of protecting children and young people from harm through our multi-agency safeguarding hub. In the winter we launched our new social work academy to ensure we make Tower Hamlets one of the best places in the country to be a social worker and attract the best staff to help us improve further. In October we launched our new early help offer, designed to support families at an earlier stage and to prevent issues from escalating.

We are improving our universal offer for children and young people. In the autumn, we held the Mayor's Early Years Summit to bring together families and professionals to make sure our offer to young children and their families addresses their needs. Our work in this area is showing results as is evidenced by the substantial increase in the reach of our children's centres.

Our improvement journey for Children's Services continued strongly during the year with positive progress being observed throughout 2018; this culminated in a final assessment of 'good' across all Children's Services functions which was formally announced in 2019 and with the achievement of moving from

'inadequate' to 'good' within a 2 year period being recognised as a remarkable feat.

We have taken key actions to clean up the borough's streets and air. We have started to roll out traffic calming around primary schools in the borough to make it safer for children to get to school. We will be extending the programme to more schools across the borough over the coming year. We accelerated our capital investment programme to improve the borough's parks and open spaces and started a major improvement project at Bartlett Park, which will continue into 2019/20. In February, we agreed our new Waste Strategy which will inform how we will deliver our new in-house waste and recycling collection and street cleansing services from April 2020. Bringing these important services in house will allow us to be more responsive and address resident concerns more effectively, as well as working towards meeting the Mayor's ambition to improve our recycling levels significantly.

We are working with our partners and residents to reduce health and wellbeing inequalities. Over the past year we have significantly increased the number of carers' assessments carried out and increased our support for carers, including outreach, direct payments, more assistive technology and the new Carers' Academy. We recognise and value the huge contribution that carers play in supporting older and disabled people. We have launched our Shared Lives programme, which enables people with a learning disability to live in their own home with support.

Our public health investment, including the successful smoking cessation programme and health checks for those aged 40 to 74, is improving the health of our residents, reducing long term risks of premature deaths and helping the NHS save money through prevention and early intervention.

We have commenced work to address loneliness and social isolation in the borough, working with community and voluntary sector organisations. We want the borough to be a friendly place where people know their neighbours and feel connected to their community and the wonderful opportunities that exist within Tower Hamlets. Our Tenants' Activity Pot is helping people living in sheltered housing live the life they want by funding activities that residents want to take part in within their housing scheme and local community. In the coming year we will be developing more opportunities for local people to design services to reduce the isolation some people experience and make local estates and communities feel more connected.

We are building an environment and culture that enables our staff to drive continuous improvement in the borough. Our new Town Hall, which opens in 2022, will foster greater collaboration with our partners, increase the Council's transparency with the public and ensure everything we do is outwardly focussed.



## **Monitoring Performance**

The plan on the following page summarises the number of activities and measures, which are rated green (meeting the target), amber (slipped or delayed), or red (not meeting the target).

At the end of 2018/19, 43 strategic activities have been completed while the completion of some aspects of 15 strategic activities will continue into 2019/20. These remaining aspects are expected to be completed in the first half of 2019/20 and approximately 95% of all planned activity was completed by the end of the fourth quarter in 2018/19.

At the same time, 17 performance indicators have met or are exceeding their target and 10 are exceeding the minimum expectation, while 9 are falling short. This is an improvement on the position at the end of the third quarter when fifteen performance indicators were falling short of the minimum expectation.

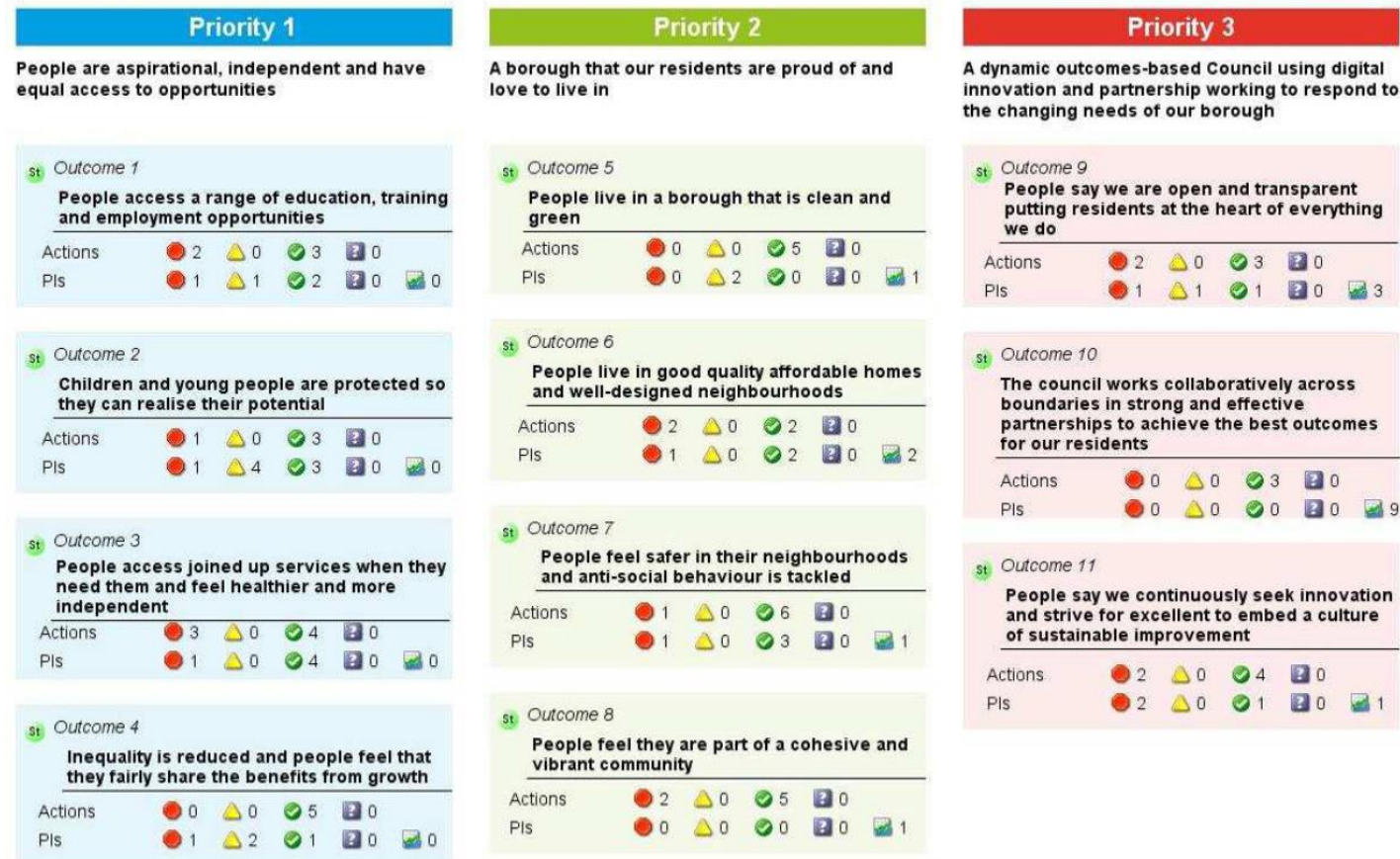
Through the Council's refreshed Strategic Plan and underpinning Performance Framework, we will be able to maintain a strong grip on performance, to ensure we remain on target and identify actions early where there are issues.

A detailed report regarding the Council's performance in 2018/19 was presented to the Mayor and the Cabinet at their May meeting. Diagram 2, extracted from the report, summarises the 2018/19 Year-End performance against the Strategic Plan.

## Diagram 2: Tower Hamlets Strategic Plan – Year-End Performance

### Tower Hamlets Strategic Plan 2018-2021

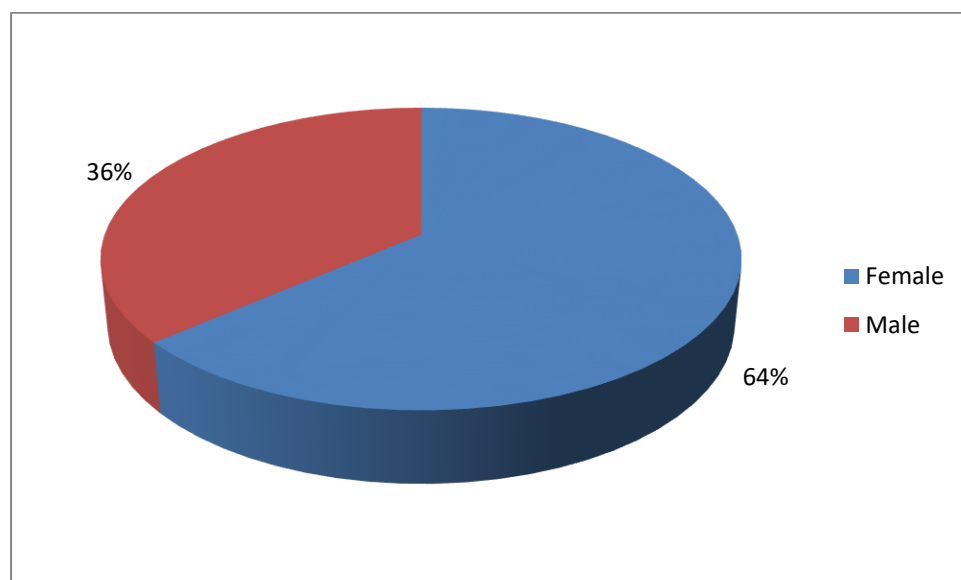
Working together with the community, for a fairer, cleaner and safer borough



## Workforce

As at 1 April 2019, the Council employed 4,499 staff, down from 5,097 on 1 April 2018. Diagram 3 shows the Council's workforce broken down by gender.

**Diagram 3: Employees by Gender**



## Key Strategic Risks

A full analysis of the potential risks posed to the Council can be found in the Annual Governance Statement (AGS).

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 has identified a number of significant governance issues. These include;

- The need to undertake a review of the current budget management process, with the aim of introducing a new protocol and revised process, which clearly identifies accountability. A new budget holder and finance business partner handbook will set out the Council's expectations for budget accountability and management;
- Issues associated with payments to care providers where reviews are under way to improve processes;

- Concerns around adult social care practice and quality, with the Improvement Board now replaced by a Quality Assurance Board and further actions planned;
- Significant issues with the 2018/19 accounts closure which has led to additional resources being employed including a finance improvement team;
- A significant overspend both on the General Fund and against the Dedicated Schools Budget, with the financial position being closely monitored by the Corporate Leadership Team;
- Vacancies in Pension Administration and Internal Audit which have resulted in a backlog of work for both areas. Recruitment to vacancies is being prioritised.

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

## **Financial Overview**

Over the next three years the Council will continue to face significant financial challenges. The Medium Term Financial Strategy requires the Council to achieve further savings totalling £39 million by 2023. However, it is important that the Council sets a long-term sustainable strategy through which services can achieve savings and maintain a balanced budget.

During this period, a number of external challenges, including the government welfare reforms, local government funding and Brexit, will pose additional risks to the Council.

The Council has conducted extensive work to identify, map and prepare for the key potential challenges posed by Brexit in the borough. Through the work of the Brexit Commission and the Brexit Partner Action Group, it is evident the borough will face potential impacts in a number of areas. For example, supply chains could face shortages in relation to rising costs, new legislative arrangements for UK-EU trading, and a lack of continued delivery from suppliers. Finding new models of delivery in different sectors and restructuring supply chains will be crucial to the economic health of the borough.

Funding streams for key services in the borough will also likely be impacted, given the change in access to EU funding streams, and additional oversight will be required to ensure the more vulnerable and smaller agencies are protected (if necessary).

Other impacts include a high risk of skills shortages in certain sectors; a slow-down in delivery in the housing and construction sectors; and impacts on the local financial services sector.

The government is reviewing the mechanism for funding local government, looking at changing the funding distribution formula and reforming business rates retention arrangements. These changes have been delayed until 2021/22

and a one year 'roll-forward' settlement announced for 2020/21. Whilst the government has proposed a significant increase in local government Core Spending Power following the 2019 Spending Round, it is not known how this will be distributed and the government have indicated that there will be a full reset of business rate retention baselines in 2021/22. It is not yet known how this will impact on the Council. Further information on the government's review and its potential implications for councils in London can be found on the London Councils website.

In early 2017 an Ofsted inspection of Children's Services resulted in a rating of 'inadequate'. Significant work by the Council to turn the service around has resulted in Ofsted rating the service as 'good' following a follow up inspection in the spring of 2019. The Medium Term Financial Strategy for 2020-23 allows for additional budget provision for Children's Services in 2020/21, including £7.2 million in support for children with social care or special educational needs or disabilities. The investment in Children's Services supports the strengthening of frontline services and aims to ensure that the service can work within its overall budget in 2020/21 and beyond.

### *Borrowing*

At the year end the Council had outstanding borrowings of £74.7 million (£85.3 million 2017/18). This was significantly reduced by repaying a £60m LOBO (Lenders Option Borrowers Option) loan during the year and replacing it with new loans of £50m from the Public Works Loans Board. A premium of £17.8 million was paid as part of the repayment of the LOBO loan, which has been charged to the Comprehensive Income and Expenditure Statement, but the impact on the General Fund will be spread over the life of the new loans through adjustments in the Movement in Reserves Statement.

## **Revenue Outturn for the year**

### *General Fund*

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

Ongoing reductions in mainstream government grant funding and a continuing upward trend in the demand for key front-line services in adult social care, children's services and for housing services, particularly homelessness, have collectively created a challenging financial environment for the Council.

Children's Services spend pressures have resulted in operational overspends in delivery of services. In addition, earmarked reserves have been applied mainly in support of the Council's Transformation programmes including Smarter Together and its investment in ICT infrastructure.

The Council's General Fund balance now stands at £17.5m at year-end, which is primarily due to the £11.7m write-off due to errors in schools' accounting

entries, albeit backdated to 2017/18. This has been replenished in 19/20 as part of the MTFs from other reserves.

### *Revenue Reserves*

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

	31 Mar 2017 £m	31 Mar 2018 £m	31 Mar 2019 £m
General Fund balances	(32.2)	(26.1)	(17.5)
HRA balances	(39.1)	(47.6)	(44.6)
Dedicated Schools Grant (surplus)/deficit	(1.7)	(0.2)	4.6
Schools balances	(26.3)	(25.5)	(25.6)
GF earmarked reserves (non-schools/DSG)	(135.9)	(122.2)	(131.1)

### *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 showed an in-year deficit of £3.0m, with significant impact coming from the need to create provisions of £9.2m for water rates charging and housing disrepairs claims.

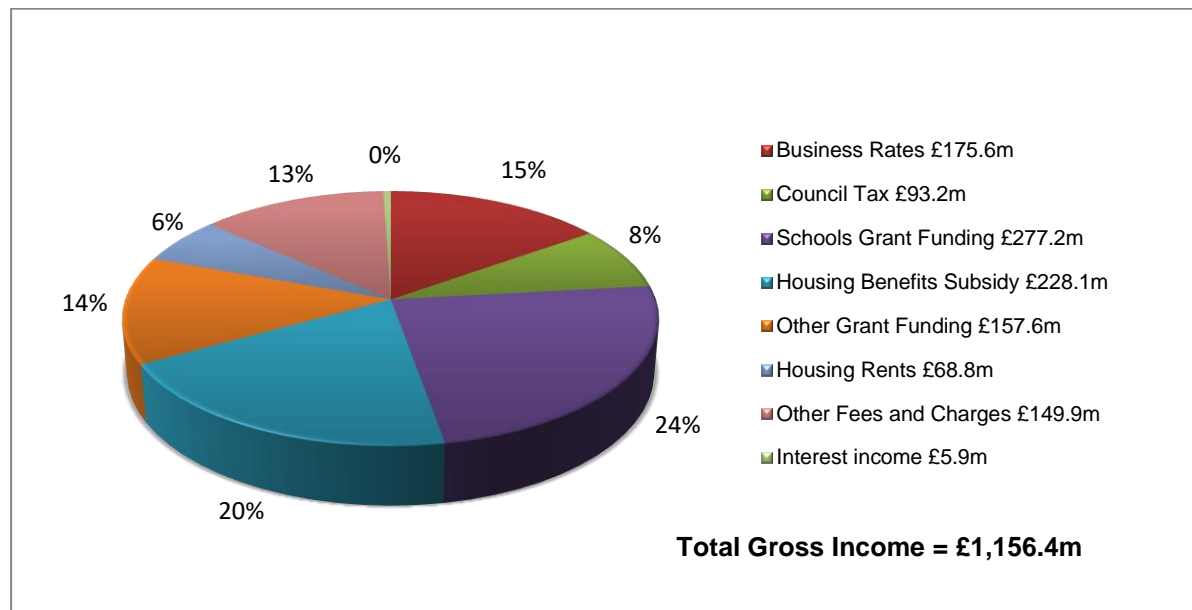
## **Revenue Income and Expenditure**

### *Revenue Income*

Net business rates and government grants and subsidies continue to be the main sources of revenue funding.

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.

**Diagram 4: Analysis of Revenue Funding Source**

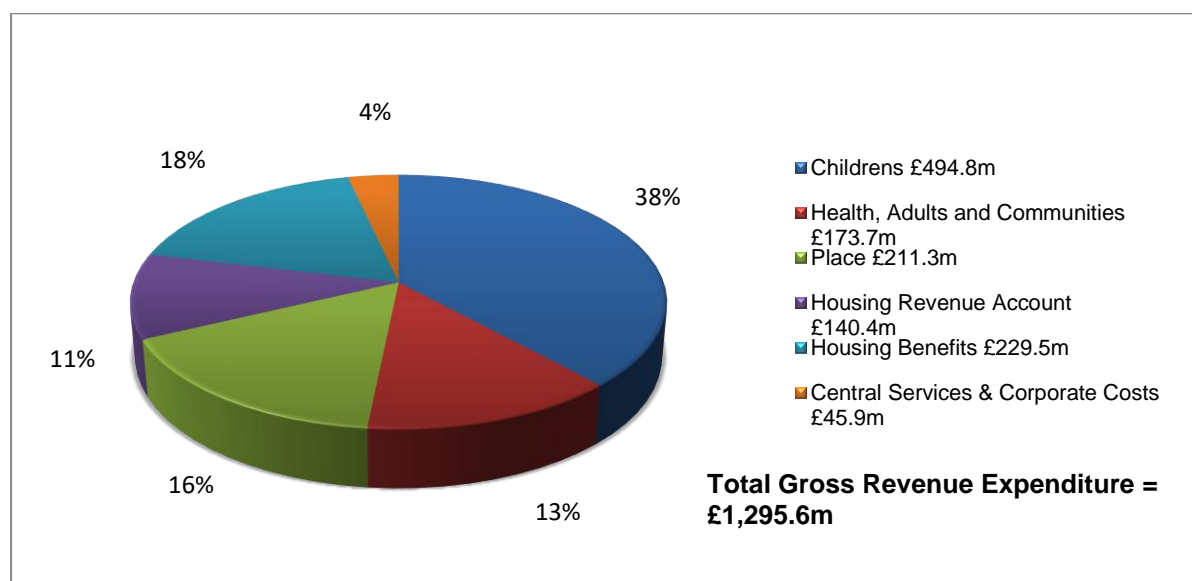


*Revenue Expenditure*

The Council’s expenditure is reported in line with the Directorate structure in place as at the 31 March 2019.

The Council’s gross expenditure on services was £1.3 billion (£1.2 billion in 2017/18). An analysis by directorate is shown in the following diagram.

**Diagram 5: Analysis of Revenue Funding Source**



## **Medium Term Financial Strategy**

There was a savings target of £23.8 million for the General Fund budget in 2018/19, including a number of schemes that were originally planned to be delivered in the previous year. A total of £13.0 million was delivered, £8.4 million has been slipped into 2019/20 and £2.4 million cannot be achieved. The resultant gap in the budget was covered by one-off underspends and the use of reserves. Further issues have been identified in 2019/20 with a further £6.2 million of savings identified as not achievable. The Medium Term Financial Strategy for 2020-23 provides for the reversal of £3.6m unachievable historical savings and services are identifying underspends and alternative savings to reduce the potential call on reserves due to unachieved savings.

## **Capital Investment and Expenditure**

### *Capital Investment*

The Council has continued to make considerable capital investment in its capital assets. The following table sets out the broad categories of investment during the year with the main areas of spending being on council housing and temporary accommodation.

The Council has continued to invest in its infrastructure with over £136 million spent on its capital programme. The main area of investment was in housing, with £25.2 million of improvement works spent through the housing capital programme (this figure includes that element of investment which is still classified as Asset Under Construction, not just expenditure on Council Dwellings) and £57.5 million spent on temporary accommodation. £12 million was spent on the Whitechapel corporate site (included in Other Council assets).

The table below shows the sources of funding for the capital programme. The majority of this funding was from borrowing and capital grants and contributions. Purchase of properties to use as homeless accommodation were funded from borrowing to enable the use of retained receipts from right to buy sales.

### *Capital Expenditure*

Investment shown as being in 'non-Council assets' includes £2 million of expenditure on schools not owned by the Council and £9 million of expenditure on leaseholder properties.

## **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.



Despite investment values increasing by over £78 million over the last year, at the end of 2018/19 the net liability increased from £572 million to £690.9 million in 2018/19. The increased deficit is mainly due to a reduction in the discount factor used to calculate the net present value of liabilities.

Although this sum has a significant impact on the net worth of the Council (as shown in its Balance Sheet) there are strategies in place to address the deficit in long-term through increased contributions to the scheme in future years. These contributions have been reflected in the Council's Medium Term Financial Strategy.

This is a snapshot valuation for accounting purposes and the revaluation for contributory purposes took place at 31 March 2016 reporting a much lower deficit of £235m.

## 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, also splits reserves between 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable 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 Statement** 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 UNUSABLE RESERVES £'000	TOTAL AUTHORITY RESERVES £'000		
		GENERAL FUND BALANCE £'000	EARMARKED GENERAL FUND RESERVES £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000			POOLED INVESTMENT FUNDS ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000
<b>Balance as at 31 March 2017 (Restated)</b>		(32,154)	(163,843)	(39,079)	(9,459)	(156,848)	(124,825)	(526,208)	(905,917)	(1,499,445)	628,546	2,301	-	-	3,929	(1,770,586)	(2,296,794)
<b>Movement in reserves during 2017/18 (Restated)</b>																	
Surplus or (Deficit) on the Provision of Services		145,236	-	(14,181)	-	-	-	131,055	-	-	-	-	-	-	-	-	131,055
Other comprehensive expenditure and income		-	-	-	-	-	-	-	(113,512)	-	(54,234)	-	-	-	-	(167,746)	(167,746)
<b>Total Comprehensive Expenditure and Income</b>		<b>145,236</b>	<b>-</b>	<b>(14,181)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>131,055</b>	<b>(113,512)</b>	<b>-</b>	<b>(54,234)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(167,746)</b>	<b>(36,691)</b>
Adjustments between accounting basis and funding basis under regulations		(123,189)	-	5,699	3,974	(37,706)	(16,841)	(168,063)	108,467	27,018	26,594	6,726	-	-	(742)	168,063	-
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>22,047</b>	<b>-</b>	<b>(8,482)</b>	<b>3,974</b>	<b>(37,706)</b>	<b>(16,841)</b>	<b>(37,008)</b>	<b>(5,045)</b>	<b>27,018</b>	<b>(27,640)</b>	<b>6,726</b>	<b>-</b>	<b>-</b>	<b>(742)</b>	<b>317</b>	<b>(36,691)</b>
Transfers to or from earmarked reserves	10	(15,182)	15,182	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to or from school reserves	10	(818)	818	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Increase or (Decrease) in 2017/18</b>		<b>6,047</b>	<b>16,000</b>	<b>(8,482)</b>	<b>3,974</b>	<b>(37,706)</b>	<b>(16,841)</b>	<b>(37,008)</b>	<b>(5,045)</b>	<b>27,018</b>	<b>(27,640)</b>	<b>6,726</b>	<b>-</b>	<b>-</b>	<b>(742)</b>	<b>317</b>	<b>(36,691)</b>
<b>Balance as at 31 March 2018 carried forward (Restated)</b>		<b>(26,107)</b>	<b>(147,843)</b>	<b>(47,561)</b>	<b>(5,485)</b>	<b>(194,554)</b>	<b>(141,666)</b>	<b>(563,216)</b>	<b>(910,962)</b>	<b>(1,472,427)</b>	<b>600,906</b>	<b>9,027</b>	<b>-</b>	<b>-</b>	<b>3,187</b>	<b>(1,770,269)</b>	<b>(2,333,485)</b>
<b>Movement in reserves during 2018/19</b>																	
Surplus or (Deficit) on the Provision of Services		83,478	-	45,435	-	-	-	128,913	-	-	-	-	-	-	-	-	128,913
Other comprehensive expenditure and income		-	-	-	-	-	-	-	306,278	-	75,532	-	-	-	-	381,810	381,810
<b>Total Comprehensive Expenditure and Income</b>		<b>83,478</b>	<b>-</b>	<b>45,435</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>128,913</b>	<b>306,278</b>	<b>-</b>	<b>75,532</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>381,810</b>	<b>510,723</b>
Adjustments between accounting basis and funding basis under regulations		(79,122)	-	(42,514)	5,485	3,854	(16,787)	(129,084)	8,324	71,890	28,962	2,171	17,417	538	(218)	129,084	-
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>4,356</b>	<b>-</b>	<b>2,921</b>	<b>5,485</b>	<b>3,854</b>	<b>(16,787)</b>	<b>(171)</b>	<b>314,602</b>	<b>71,890</b>	<b>104,494</b>	<b>2,171</b>	<b>17,417</b>	<b>538</b>	<b>(218)</b>	<b>510,894</b>	<b>510,723</b>
Transfers to or from earmarked reserves	10	4,100	(4,100)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to or from school reserves	10	173	(173)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Increase or (Decrease) in Year</b>		<b>8,629</b>	<b>(4,273)</b>	<b>2,921</b>	<b>5,485</b>	<b>3,854</b>	<b>(16,787)</b>	<b>(171)</b>	<b>314,602</b>	<b>71,890</b>	<b>104,494</b>	<b>2,171</b>	<b>17,417</b>	<b>538</b>	<b>(218)</b>	<b>510,894</b>	<b>510,723</b>
<b>Balance as at 31 March 2019</b>		<b>(17,478)</b>	<b>(152,116)</b>	<b>(44,640)</b>	<b>-</b>	<b>(190,700)</b>	<b>(158,453)</b>	<b>(563,387)</b>	<b>(596,360)</b>	<b>(1,400,537)</b>	<b>705,400</b>	<b>11,198</b>	<b>17,417</b>	<b>538</b>	<b>2,969</b>	<b>(1,259,375)</b>	<b>(1,822,762)</b>

## 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.

2017/18 (Restated)			Note	2018/19		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
<b>Continuing Operations</b>						
474,490	(355,411)	119,079	Children's Services	494,776	(361,019)	133,757
162,077	(66,068)	96,009	Health, Adults and Communities	173,745	(69,412)	104,333
154,392	(85,205)	69,187	Place	211,278	(86,219)	125,059
18,372	(2,641)	15,731	Governance	21,298	(3,107)	18,191
85,529	(91,030)	(5,501)	Local Authority Housing (Housing Revenue Account)	140,373	(88,541)	51,832
295,040	(264,435)	30,605	Resources	252,882	(227,737)	25,145
6,592	(8,262)	(1,670)	Corporate Cost and Central Items	1,159	(7,428)	(6,269)
<b>1,196,492</b>	<b>(873,052)</b>	<b>323,440</b>	<b>NET COST OF SERVICES</b>	<b>1,295,511</b>	<b>(843,463)</b>	<b>452,048</b>
		117,659	Other Operating Expenditure			(7,714)
		23,300	Financing and Investment Income and Expenditure			37,166
		(333,344)	Taxation and Non-Specific Grant Income			(352,587)
		<b>131,055</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>128,913</b>
			<b>Other Comprehensive Income and Expenditure</b>			
		(113,512)	(Surplus)/Deficit on revaluation of non-current assets			306,278
		(54,234)	Actuarial (gains) or losses on pension assets and liabilities			75,532
		<b>(167,746)</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>381,810</b>
<b>(36,691) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>						<b>510,723</b>

## BALANCE SHEET

This statement shows the Council's balances and reserves, its long term indebtedness and the non-current assets and net current assets employed in its operations as at 31st March 2019.

1 April 2017 (Restated) £'000	31 March 2018 (Restated) £'000		Notes	31 March 2019 £'000
<b>Long-term Assets</b>				
2,690,267	2,691,354	Property, plant and equipment	14	2,348,953
9,311	18,835	Heritage Assets	17	18,835
-	-	Long-term investments	16	72,462
618	590	Long Term Debtors	15	1,208
<b>2,700,196</b>	<b>2,710,779</b>	<b>Total Long-term assets</b>		<b>2,441,458</b>
<b>Current Assets</b>				
311,667	359,126	Short-term investments	16	257,698
3,850	-	Assets held for sale	20	160
104,470	109,308	Short-term debtors	18	150,154
228,695	145,641	Cash and cash equivalents	19	120,032
<b>648,682</b>	<b>614,075</b>	<b>Total Current Assets</b>		<b>528,044</b>
<b>Current liabilities</b>				
(42,243)	(24,787)	Cash and cash equivalents	19	(35,640)
(1,311)	(2,010)	Short-term borrowing	16	(2,413)
(150,192)	(154,119)	Short-term creditors	21	(166,835)
(4,855)	(7,373)	Provisions	22	(8,605)
<b>(198,601)</b>	<b>(188,289)</b>	<b>Total Current liabilities</b>		<b>(213,493)</b>
<b>Long Term Liabilities</b>				
(7,173)	(7,160)	Provisions	22	(21,493)
(84,966)	(83,293)	Long-term borrowing	16	(72,289)
(628,546)	(571,988)	Liability related to defined benefit pension schemes	40	(690,938)
(67,722)	(78,348)	Capital grants receipts in advance	36	(89,413)
(63,871)	(61,456)	Deferred liabilities	38,39	(58,650)
(1,205)	(835)	Deferred Income - Receipt in Advance		(464)
<b>(853,483)</b>	<b>(803,080)</b>	<b>Total Long-Term Liabilities</b>		<b>(933,247)</b>
<b>2,296,794</b>	<b>2,333,485</b>	<b>NET ASSETS</b>		<b>1,822,762</b>
<b>Reserves</b>				
(526,208)	(563,216)	Usable Reserves	23	(563,387)
(1,770,586)	(1,770,269)	Unusable Reserves	24	(1,259,375)
<b>(2,296,794)</b>	<b>(2,333,485)</b>	<b>TOTAL RESERVES</b>		<b>(1,822,762)</b>

*I certify that the statement of accounts presents a true and fair view of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year then ended.*

Date

\_\_\_\_\_  
Kevin Bartle - Interim Corporate Director of Resources (Section 151 Officer)

## 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.

2017/18 (Restated) £'000		Notes	2018/19 £'000
(131,055)	Net surplus or (deficit) on the provision of services		(128,913)
205,402	Adjustments to net surplus or deficit on the provision of services for non cash movements	25	178,578
(77,422)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	(46,960)
<b>(3,075)</b>	<b>Net cash flows from Operating Activities</b>		<b>2,705</b>
(58,832)	Other Investing Activities	26	(40,603)
(3,691)	Financing Activities	27	1,436
<b>(65,598)</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(36,462)</b>
186,452	Cash and cash equivalents at the beginning of the reporting period		120,854
<b>120,854</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	19	<b>84,392</b>

# NOTES TO THE ACCOUNTS

## 1. Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31st March 2019. 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.

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.

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 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.

## **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.

## **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).

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

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

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

The Local Government scheme is a defined benefits scheme.

The 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 2019.

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 its pension liabilities and assets that have arisen into its pension obligations into the net pension liability as presented on the balance sheet.

### ***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 2019. 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 Restated Accounting Statements

The Council has made material adjustments to restate figures previous reported in 2017/18. In addition, corrections have been made to record balances correctly between creditors, debtors, provisions, pension liabilities and cash. Each of the material adjustments is explained below.

The impact on the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cashflow Statement and the Unusable Reserves note are outlined in the tables that follow the detailed explanations.

### (a) Property Plant and Equipment Adjustments

It was identified that there were errors in the methodology used to produce the valuations for some properties. This required a revaluation of assets, primarily the maintained schools, resulting in an increase in values of £447.2 million at 31 March 2017 and £373.5 million at 31 March 2018.

At 1st April 2017, £9.7m was also removed from the balance sheet as the assets belong to the King George Field Trust, of which the Council is sole trustee. £22.6m of duplicated expenditure was also removed relating to Mile End Park, and £4.7m of assets were added to the Council's balance sheet for temporary accommodation not previously included.

### (b) Leaseholder Contributions

It was identified that billing leaseholders for their share of the costs of major works on housing blocks had fallen behind. This was due in particular to the expanded programme of Decent Homes, and the need to obtain final completion information from contractors. A pro-active exercise of catch-up billing is now in place. However at 31 March 2018, £10.5 million of contributions should have been accrued for, and a further £15.7 million should have been recognised (rather than held as receipt in advance) and these are now adjusted for in the accounts.

### (c) Grants Unapplied

A review of balances held as receipts in advance within creditors identified a number of grant receipts where there was no conditions attached to the grant and hence the income should have been recognised in the Comprehensive Income and Expenditure Statement in the year of receipt. It also identified some grants where debtors had been raised incorrectly. The restatement reduces creditors by £8.5 million, reduces debtors by £3.7 million and increases usable reserves by £4.8 million at 31 March 2018.

### (d) Academy Conversions

During 2018/19 it was identified that four schools had transferred out of Council control to academy status during 2017/18.

It has been necessary to restate the 2017/18 figures only to remove the value of the schools assets from the balance sheet. The book value of the schools was £141.5 million at 31 March 2018.

### (e) School Balances

A review identified that final balance sheet entries for school reserves and cash balances had not been processed at the end of 2017/18. There were also some missed entries from previous years that had not been identified and some errors regarding the accounting for Academy Schools. The amendments increase earmarked school reserves by £2.1 million, decrease debtor balances by £7.7 million, increase creditors by £3.8 million, increase cash balances by £5.8 million and decrease general balances by £7.8 million.

### (f) Recharges

It was identified that recharges between business units had not been properly netted down, resulting in the overstatement of income and expenditure in the Comprehensive Income and Expenditure Statement. A total of £48.7 million has been adjusted for in 2017/18.

### (g) Community Infrastructure Levy (CIL)

It was identified that final details in the planning process were causing delays in the raising of invoices for the Community Infrastructure Levy. Whilst some payments on account for initial instalments had been received, the full debt had not formally been raised in the accounts. The additional income has now been correctly recognised in the balance at the end of 2017/18, increasing debtors by £10.2million (£9.4 million in 16/17), reducing payments in advance by £1.6 million and increasing CIL Receipts in the Capital Grants Unapplied Reserve by £11.8 million (£9.4 million in 16/17).

### (h) Enhanced Teachers Pensions

Historically the Council has agreed to early retirement for teachers and has granted them added years service to enhance their pension payments. The enhanced element of the pension is paid directly by the Council. Previously this unfunded pension has not been included in the Council's accounts. An additional Pension liability of £9.4 million has now been recognised at 31 March 2017.

### (i) Bank Account Offset

The council has a number of bank accounts that make up the cash balance. Some of these have overdraft balances at year end. Previously, these balances have all been presented on the balance sheet as one net figure; however, to account for these in accordance with accounting standards, they have been restated as a gross current asset, and as a current liability (picking up the overdraft balances).

### (j) Section 106 Contributions

A number of S106 contributions were identified as not meeting the technical definition of "with conditions". To ensure these had the correct accounting treatment these needed to be moved from Receipts in Advance to either Capital Grants Unapplied Reserve or, for a small amount of revenue amounts, Earmarked Reserves. The overall adjustment at 31 March 2018 was £13.0m

### (k) Reclassification of Disabled Facilities Grant from Receipts in Advance

DFG has been identified as not meeting the technical definition of "with conditions", and has therefore been recognised through the CIES and held in Capital Grants Unapplied, rather than Capital Grants Receipts in Advance.

## Effect on the Opening Balance Sheet

	31 March 2017 £'000	PPE Adjustments £'000	Leaseholder Contributions £'000	Grants Unapplied £'000	School Balances £'000	Infrastructure Levy £'000	Teachers Pensions £'000	Bank Offset £'000	S106 Unapplied £'000	DFG £'000	Other £'000	Restated 31 March 2017 £'000
<b>Long-term Assets</b>												
Property, plant and equipment	2,275,180	415,087										2,690,267
<b>Total Long-term assets</b>	<b>2,285,109</b>	<b>415,087</b>	-	-	-	-	-	-	-	-	-	<b>2,700,196</b>
<b>Current Assets</b>												
Short-term investments	311,667											311,667
Assets held for sale	3,850											3,850
Short-term debtors	80,487		17,984	(2,828)		9,413					(586)	104,470
Cash and cash equivalents	184,299				1,568			42,243			585	228,695
<b>Total Current Assets</b>	<b>580,303</b>	-	<b>17,984</b>	<b>(2,828)</b>	<b>1,568</b>	<b>9,413</b>	-	<b>42,243</b>	-	-	<b>(1)</b>	<b>648,682</b>
<b>Current liabilities</b>												
Cash and cash equivalents	-							(42,243)				(42,243)
Short Term Borrowing	(3,533)										2,222	(1,311)
Short-term creditors	(154,154)			6,568					(387)		(2,219)	(150,192)
Provisions	(4,855)											(4,855)
<b>Total Current liabilities</b>	<b>(162,542)</b>	-	-	<b>6,568</b>	-	-	-	<b>(42,243)</b>	<b>(387)</b>	-	<b>3</b>	<b>(198,601)</b>
<b>Long Term Liabilities</b>												
Liability related to defined benefit pension schemes	(619,122)						(9,424)					(628,546)
Capital grants receipts in advance	(83,120)		6,123						8,334	941		(67,722)
<b>Total Long-Term Liabilities</b>	<b>(859,457)</b>	-	<b>6,123</b>	-	-	-	<b>(9,424)</b>	-	<b>8,334</b>	<b>941</b>	-	<b>(853,483)</b>
<b>NET ASSETS</b>	<b>1,843,413</b>	<b>415,087</b>	<b>24,107</b>	<b>3,740</b>	<b>1,568</b>	<b>9,413</b>	<b>(9,424)</b>	-	<b>7,947</b>	<b>941</b>	<b>2</b>	<b>2,296,794</b>
<b>Reserves</b>												
<b>Usable Reserves</b>												
General Fund	(31,740)			(414)								(32,154)
Housing Revenue Account	(39,079)											(39,079)
Earmarked reserves	(134,619)			(1,671)					387		(3)	(135,906)
Schools reserves	(24,714)			(1,655)	(1,568)							(27,937)
Capital Grants Unapplied	(82,030)		(24,107)			(9,413)			(8,334)	(941)		(124,825)
<b>Total Usable Reserves</b>	<b>(478,489)</b>	-	<b>(24,107)</b>	<b>(3,740)</b>	<b>(1,568)</b>	<b>(9,413)</b>	-	-	<b>(7,947)</b>	<b>(941)</b>	<b>(3)</b>	<b>(526,208)</b>
<b>Unusable Reserves</b>												
Revaluation Reserve	(464,596)	(441,321)										(905,917)
Capital Adjustment Account	(1,525,680)	26,234									1	(1,499,445)
Pensions Reserve	619,122						9,424					628,546
<b>Total Unusable Reserves</b>	<b>(1,364,924)</b>	<b>(415,087)</b>	-	-	-	-	<b>9,424</b>	-	-	-	<b>1</b>	<b>(1,770,586)</b>
<b>TOTAL RESERVES</b>	<b>(1,843,413)</b>	<b>(415,087)</b>	<b>(24,107)</b>	<b>(3,740)</b>	<b>(1,568)</b>	<b>(9,413)</b>	<b>9,424</b>	-	<b>(7,947)</b>	<b>(941)</b>	<b>(2)</b>	<b>(2,296,794)</b>

**Effect on the Comprehensive Income and Expenditure Statement 2017-18**

	As previously stated 2017-18 £'000	PPE Revaluations £'000	Leaseholder Contributions £'000	Grants Unapplied £'000	Academy Conversions £'000	School Balances £'000	Recharges £'000	Community Infrastructure Levy £'000	S106 Unapplied £'000	DFG £'000	Other Corrections £'000	Restated 2017-18 £'000
<b>Gross Expenditure</b>												
Children's Services	538,699	(21,649)				252	(42,817)				5	474,490
Health, Adults and Communities Place	162,076										1	162,077
Governance	154,392											154,392
Local Authority Housing (HRA) Resources	18,372											18,372
Corporate Cost and Central Items	83,387	(6)									2,148	85,529
	296,760										(1,720)	295,040
	6,592											6,592
<b>Total Gross Expenditure</b>	<b>1,260,278</b>	<b>(21,655)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>252</b>	<b>(42,817)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>434</b>	<b>1,196,492</b>
<b>Gross Income</b>												
Children's Services	(406,776)			1,518		7,030	42,817					(355,411)
Health, Adults and Communities Place	(66,068)											(66,068)
Governance	(82,636)			(2,569)								(85,205)
Local Authority Housing (HRA) Resources	(2,641)											(2,641)
Corporate Cost and Central Items	(91,030)											(91,030)
	(266,133)			(22)							1,720	(264,435)
	(8,262)											(8,262)
<b>Total Gross Income</b>	<b>(923,546)</b>	<b>-</b>	<b>-</b>	<b>(1,073)</b>	<b>-</b>	<b>7,030</b>	<b>42,817</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,720</b>	<b>(873,052)</b>
<b>NET COST OF SERVICES</b>	<b>336,732</b>	<b>(21,655)</b>	<b>-</b>	<b>(1,073)</b>	<b>-</b>	<b>7,282</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,154</b>	<b>323,440</b>
Other Operating Expenditure	(11,268)					128,927						117,659
Financing and Investment Income and Expenditure	23,253										47	23,300
Taxation and Non-Specific Grant Income	(327,304)		(2,155)					(2,448)	(474)	(956)	(7)	(333,344)
<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>21,413</b>	<b>(21,655)</b>	<b>(2,155)</b>	<b>(1,073)</b>	<b>128,927</b>	<b>7,282</b>	<b>-</b>	<b>(2,448)</b>	<b>(474)</b>	<b>(956)</b>	<b>2,194</b>	<b>131,055</b>
<b>Other Comprehensive Income and Expenditure</b>												
(Surplus)/Deficit on revaluation of non-current assets	(216,962)	90,862				12,588						(113,512)
Actuarial (gains) or losses on pension assets and liabilities	(51,679)										(2,555)	(54,234)
<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>	<b>(268,641)</b>	<b>90,862</b>	<b>-</b>	<b>-</b>	<b>12,588</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,555)</b>	<b>(167,746)</b>
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>	<b>(247,228)</b>	<b>69,207</b>	<b>(2,155)</b>	<b>(1,073)</b>	<b>141,515</b>	<b>7,282</b>	<b>-</b>	<b>(2,448)</b>	<b>(474)</b>	<b>(956)</b>	<b>(361)</b>	<b>(36,691)</b>



## Effect on the Movement in Reserves Statement - Usable Reserves

	As previously stated £'000	PPE Revaluations £'000	Leaseholder Contributions £'000	Grants Unapplied £'000	Academy Conversions £'000	School Balances £'000	Community Infrastructure Levy £'000	S106 Unapplied £'000	DFG £'000	Other Corrections £'000	Restated £'000
<b>Balance at 31st March 2017</b>	<b>(478,489)</b>	-	<b>(24,107)</b>	<b>(3,740)</b>	-	<b>(1,568)</b>	<b>(9,413)</b>	<b>(7,947)</b>	<b>(941)</b>	<b>(3)</b>	<b>(526,208)</b>
(Surplus) or Deficit on the Provision of Services	21,413	(21,655)	(2,155)	(1,073)	128,927	7,282	(2,448)	(474)	(956)	2,194	131,055
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>											
Charges for depreciation and impairment of non current assets	(37,992)	299			(273)						(37,966)
Revaluation losses on PPE	(19,985)	21,356			4,019						5,390
Capital grants and contributions applied	34,746										34,746
Revenue expenditure funded from capital under statute	(20,855)										(20,855)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(44,984)				(132,673)						(177,657)
<u>Inclusion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</u>											
Statutory provision for the financing of capital investment	7,932										7,932
Capital expenditure charged against the General Fund and HRA balances	10,573										10,573
All Other Adjustments	11,971									(2,197)	9,774
<b>Total Adjustments between accounting basis and funding basis under regulations</b>	<b>(58,594)</b>	<b>21,655</b>	-	-	<b>(128,927)</b>	-	-	-	-	<b>(2,197)</b>	<b>(168,063)</b>
<b>(Increase) or Decrease for year</b>	<b>(37,181)</b>	-	<b>(2,155)</b>	<b>(1,073)</b>	-	<b>7,282</b>	<b>(2,448)</b>	<b>(474)</b>	<b>(956)</b>	<b>(3)</b>	<b>(37,008)</b>
<b>Balance as at 31 March 2018</b>	<b>(515,670)</b>	-	<b>(26,262)</b>	<b>(4,813)</b>	-	<b>5,714</b>	<b>(11,861)</b>	<b>(8,421)</b>	<b>(1,897)</b>	<b>(6)</b>	<b>(563,216)</b>

## Effect on the Capital Adjustment Account

	As previously stated £'000	PPE Revaluations £'000	Academy Conversions £'000	Other Corrections £'000	Restated 31 March 2018 £'000
<b>Balance at 1 April</b>	(1,525,680)	26,234	-	1	(1,499,445)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:					-
Charges for depreciation and impairment of non current assets	37,992	(299)	273		37,966
Revaluation losses and reversals on Property, Plant and Equipment	19,985	(21,356)	(4,019)		(5,390)
Revenue expenditure funded from capital under statute	20,855				20,855
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	44,984		132,673		177,657
	<b>123,816</b>	<b>(21,655)</b>	<b>128,927</b>		<b>231,088</b>
Adjusting amounts written out of the Revaluation Reserve	(16,324)	(830)	(91,314)	1	(108,467)
<b>Net written out amount of the cost of non current assets consumed in the year</b>	<b>107,492</b>	<b>(22,485)</b>	<b>37,613</b>	<b>1</b>	<b>122,621</b>
<b>Capital financing applied in the year</b>	<b>(95,604)</b>	-	-	<b>1</b>	<b>(95,603)</b>
<b>Balance at 31 March</b>	<b>(1,513,792)</b>	<b>3,749</b>	<b>37,613</b>	<b>3</b>	<b>(1,472,427)</b>

## Effect on the Revaluation Reserve

	As previously stated £'000	PPE Revaluations £'000	Academy Conversions £'000	Other Corrections £'000	Restated 31 March 2018 £'000
<b>Balance at 1 April</b>	(464,595)	(441,321)	-	(1)	(905,917)
Upward revaluation of assets	(348,291)	161,401	12,588	-	(174,302)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	131,329	(70,539)	-	-	60,790
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>(216,962)</b>	<b>90,862</b>	<b>12,588</b>	-	<b>(113,512)</b>
Difference between current value depreciation and historical cost depreciation	5,288	312	250	-	5,850
Accumulated gains on assets sold or scrapped	11,036	518	91,064	(1)	102,617
<b>Amount written off to the Capital Adjustment Account</b>	<b>16,324</b>	<b>830</b>	<b>91,314</b>	<b>(1)</b>	<b>108,467</b>
<b>Balance at 31 March</b>	<b>(665,233)</b>	<b>(349,629)</b>	<b>103,902</b>	<b>(2)</b>	<b>(910,962)</b>

## Effect on the Movement in Reserves Statement - Unusable Reserves

	As previously stated £'000	PPE Revaluations £'000	Academy Conversions £'000	Teachers Pensions £'000	Other Corrections £'000	Restated 31 March 2017 £'000
<b>Balance at 31st March 2017</b>	(1,364,921)	(415,087)	-	9,424	(2)	(1,770,586)
Other Comprehensive Income	(268,641)	90,862	12,588	-	(2,555)	(167,746)
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>						
Charges for depreciation and impairment of non current assets	37,992	(299)	273	-	-	37,966
Revaluation losses on PPE	19,985	(21,356)	(4,019)	-	-	(5,390)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	44,984	-	132,673	-	-	177,657
All Other Adjustments	(44,367)	-	-	-	2,197	(42,170)
<b>Total Adjustments between accounting basis and funding basis under regulations</b>	58,594	(21,655)	128,927	-	2,197	168,063
<b>(Increase) or Decrease for year</b>	(210,047)	69,207	141,515	(359)	1	317
<b>Balance as at 31 March 2018</b>	<b>(1,574,968)</b>	<b>(345,880)</b>	<b>141,515</b>	<b>9,065</b>	<b>(1)</b>	<b>(1,770,269)</b>

Effect on the Closing Balance Sheet of 2017/18

	31 March 2018 £'000	PPE Revaluations £'000	Leaseholder Contributions £'000	Grants Unapplied £'000	Academy Conversions £'000	School Balances £'000	Community Infrastructure Levy £'000	Teachers Pensions £'000	Bank Offset £'000	S106 Unapplied £'000	DFG £'000	Other Corrections £'000	Restated 31 March 2018 £'000
<b>Long-term Assets</b>													
Property, plant and equipment	2,486,991	345,880			(141,515)							(2)	2,691,354
Heritage Assets	18,835												18,835
Long Term Debtors	590												590
<b>Total Long-term assets</b>	<b>2,506,416</b>	<b>345,880</b>	<b>-</b>	<b>-</b>	<b>(141,515)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>2,710,779</b>
<b>Current Assets</b>													
Short-term investments	359,126												359,126
Short-term debtors	100,800		10,543	(3,721)		(7,702)	10,263					(875)	109,308
Cash and cash equivalents	114,524					5,781			24,787			549	145,641
<b>Total Current Assets</b>	<b>574,450</b>	<b>-</b>	<b>10,543</b>	<b>(3,721)</b>	<b>-</b>	<b>(1,921)</b>	<b>10,263</b>	<b>-</b>	<b>24,787</b>	<b>-</b>	<b>-</b>	<b>(326)</b>	<b>614,075</b>
<b>Current liabilities</b>													
Cash and cash equivalents									(24,787)				(24,787)
Short-term borrowing	(4,426)											2,416	(2,010)
Short-term creditors	(157,986)			8,534		(3,793)	1,598			(387)		(2,085)	(154,119)
Provisions	(7,373)												(7,373)
<b>Total Current liabilities</b>	<b>(169,785)</b>	<b>-</b>	<b>-</b>	<b>8,534</b>	<b>-</b>	<b>(3,793)</b>	<b>1,598</b>	<b>-</b>	<b>(24,787)</b>	<b>(387)</b>	<b>-</b>	<b>331</b>	<b>(188,289)</b>
<b>Long Term Liabilities</b>													
Provisions	(7,160)												(7,160)
Long-term borrowing	(83,293)												(83,293)
Pensions Liability	(562,923)							(9,424)				359	(571,988)
Capital grants receipts in advance	(104,772)		15,719							8,808	1,897		(78,348)
Deferred liabilities	(61,455)											(1)	(61,456)
Deferred income - Receipt in Advance	(835)												(835)
<b>Total Long-Term Liabilities</b>	<b>(820,438)</b>	<b>-</b>	<b>15,719</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9,424)</b>	<b>-</b>	<b>8,808</b>	<b>1,897</b>	<b>358</b>	<b>(803,080)</b>
<b>NET ASSETS</b>	<b>2,090,643</b>	<b>345,880</b>	<b>26,262</b>	<b>4,813</b>	<b>(141,515)</b>	<b>(5,714)</b>	<b>11,861</b>	<b>(9,424)</b>	<b>-</b>	<b>8,421</b>	<b>1,897</b>	<b>361</b>	<b>2,333,485</b>
<b>Reserves</b>													
<b>Usable Reserves</b>													
General Fund	(33,258)			(657)		7,807						1	(26,107)
Housing Revenue Account	(47,560)											(1)	(47,561)
Earmarked reserves	(118,605)			(3,970)						387		(3)	(122,191)
Schools reserves	(23,373)			(186)		(2,093)							(25,652)
Capital Receipts Reserve	(194,556)											2	(194,554)
Capital Grants Unapplied	(92,836)		(26,262)				(11,861)		(8,808)	(1,897)		(2)	(141,666)
<b>Total Usable Reserves</b>	<b>(515,673)</b>	<b>-</b>	<b>(26,262)</b>	<b>(4,813)</b>	<b>-</b>	<b>5,714</b>	<b>(11,861)</b>	<b>-</b>	<b>-</b>	<b>(8,421)</b>	<b>(1,897)</b>	<b>(3)</b>	<b>(563,216)</b>
<b>Unusable Reserves</b>													
Revaluation Reserve	(665,233)	(349,629)			103,902							(2)	(910,962)
Capital Adjustment Account	(1,513,792)	3,749			37,613							3	(1,472,427)
Pensions Reserve	591,841							9,424				(359)	600,906
<b>Total Unusable Reserves</b>	<b>(1,574,970)</b>	<b>(345,880)</b>	<b>-</b>	<b>-</b>	<b>141,515</b>	<b>-</b>	<b>-</b>	<b>9,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(358)</b>	<b>(1,770,269)</b>
<b>TOTAL RESERVES</b>	<b>(2,090,643)</b>	<b>(345,880)</b>	<b>(26,262)</b>	<b>(4,813)</b>	<b>141,515</b>	<b>5,714</b>	<b>(11,861)</b>	<b>9,424</b>	<b>-</b>	<b>(8,421)</b>	<b>(1,897)</b>	<b>(361)</b>	<b>(2,333,485)</b>

## Effect on the Cashflow and Notes

	As previously stated 2017-18 £'000	PPE Revaluations £'000	Leaseholder Contributions £'000	Grants Unapplied £'000	Academy Conversions £'000	School Balances £'000	Community Infrastructure Levy £'000	S106 Unapplied £'000	DFG £'000	Other Corrections £'000	Restated 2017-18 £'000
<b>Net surplus or (deficit) on the provision of services</b>	(21,413)	21,655	2,155	1,073	(128,927)	(7,282)	2,448	474	956	(2,194)	(131,055)
<b>Adjustments to surplus or deficit on the provision of services for noncash movements</b>											
Depreciation	37,992	(299)			273						37,966
Impairment and downward valuations	19,985	(21,356)			(4,019)						(5,390)
Increase/(decrease) in creditors	16,744		(9,596)	(1,966)		4,893	(1,598)			23,254	31,731
(Increase)/decrease in debtors	(33,395)		6,027	893		9,874	4,810	-		(25,414)	(37,205)
(Increase)/decrease in inventories											-
Movement in pension liability	(3,990)									2,198	(1,792)
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	44,984				132,673						177,657
Other non-cash items charged to the net surplus or deficit on the provision of services	2,505									(70)	2,435
<b>Total Adjustments</b>	<b>84,825</b>	<b>(21,655)</b>	<b>(3,569)</b>	<b>(1,073)</b>	<b>128,927</b>	<b>14,767</b>	<b>3,212</b>	<b>-</b>	<b>-</b>	<b>(32)</b>	<b>205,402</b>
<b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>											
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(59,785)									1	(59,784)
Any other items for which the cash effects are investing or financing cash flows	(10,811)	(5,397)						(474)	(956)		(17,638)
<b>Total Adjustments</b>	<b>(70,596)</b>	<b>(5,397)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(474)</b>	<b>(956)</b>	<b>1</b>	<b>(77,422)</b>
<b>Net Cash flows from operating activities</b>	<b>(7,184)</b>	<b>(5,397)</b>	<b>(1,414)</b>	<b>-</b>	<b>-</b>	<b>7,485</b>	<b>5,660</b>	<b>-</b>	<b>-</b>	<b>(2,225)</b>	<b>(3,075)</b>
<b>Net Cash flows from Investing Activities</b>											
Purchase of property, plant and equipment, investment property and intangible assets	(103,696)									40	(103,656)
Purchase of short-term and long-term investments	(47,452)									(365,117)	(412,569)
Other payments for investing activities										25	25
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	56,944										56,944
Proceeds from short-term and long-term investments										365,120	365,120
<b>Total Cash flows</b>	<b>(58,900)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68</b>	<b>(58,832)</b>
<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>(69,775)</b>	<b>(5,397)</b>	<b>(1,414)</b>	<b>-</b>	<b>-</b>	<b>7,485</b>	<b>5,660</b>	<b>-</b>	<b>-</b>	<b>(2,157)</b>	<b>(65,598)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>184,299</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,568</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>585</b>	<b>186,452</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>114,524</b>	<b>(5,397)</b>	<b>(1,414)</b>	<b>-</b>	<b>-</b>	<b>9,053</b>	<b>5,660</b>	<b>-</b>	<b>-</b>	<b>(1,572)</b>	<b>120,854</b>

## Reconciliation of Movement in Net Worth

	31 March 2017 £'000	31 March 2018 £'000
Total Council Assets as previously reported	<u>1,843,413</u>	<u>2,090,643</u>
PPE Revaluations	415,087	345,880
Leaseholder Contributions	24,107	26,262
Grants Unapplied	3,740	4,813
Academy Conversions	-	(141,515)
School Balances	1,568	(5,714)
Community Infrastructure Levy	9,413	11,861
Teachers Pensions	(9,424)	(9,424)
S106 Unapplied	7,947	8,421
Disabled Facilities Grant	941	1,897
Other Corrections	2	361
Total Council Assets restated	<u>2,296,794</u>	<u>2,333,485</u>

**The above tables only show the lines impacted and therefore the totals presented do not necessarily cast downwards.**

### 3 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

- **Amendments to IAS 40 Investment Property: Transfers of Investment Property** – this change restricts transfers between the investment property category and other asset categories to where is clear evidence of a change in use. The Council already follows this approach therefore the change in the standard will have no impact on the accounts;
- **Annual Improvements to IFRS Standards 2014 – 2016 Cycle** – none of the amendments are expected to impact on the Council's accounts. The improvements include changes to IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*;
- **IFRIC 22 Foreign Currency Transactions and Advance Consideration** – this covers where payment, denominated in a foreign currency, is made in advance of receipt of goods and services. The Council does not have any material transactions that will be covered by this amendment;
- **IFRIC 23 Uncertainty over Income Tax Treatments** – as the Council does not have tax liabilities this will have no impact;
- **Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation** – this makes changes to IFRS 9 regarding the use of amortised cost where prepayments are lower than the principal and interest remaining unpaid. The Council has no instruments that this would apply to;
- **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 2022-23 financial year. This standard will require the Council to recognise more leases where they are the lessor on balance sheet with the corresponding liability for lease payments.

### 4 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.

### 5 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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**Council Dwellings and Other Land and Buildings (within Property, Plant and Equipment)** – Assets at carrying value of £2,142m are valued in accordance with the professional standards set by the Royal Institution of Chartered Surveyors and valuations are prepared by the Council's external specialists.

As part of this process of valuation, property transactions are examined in the market at large. Nonetheless a large element of judgement is exercised by professional valuers since land valuations are dependent on a wide range of factors, and relevant property transactions outline a range from which the valuer then applies their professional judgement

**Pensions Liability** – Estimation of the net liability, of £690.9m, to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund investments. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The actuaries provide the following sensitivity analysis: a 0.5% decrease in the real discount rate would lead to an increase of approximately £198.3m in the scheme liabilities; a 0.5% increase in the rate of pension increase (taken as CPI) would lead to an increase of £175.8m; and a 0.5% increase in salaries would result in an increase of £20.0m

## 6 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 2018/19 material items of income and expenditure are disclosed in the relevant notes through the accounts, but the following significant item is highlighted here:

**Lender Option Borrower Option (LOBO) loan repayment** - A £60m LOBO loan was repaid in November 2018. An early termination premium of £17.852m 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 General Fund over the remaining 42 years of the loan. New loans from the Public Works Loan Board were taken out to provide replacement funding.

**Revaluation of Properties** – An unrealised revaluation loss of £104.8m on the value of property (of which £44.2m relates to HRA dwellings) is included in the net cost of services within the Comprehensive Income and Expenditure Statement. The total change in the value of property due to revaluations during 2018/19 was a decrease of £411.1m, with the remaining £306.3m being charged to the Revaluation Reserve.

## 7 Events after the balance sheet date

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 coronavirus (covid-19) lockdown measures in England on 26 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 will fall in 2020/21 and future years and therefore is considered as a non-adjusting event with conditions arising after the reporting date.

The financial impact on COVID-19 in 18/19 was not material on reserves, and the events after the reporting period do not indicate that the Council would be unable to continue as a going concern.



## 8 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 departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the comprehensive income and expenditure statement

2017/18 (Restated)		Net Expenditure in the CIES £'000		2018/19		Net Expenditure in the CIES £'000
Expenditure Chargeable to GF and HRA balances £'000	Adjustments between funding and accounting basis £'000			Expenditure Chargeable to GF and HRA balances £'000	Adjustments between funding and accounting basis £'000	
117,318	1,761	119,079	Children's Services	115,452	18,305	133,757
139,144	(43,135)	96,009	Health, Adults and Communities	145,995	(41,662)	104,333
60,847	8,340	69,187	Place	64,862	60,197	125,059
13,392	2,339	15,731	Governance	14,309	3,882	18,191
(8,069)	2,568	(5,501)	Local Authority Housing (Housing Revenue Account)	2,921	48,911	51,832
27,024	3,581	30,605	Resources	14,201	10,944	25,145
(6,178)	4,508	(1,670)	Corporate Cost and Central Items	16,404	(22,673)	(6,269)
<b>343,478</b>	<b>(20,038)</b>	<b>323,440</b>	<b>NET COST OF SERVICES</b>	<b>374,144</b>	<b>77,904</b>	<b>452,048</b>
(345,913)	155,440	(192,385)	Other Income and Expenditure	(362,594)	39,459	(323,135)
<b>(2,435)</b>	<b>135,402</b>	<b>131,055</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>11,550</b>	<b>117,363</b>	<b>128,913</b>
(71,233)			<b>Opening General Fund and HRA balances</b>	(73,668)		
6,047			Movement on General Fund Balance in Year	8,629		
(8,482)			Movement on HRA Balance in Year	2,921		
<b>(73,668)</b>			<b>CLOSING GENERAL FUND AND HRA BALANCES</b>	<b>(62,118)</b>		

## 8a Note to the Expenditure and Funding Analysis

This statement shows the adjustments from the net chargeable amounts to the General Fund and Housing Revenue Account to arrive at the Comprehensive Income and Expenditure Statement amounts:

Adjustments for Capital Purposes	Transfers to/from Earmarked Reserves	2017/18 (Restated) Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments		Adjustments for Capital Purposes	Transfers to/from Earmarked Reserves	2018/19 Net Change for Pensions Adjustments	Other Adjustments	Total Adjustments
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
1,241	4,287	7,692	(11,459)	1,761	Children's Services	17,151	4,585	9,297	(12,728)	18,305
-	(1,297)	4,116	(45,954)	(43,135)	Health, Adults and Communities	-	(420)	5,367	(46,609)	(41,662)
487	1,704	7,844	(1,695)	8,340	Place	51,327	(1,265)	9,434	701	60,197
-	-	2,234	105	2,339	Governance	-	-	2,077	1,805	3,882
7,391	-	(1,304)	(3,519)	2,568	Local Authority Housing (Housing Revenue Account)	53,393	-	(835)	(3,647)	48,911
(1,901)	11,662	5,937	(12,117)	3,581	Resources	(776)	14,210	6,972	(9,462)	10,944
13,225	4,499	(15,590)	2,374	4,508	Corporate Cost and Central Items	12,723	4,219	(18,409)	(21,206)	(22,673)
<b>20,443</b>	<b>20,855</b>	<b>10,929</b>	<b>(72,265)</b>	<b>(20,038)</b>	<b>NET COST OF SERVICES</b>	<b>133,818</b>	<b>21,329</b>	<b>13,903</b>	<b>(91,146)</b>	<b>77,904</b>
73,609	(4,855)	15,666	71,020	155,440	Other income and expenditure from the Expenditure and Funding Analysis	(45,512)	(25,602)	15,059	95,514	39,459
<b>94,052</b>	<b>16,000</b>	<b>26,595</b>	<b>(1,245)</b>	<b>135,402</b>	<b>DIFFERENCE BETWEEN SURPLUS OR DEFICIT AND THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>88,306</b>	<b>(4,273)</b>	<b>28,962</b>	<b>4,368</b>	<b>117,363</b>

### Adjustments for Capital Purposes

This column includes the following adjustments:

- 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 Comprehensive Income and Expenditure Statement
- 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 Comprehensive Income and Expenditure Statement as they are not chargeable under generally accepted accounting practices.

### 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 costs 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

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- 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 column represents the difference between what is chargeable under statutory regulations for council tax and NDR 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.

## 9 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2018/19	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments involving the Capital Adjustment Account</b>							
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>							
Charges for depreciation and impairment of non current assets	(22,044)	-	(16,864)	-	-	(38,908)	38,908
Revaluation losses on PPE (charged to SDPS)	(60,006)	(44,789)	-	-	-	(104,795)	104,795
Movements on the market value of investment assets	-	-	-	-	-	-	-
Amortisation of intangible assets	-	-	-	-	-	-	-
Capital grants and contributions applied	12,918	3,329	-	-	21,633	37,880	(37,880)
Movement in the donated assets account	-	-	-	-	-	-	-
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
<u>Inclusion of items not debited or credited to the Comprehensive</u>							
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
<b>Adjustments involving the Capital Receipts Reserve</b>							
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)	-	-	-
<b>Adjustment involving the Major Repairs Reserve</b>							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	22,349	-	-	22,349	(22,349)
<b>Adjustments involving the Financial Instruments Adjustment Account</b>							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	(17,417)	-	-	-	(17,417)	17,417
<b>Adjustments involving the Pooled Investments Adjustment Account</b>							
Amount by which finance costs charged to the CIES are different from those chargeable in the year in accordance with statutory requirements	(538)	-	-	-	-	(538)	538
<b>Adjustment involving the Pensions Reserve</b>							
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)
<b>Adjustments involving the Collection Fund Adjustment Account</b>							
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
<u>Other adjustments include</u>							
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Capital grants and contributions unapplied credited to CIES when receivable	28,871	9,549	-	-	(38,420)	-	-
<b>Adjustments involving the Accumulated Absences Account</b>							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	218	-	-	-	-	218	(218)
<b>Total Adjustments</b>	<b>(79,122)</b>	<b>(42,514)</b>	<b>5,485</b>	<b>3,854</b>	<b>(16,787)</b>	<b>(129,084)</b>	<b>129,084</b>

## 9 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2017/18 (Restated)	USABLE RESERVES						UNUSABLE RESERVES
	GENERAL FUND BALANCE	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments involving the Capital Adjustment Account</b>							
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>							
Charges for depreciation and impairment of non current assets	(19,928)	-	(18,038)	-	-	(37,966)	37,966
Revaluation losses on PPE (charged to SDPS)	5,390	-	-	-	-	5,390	(5,390)
Capital grants and contributions applied	9,092	1,720	-	-	23,934	34,746	(34,746)
Revenue expenditure funded from capital under statute	(10,808)	(10,047)	-	-	-	(20,855)	20,855
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(152,653)	(25,004)	-	-	-	(177,657)	177,657
<u>Inclusion of items not debited or credited to the Comprehensive</u>							
Statutory provision for the financing of capital investment	7,483	449	-	-	-	7,932	(7,932)
Capital expenditure charged against the General Fund and HRA balances	8,365	2,207	-	-	-	10,572	(10,572)
<b>Adjustments involving the Capital Receipts Reserve</b>							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	30,156	26,788	-	(56,944)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	20,341	-	20,341	(20,341)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,737)	-	-	1,737	-	-	-
Unattached capital receipts	260	2,580	-	(2,840)	-	-	-
<b>Adjustment involving the Major Repairs Reserve</b>							
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	22,012	-	-	22,012	(22,012)
<b>Adjustment involving the Pensions Reserve</b>							
Reversal of items relating to retirement benefits debited or credited to the CIES	(63,576)	(6,008)	-	-	-	(69,584)	69,584
Employer's pensions contributions and direct payments to pensioners payable in the year	36,138	6,852	-	-	-	42,990	(42,990)
<b>Adjustments involving the Collection Fund Adjustment Account</b>							
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	(6,726)	-	-	-	-	(6,726)	6,726
<u>Other adjustments include</u>							
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Capital grants and contributions unapplied credited to CIES when receivable	34,613	6,162	-	-	(40,775)	-	-
<b>Adjustments involving the Accumulated Absences Account</b>							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	742	-	-	-	-	742	(742)
<b>Total Adjustments</b>	(123,189)	5,699	3,974	(37,706)	(16,841)	(168,063)	168,063

## 10 Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

	BALANCE AT 31 MARCH 2017 (Restated) £'000	TRANSFERS OUT 2017/18 (Restated) £'000	TRANSFERS IN 2017/18 (Restated) £'000	BALANCE AT 31 MARCH 2018 (Restated) £'000	TRANSFERS OUT 2018/19 £'000	TRANSFERS IN 2018/19 £'000	BALANCE AT 31 MARCH 2019 £'000	
1	Schools Balances	(26,283)	3,154	(2,336)	(25,465)	500	(673)	(25,638)
2	Dedicated Schools Grant (Surplus)/Deficit	(1,655)	1,469	-	(186)	4,758	-	4,572
3	Transformation	(25,000)	10,025	-	(14,975)	5,777	-	(9,198)
4	ICT / Finance Systems	(23,068)	2,100	-	(20,968)	4,865	-	(16,103)
5	Parking Control	(3,295)	-	-	(3,295)	-	-	(3,295)
6	Adults, Health & Wellbeing (including Public Health)	-	-	(1,297)	(1,297)	-	(420)	(1,717)
7	Insurance	(20,771)	-	(463)	(21,234)	3,568	-	(17,666)
8	New Civic Centre	(20,000)	2,753	-	(17,247)	-	-	(17,247)
9	New Homes Bonus	(7,258)	-	(4,855)	(12,113)	-	(16,826)	(28,939)
10	Mayor's Tackling Poverty Reserve	(5,000)	934	-	(4,066)	700	-	(3,366)
11	Free School Meals	(6,000)	2,000	-	(4,000)	-	-	(4,000)
12	Mayor's Investment Priorities	(10,000)	2,980	-	(7,020)	2,380	-	(4,640)
13	Risk Reserve	(10,500)	2,346	(600)	(8,754)	5,345	(1,126)	(4,535)
14	Collection Fund Smoothing Reserve	-	-	-	-	-	(6,515)	(6,515)
15	Revenue Grants	(3,316)	385	(2,784)	(5,715)	172	(3,927)	(9,470)
16	Services Reserve	(1,697)	365	(176)	(1,508)	-	(387)	(1,895)
17	Ringfenced developers' contributions	-	-	-	-	-	(2,464)	(2,464)
<b>Earmarked Reserve Total</b>		<b>(163,843)</b>	<b>28,511</b>	<b>(12,511)</b>	<b>(147,843)</b>	<b>28,065</b>	<b>(32,338)</b>	<b>(152,116)</b>

### Corporate Reserves

- 1 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.
- 2 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.
- 3 Reserve created to support the delivery of the Council's transformation programme.
- 4 Reserve to support the planned investment in Council's finance systems.
- 5 Parking control reserve.
- 6 Reserves held for Adults, Health and Wellbeing and Public Health services.
- 7 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.
- 8 Reserve to contribute towards funding of the new Civic Centre in Whitechapel.
- 9 Unspent element of the New Homes Bonus Grant which will be used to fund housing schemes.
- 10 Contribution toward funding of welfare reform programme.
- 11 Reserve to fund free school meals programme.
- 12 Reserve to fund Mayor's Investment Priority schemes.
- 13 Risk Reserve to manage funding of risks arising.
- 14 Collection Fund Smoothing Reserve - used to manage fluctuations in Business Rates income
- 15 Unspent revenue grants without repayment conditions.
- 16 Includes Building Control, Land Charges, and Planning reserves.
- 17 This balance consists of developers' contributions which are ringfenced for specific purposes.

## 11 Other Operating Expenditure

2017/18 (Restated) £'000		Note	2018/19 £'000
1,795	Levies		1,860
1,737	Payments to Housing Capital Receipts Pool		4,284
116,968	Net (gain) / loss on disposal of non-current assets		(12,738)
(2,841)	Unattached capital receipts		(1,120)
<b>117,659</b>	<b>Total</b>		<b>(7,714)</b>

## 12 Financing and Investment Income and Expenditure

2017/18 (Restated) £'000			2018/19 £'000
10,800	Interest payable and similar charges		27,917
15,253	Net interest on the net defined benefit liability/(asset)		15,059
(2,950)	Interest receivable and similar income	16	(5,929)
	- Net (gains)/losses on financial assets at fair value through profit and loss	16	124
197	(Surplus) or deficit of trading operations	28	(5)
<b>23,300</b>	<b>Total</b>		<b>37,166</b>

## 13 Taxation and Non Specific Grant Income

2017/18 £'000			2018/19 £'000
(87,150)	Council Tax income		(93,185)
(118,562)	Non domestic rates		(175,608)
(83,872)	Non-ringfenced Government grants	36	(33,286)
(43,760)	Capital grants and contributions	36	(50,508)
<b>(333,344)</b>	<b>Total</b>		<b>(352,587)</b>

## 14 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2018/19	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRA-STRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
<b>Cost or Valuation</b>									
<b>At 1 April 2018</b>	<b>1,201,039</b>	<b>1,329,541</b>	<b>24,833</b>	<b>162,286</b>	<b>28,423</b>	<b>23,442</b>	<b>9,507</b>	<b>2,779,071</b>	<b>273,230</b>
Adjustment to opening balance between cost/valuation and accumulated depreciation	104	1,784	-	-	-	-	-	1,888	-
<b>Adjusted cost/valuation at 1 April 2018</b>	<b>1,201,143</b>	<b>1,331,325</b>	<b>24,833</b>	<b>162,286</b>	<b>28,423</b>	<b>23,442</b>	<b>9,507</b>	<b>2,780,959</b>	<b>273,230</b>
Additions	19,898	68,910	1,175	6,736	1,267	-	19,523	117,509	1,784
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(138,582)	(198,319)	-	-	-	1,850	-	(335,051)	(72,667)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	(44,178)	(60,484)	-	-	-	(133)	-	(104,795)	(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	(39,970)	-	1,728	(1,734)	-	37,946	(1,038)	-
<b>At 31 March 2019</b>	<b>1,030,754</b>	<b>1,100,071</b>	<b>26,008</b>	<b>170,750</b>	<b>27,956</b>	<b>25,159</b>	<b>66,976</b>	<b>2,447,674</b>	<b>198,258</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1 April 2018</b>	<b>(104)</b>	<b>11,763</b>	<b>22,296</b>	<b>53,753</b>	<b>6</b>	<b>3</b>	<b>-</b>	<b>87,717</b>	<b>2,835</b>
Adjustment to opening balance between cost/valuation and accumulated depreciation	104	1,784	-	-	-	-	-	1,888	-
<b>Adjusted accumulated depreciation at 1 April 2018</b>	<b>-</b>	<b>13,547</b>	<b>22,296</b>	<b>53,753</b>	<b>6</b>	<b>3</b>	<b>-</b>	<b>89,605</b>	<b>2,835</b>
Depreciation charge	15,912	13,899	591	8,426	-	80	-	38,908	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)	-
<b>At 31 March 2019</b>	<b>-</b>	<b>13,648</b>	<b>22,887</b>	<b>62,179</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>98,721</b>	<b>3,035</b>
<b>Net Book Value</b>									
<b>At 31 March 2019</b>	<b>1,030,754</b>	<b>1,086,423</b>	<b>3,121</b>	<b>108,571</b>	<b>27,956</b>	<b>25,152</b>	<b>66,976</b>	<b>2,348,953</b>	<b>195,223</b>
<b>At 31 March 2018</b>	<b>1,201,143</b>	<b>1,317,778</b>	<b>2,537</b>	<b>108,533</b>	<b>28,417</b>	<b>23,439</b>	<b>9,507</b>	<b>2,691,354</b>	<b>270,395</b>

## 14 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPARATIVE MOVEMENTS IN 2017/18 (Restated)	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRASTRUCTURE ASSETS	COMMUNITY ASSETS	SURPLUS ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>									
At 1 April 2017	1,342,492	1,350,060	24,691	157,546	27,979	21,224	31,517	<b>2,955,509</b>	372,725
Adjustment to opening balance between cost/valuation and accumulated depreciation	(138,498)	(28,506)	(44)	(1)	1	426	-	<b>(166,622)</b>	5,212
Adjusted cost/valuation at 1 April 2018	1,203,994	1,321,554	24,647	157,545	27,980	21,650	31,517	<b>2,788,887</b>	377,937
Additions	19,853	74,288	186	4,741	443	75	4,071	<b>103,657</b>	5,862
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(23,954)	79,163	-	-	-	1,962	-	<b>57,171</b>	6,821
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	-	5,635	-	-	-	(245)	-	<b>5,390</b>	475
Derecognition - Disposals	(12,724)	(150,449)	-	-	-	-	-	<b>(163,173)</b>	(117,865)
Derecognition - Other	(12,211)	(650)	-	-	-	-	-	<b>(12,861)</b>	-
Other Reclassification of Assets	26,081	-	-	-	-	-	(26,081)	-	-
<b>At 31 March 2018</b>	<b>1,201,039</b>	<b>1,329,541</b>	<b>24,833</b>	<b>162,286</b>	<b>28,423</b>	<b>23,442</b>	<b>9,507</b>	<b>2,779,071</b>	<b>273,230</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2017	151,745	42,191	21,787	49,940	5	(426)	-	<b>265,242</b>	(2,460)
Adjustment to opening balance between cost/valuation and accumulated depreciation	(138,498)	(28,506)	(44)	(1)	1	426	-	<b>(166,622)</b>	5,212
Adjusted accumulated depreciation at 1 April 2018	13,247	13,685	21,743	49,939	6	-	-	<b>98,620</b>	2,752
Depreciation charge	17,053	16,468	553	3,814	-	78	-	<b>37,966</b>	3,988
Depreciation written out to the Revaluation Reserve	(29,850)	(16,872)	-	-	-	(75)	-	<b>(46,797)</b>	(2,612)
Derecognition - Disposals	(188)	(1,646)	-	-	-	-	-	<b>(1,834)</b>	(1,293)
Derecognition - Other	(366)	128	-	-	-	-	-	<b>(238)</b>	-
<b>At 31 March 2018</b>	<b>(104)</b>	<b>11,763</b>	<b>22,296</b>	<b>53,753</b>	<b>6</b>	<b>3</b>	<b>-</b>	<b>87,717</b>	<b>2,835</b>
<b>Net Book Value</b>									
<b>At 31 March 2018</b>	<b>1,201,143</b>	<b>1,317,778</b>	<b>2,537</b>	<b>108,533</b>	<b>28,417</b>	<b>23,439</b>	<b>9,507</b>	<b>2,691,354</b>	<b>270,395</b>
<b>At 31 March 2017</b>	<b>1,190,747</b>	<b>1,307,869</b>	<b>2,904</b>	<b>107,606</b>	<b>27,974</b>	<b>21,650</b>	<b>31,517</b>	<b>2,690,267</b>	<b>375,185</b>



## 14 PROPERTY, PLANT AND EQUIPMENT (continued)

### Depreciation

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

- Council Dwellings – As advised by qualified valuer.
- Other Land and Buildings – As advised by qualified valuer
- Vehicles, Plant & Equipment - 5 years on a straight line basis, or as advised by the service
- Infrastructure assets - between 12-100 years

### Capital Commitments

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
<b>TOTAL</b>	<b>159,537</b>	<b>21,955</b>	<b>137,582</b>

### Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are as at 1st April in the year of valuation. In 2018/19, school assets held at depreciated replacement cost (DRC) were also subject to a desktop valuation as at 31st March 2019. A summary of total valuation per asset category is shown below.

In 2018/19, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2016'.

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	-	775	3,121	108,571	27,956	-	66,976	207,399
Valued at current value in:								
2018/19	1,030,754	865,127	-	-	-	16,194	-	1,912,075
2017/18	-	117,489	-	-	-	-	-	117,489
2016/17	-	30,793	-	-	-	1,217	-	32,010
2015/16	-	47,636	-	-	-	7,741	-	55,377
2014/15	-	24,603	-	-	-	-	-	24,603
<b>Value at 31 March 2019</b>	<b>1,030,754</b>	<b>1,086,423</b>	<b>3,121</b>	<b>108,571</b>	<b>27,956</b>	<b>25,152</b>	<b>66,976</b>	<b>2,348,953</b>

### Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licences, not internally generated software. Since the provision of IT services transferred to the Council's partner organisation on 1st May 2012 there have been no intangible asset transactions.

### Impairment Losses

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated above reconciling the movement over the year in the Property, Plant and Equipment balances. An impairment review was carried out by qualified valuers at 31st March 2019 and concluded that there was no significant impairment to report.

## 15 LONG TERM DEBTORS

	Balance at 31 March 2017 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31 March 2018 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31 March 2018 £'000
Mortgages on Right to Buy properties	26	-	-	26	1	-	27
Sundry Loans	592	86	(114)	564	1,117	(500)	1,181
	<b>618</b>	<b>86</b>	<b>(114)</b>	<b>590</b>	<b>1,118</b>	<b>(500)</b>	<b>1,208</b>

**Sundry Loans** - During 2018/19, loans totalling £420k were advanced to Seahorse Homes, a wholly owned company, £400k was repaid as not required for scheme financing during 2018/19. A working capital loan of £10k was also advanced to Mulberry Housing Society, a community benefit society. Loans of £600k were also advanced to Oxford House, a local charitable organisation. These loans were provided at market rates.

## 16 FINANCIAL INSTRUMENT NOTES

### Implementation of IFRS 9 *Financial Instruments*

Local authorities are required to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy / LASAAC Joint Committee, for the 2018/19 financial year this includes the requirements of IFRS 9 *Financial Instruments*. This requires the disclosure of financial assets at either amortised cost, fair value through profit or loss or fair value through other comprehensive income (FVOCI).

**Amortised Cost** - Financial liabilities are initially measured at fair value and subsequently measured at amortised cost, for borrowing this means that the amount in the balance sheet is the remaining principal and the accrued interest. Financial assets are also valued at amortised cost where the amount of interest is fixed and the repayment dates are agreed in advance.

**Fair Value** - Some Financial Assets are required to be shown at fair value. Fair value is defined as the amount for which an asset could be exchanged. Where held as fair value through other comprehensive income, the changes in fair value are accounted for in a reserve account and recognised in the Comprehensive Income and Expenditure Statement when disposed of. Assets held at fair value through profit or loss are recognised in the Comprehensive Income and Expenditure Statement as they occur.

### Categories of Financial Instruments

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

Financial Instrument Categories	Non-Current		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2018	2019	2018	2019	2018	2019
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Assets</b>						
<b>Loans and Receivables</b>						
Investments	-	-	359,126	-	359,126	-
Trade Debtors	590	-	54,152	-	54,742	-
Cash and Cash Equivalents	-	-	145,641	-	145,641	-
<b>Financial Assets - Fair Value through profit and loss</b>						
Investments	-	55,462	-	-	-	55,462
Cash Equivalents	-	-	-	36,650	-	36,650
<b>Financial Assets at Amortised Cost</b>						
Investments	-	17,000	-	257,698	-	274,698
Trade Debtors	-	1,208	-	69,269	-	70,477
Cash and Cash Equivalents	-	-	-	83,382	-	83,382
<b>Total Financial Assets</b>	<b>590</b>	<b>73,670</b>	<b>558,919</b>	<b>446,999</b>	<b>559,509</b>	<b>520,669</b>
<b>Financial Liabilities</b>						
<b>Financial Liabilities at Amortised Cost</b>						
Cash and Cash Equivalents	-	-	(24,787)	(35,640)	(24,787)	(35,640)
Borrowing	(83,293)	(72,289)	(2,010)	(2,413)	(85,303)	(74,702)
Trade Creditors	-	-	(73,986)	(90,710)	(73,986)	(90,710)
Service Concessions and Finance Leases	(61,455)	(58,650)	(2,416)	(2,805)	(63,871)	(61,455)
<b>Total Financial Liabilities</b>	<b>(144,748)</b>	<b>(130,939)</b>	<b>(103,199)</b>	<b>(131,568)</b>	<b>(247,947)</b>	<b>(262,507)</b>

## 16 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:

	2017/18			2018/19		
	Financial Liabilities measured at amortised cost £'000	Financial Assets measured at amortised cost £'000	Financial Assets measured through P&L £'000	Financial Liabilities measured at amortised cost £'000	Financial Assets measured at amortised cost £'000	Financial Assets measured through P&L £'000
Interest expense	10,800	-	-	10,065	-	-
Loan repayment penalty	-	-	-	17,852	-	-
Interest income	-	(2,950)	-	-	(5,929)	-
Money Market Funds (Cash Equivalents)	-	-	-	-	-	(414)
Pooled Funds	-	-	-	-	-	538
<b>Net Gain/(Loss) for the year</b>	<b>10,800</b>	<b>(2,950)</b>	<b>-</b>	<b>27,917</b>	<b>(5,929)</b>	<b>124</b>

### Fair Values of Financial Assets and Financial Liabilities

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

Fair Value of Liabilities Carried at Amortised Cost	31 March 2018	31 March 2018	31 March 2019	31 March 2019
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Cash and Cash Equivalents	(24,787)	(24,787)	(35,640)	(35,640)
Borrowing held at amortised cost				
Public Works Loans Board	(7,483)	(8,803)	(57,125)	(61,025)
Market Loans - Fixed Interest	(17,578)	(33,635)	(17,577)	(29,081)
Market Loans - Lender option, borrower option loans	(60,242)	(98,520)	-	-
Trade Creditors	(73,986)	(73,986)	(90,710)	(90,710)
Service Concessions and Finance Leases	(63,871)	(90,055)	(61,455)	(84,855)
<b>Financial Liabilities</b>	<b>(247,947)</b>	<b>(329,786)</b>	<b>(262,507)</b>	<b>(301,311)</b>

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

Fair Value of Assets Carried at Amortised Cost	31 March 2018	31 March 2018	31 March 2019	31 March 2019
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Investments held at amortised cost	359,126	359,126	274,698	274,698
Trade Debtors	54,152	54,152	69,269	69,269
Long Term Debtors	590	590	1,208	1,208
Cash and Cash Equivalents	145,641	145,641	83,382	83,382
<b>Financial Assets</b>	<b>559,509</b>	<b>559,509</b>	<b>428,557</b>	<b>428,557</b>

The fair value is assumed to be the carrying value since for all the assets listed the true fair value is unlikely to be materially different from the carrying amount.

**Fair value hierarchy of financial assets and financial liabilities that are not measured at fair value**

Recurring fair value measurements using:	31 March 2019	31 March 2019	31 March 2019	Total
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	£000	£000	£000	
<b>Financial liabilities</b>				
Cash and Cash Equivalents		(35,640)		(35,640)
Public Works Loans Board		(61,025)		(61,025)
Market Loans - Fixed Interest		(29,081)		(29,081)
Trade Creditors		(90,710)		(90,710)
Service Concessions and Finance Leases			(84,855)	(84,855)
<b>Total</b>	-	<b>(216,456)</b>	<b>(84,855)</b>	<b>(301,311)</b>
<b>Financial assets</b>				
Investments held at amortised cost		274,698		274,698
Trade Debtors		69,269		69,269
Long Term Debtors		1,208		1,208
Cash and Cash Equivalents		83,382		83,382
<b>Total</b>	-	<b>428,557</b>	-	<b>428,557</b>

**Fair Value Hierarchies**

**Basis for recurring fair value measurements:**

Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

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

Level 3 Inputs – unobservable inputs for the asset or liability.

## 16 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 institutions to a maximum of £10 million for financial institutions and £70 million for government backed borrowing, in any one transaction. The authority's minimum credit rating criteria is as detailed in the Treasury Management Strategy.

### Amounts arising from Expected Credit Losses

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

Financial Asset Class	Amounts at 31 March 2018 £'000	Historical experience of default %	Estimated maximum exposure to default £'000	Amounts at 31 March 2019 £'000	Historical experience of default %	Estimated maximum exposure to default £'000
Cash & cash equivalents deposits	145,641	-	-	83,382	-	-
Money Market Funds (cash equivalents)	12,836	-	-	36,650	-	-
Pooled Investment funds (fair value through P&L)	-	-	-	55,462	-	-
Fixed term deposits (banks and other financial institutions)	359,119	-	-	274,698	-	-
<b>TOTAL</b>	<b>517,596</b>	<b>-</b>	<b>-</b>	<b>450,192</b>	<b>-</b>	<b>-</b>

The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for customers; adequacy of loss allowances against debtors that meet the definition of a financial instrument can be assessed as follows:

	31 March 2018 £'000	31 March 2019 £'000
Financial instrument debtors older than 1 month, less than 12 months	25,125	20,155
Financial instrument debtors older than 12 months	44,170	44,133
Loss allowance	(43,977)	(41,296)

## 16 FINANCIAL INSTRUMENTS (continued)

### 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 Council's policy is to ensure that not more than 20% of loans are due to mature within any financial year through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity structure of financial liabilities at nominal value including projected interest cashflows is as follows :

Loans outstanding	31 March	31 March
	2018	2019
	£'000	£'000
Public Works Loans Board	73,010	120,847
Market debt	62,281	61,522
PFI / Finance Leases	96,713	89,327
<b>TOTAL</b>	<b>232,004</b>	<b>271,696</b>
Less than 1 year	10,306	11,836
Between 1 and 2 years	32,450	31,740
Between 2 and 5 years	45,832	38,476
Between 5 and 10 years	17,597	16,766
More than 10 years	125,819	172,878
<b>TOTAL</b>	<b>232,004</b>	<b>271,696</b>

The Council uses money market funds to provide liquidity.

### 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.

## 16 FINANCIAL INSTRUMENTS (continued)

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

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 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2017/18 £'000	2018/19 £'000
Increase in interest payable on variable rate borrowings	600	-
Increase in interest receivable on variable rate investments	(3,900)	(883)
<b>Impact on Income and Expenditure Account</b>	<b>(3,300)</b>	<b>(883)</b>

Fair Value Movements	2017/18 £'000	2018/19 £'000
Decrease in fair value of fixed rate investments	492	820
Decrease in fair value of fixed rate borrowing liabilities	336	-
<b>Impact on Income and Expenditure Account</b>	<b>828</b>	<b>820</b>

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.

## 17 HERITAGE ASSETS

The Council holds a number of heritage assets. These include civic regalia, works of art across the borough and collections at Tower Hamlets Local History Library and Archive (Bancroft Library). These are held as part of increasing the knowledge and understanding of the area's history.

The Council has held these heritage assets for a number of years pre-dating 2010. These assets are held at an estimate of current value on the balance sheet, except for the local history collection which is not included on the balance sheet as valuations are not available due to the unique nature of the assets.

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.

The council has a materiality threshold of £50,000 per asset. There are only four heritage assets above this threshold - civic regalia, two sculptures and one painting.

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 asset buildings.

	Balance at 31 March 2017 £'000	2017/18 Acquisitions £'000	2017/18 Disposals £'000	2017/18 Revaluation £'000	Balance at 31 March 2018 £'000	2018/19 Acquisitions £'000	2018/19 Disposals £'000	2018/19 Revaluation £'000	Balance at 31 March 2019 £'000
<b>Value of Heritage Assets held by Council</b>									
(a) - Works of art	8,922	24	-	9,500	18,446	-	-	-	18,446
(b) - Civic Regalia	389	-	-	-	389	-	-	-	389
<b>TOTAL HERITAGE ASSETS</b>	<b>9,311</b>	<b>24</b>	<b>-</b>	<b>9,500</b>	<b>18,835</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,835</b>

(a) The council holds a number of works of art. The council has three works of art with a material value - the council has received indications of value on these assets from art experts at auction houses. This value includes a sculpture valued at £18m was relocated to the Borough during 2017/18.

There are 109 works of art across the borough for which the council has a duty of care. These include sculptures, statues, murals, memorials and other works. The majority of these reflect the history of the borough. It was not cost effective to obtain formal valuations for these immaterial items, however public data is available of sale proceeds of similar works by the same artists - none of these values are considered material.

The council also has a collection of 75 other paintings which are held at the local history library. These paintings are of local scenes and past local dignitaries so intrinsic value is in local interest rather than realisable value.

(b) These comprise the Mayor's chain and other civic regalia. These were valued by the auctioneers Bonham's in January 2012.



## 18 SHORT TERM DEBTORS

	31 March 2018 £'000	31 March 2019 £'000
National Health Service	5,654	6,444
HM Revenue & Customs	14,475	16,875
Other Central Government	13,968	7,922
Other Local Authorities	-	9,820
Tower Hamlets Homes	1,597	994
Council Tax	1,566	1,902
National Non Domestic Rates	3,501	9,084
Housing and Tenants Rents	33,073	42,694
Other Entities & Individuals	31,766	46,636
Payments in Advance	3,708	7,783
<b>Total</b>	<b>109,308</b>	<b>150,154</b>

## 19 CASH AND CASH EQUIVALENTS

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

	31 March 2018 £'000	31 March 2019 £'000
Cash held by the Council	37,965	36,242
Short-term deposits with banks and building societies	70,053	11,500
Money Market Funds	12,836	36,650
<b>Total Cash and Cash Equivalents</b>	<b>120,854</b>	<b>84,392</b>

## 20 ASSETS HELD FOR SALE

As at the 31st March 2018, the Council has no properties which are classified as Assets Held for Sale. There was one property as at 31st March 2017 which was sold during 2017/18.

	Current		Non Current	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
<b>Value at 1st April</b>	3,850	-	-	-
Assets newly classified as held for sale:				
Property, Plant and Equipment	-	160	-	-
Assets sold	(3,850)	-	-	-
<b>Value at 31st March</b>	-	160	-	-

## 21 CREDITORS

	31 March 2018 £'000	31 March 2019 £'000
HM Revenue & Customs	(6,964)	(5,614)
Bodies	(3,963)	(1,484)
Other Local Authorities	(8,357)	(16,210)
Council Tax	(8,357)	(8,083)
National Non Domestic Rates	(30,645)	(27,373)
Housing and Tenants Rents	(1,769)	(1,994)
Other Entities & Individuals	(74,634)	(91,521)
Receipts in advance	(19,430)	(14,556)
<b>Total</b>	<b>(154,119)</b>	<b>(166,835)</b>

## 22 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 31 March 2017	Amounts used or written back	Contributions	Balance at 31 March 2018	Amounts used or written back	Contributions	Balance at 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) Single Status	(62)	-	-	(62)	62	-	-
(b) ICT provision and other corporate provision	(3,906)	372	(490)	(4,024)	3,464	-	(560)
(c) Contract disputes	(304)	-	-	(304)	304	-	-
(d) Business rates appeals provision	(583)	3,450	(5,850)	(2,983)	7,635	(11,697)	(7,045)
(e) Insurance Fund	-	-	-	-	-	(1,000)	(1,000)
<b>TOTAL</b>	<b>(4,855)</b>	<b>3,822</b>	<b>(6,340)</b>	<b>(7,373)</b>	<b>11,465</b>	<b>(12,697)</b>	<b>(8,605)</b>

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

LONG-TERM PROVISIONS	Balance at 31 March 2017	Amounts used or written back	Contributions	Balance at 31 March 2018	Amounts used or written back	Contributions	Balance at 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(d) Business rates appeals provision	-	-	-	-	-	(7,045)	(7,045)
(e) Insurance Fund	(7,004)	113	(100)	(6,991)	1,622	979	(4,390)
(f) Repayment of deposits	(169)	-	-	(169)	111	-	(58)
(g) Water Charges	-	-	-	-	-	(9,000)	(9,000)
(h) Disrepairs	-	-	-	-	-	(200)	(200)
(i) Employment Disputes	-	-	-	-	-	(800)	(800)
<b>TOTAL</b>	<b>(7,173)</b>	<b>113</b>	<b>(100)</b>	<b>(7,160)</b>	<b>1,733</b>	<b>(16,066)</b>	<b>(21,493)</b>

**(30,098)**

- (a) For additional costs resulting from single status type agreements which changed employees' conditions of service.
- (b) Provision for ICT licences and corporate provisions including adult social care payments due in 2019/20.
- (c) Provision for contract disputes.
- (d) Council share of provision for NNDR business rates appeals.
- (e) 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.
- (f) 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.
- (g) 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.
- (h) Provision for legal costs relating to the disrepair of Council properties
- (i) Provision for settlements or costs incurred in employment disputes

## 23 USABLE RESERVES

The Usable Reserves of the Council are as follows:

31 March 2018 £'000		31 March 2019 £'000
(26,107)	General Fund	(17,478)
(47,561)	Housing Revenue Account	(44,640)
(147,843)	General Fund Earmarked Reserves	(152,116)
(194,554)	Capital Receipts Reserve	(190,700)
(141,666)	Capital Grants Reserve	(158,453)
(5,485)	Major Repairs Reserve	-
<b>(563,216)</b>	<b>Total Usable Reserves</b>	<b>(563,387)</b>

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 9. Details regarding the movement in Earmarked Reserves can be found in Note 10.

### Capital Receipts Reserve

The capital receipts reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure, or to be set aside to finance historical capital expenditure.

31 March 2018 £'000		31 March 2019 £'000
(156,848)	Balance at 1 April	(194,554)
(59,784)	Capital Receipts in year	(23,429)
1,737	Capital Receipts Pooled	4,284
20,341	Capital Receipts used for financing	22,999
<b>(194,554)</b>	<b>Balance at 31 March</b>	<b>(190,700)</b>

### Capital Grants Reserve

The capital grants unapplied reserve holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require payment of the monies, but have yet to be applied to meet capital expenditure.

31 March 2018 £'000		31 March 2019 £'000
(124,825)	Balance at 1 April	(141,666)
(40,775)	Capital grants recognised in year	(38,420)
23,934	Capital grants and contributions applied	21,633
<b>(141,666)</b>	<b>Balance at 31 March</b>	<b>(158,453)</b>

## 24 UNUSABLE RESERVES

31 March 2018 (Restated) £'000		31 March 2019 £'000
(910,962)	Revaluation Reserve	(596,360)
(1,472,427)	Capital Adjustment Account	(1,400,537)
	- Financial Instruments Adjustment Account	17,417
600,906	Pensions Reserve	705,400
9,027	Collection Fund Adjustment Account	11,198
	- Unequal Pay Back Pay Account	-
3,187	Accumulating Compensated Absences Adjustment Account	2,969
	- Pooled Investment Funds Adjustment Account	538
<b>(1,770,269)</b>	<b>Total Unusable Reserves</b>	<b>(1,259,375)</b>

### 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.

2017/18 (Restated) £'000		2018/19 £'000
(905,917)	<b>Balance at 1 April</b>	(910,962)
(174,302)	Upward revaluation of assets	(61,371)
60,790	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	367,649
(113,512)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	306,278
5,850	Difference between current value depreciation and historical cost depreciation	6,747
102,617	Accumulated gains on assets sold or scrapped	1,577
108,467	Amount written off to the Capital Adjustment Account	8,324
<b>(910,962)</b>	<b>Balance at 31 March</b>	<b>(596,360)</b>

## 24 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 9 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2017/18 (Restated) £'000		2018/19 £'000
<b>(1,499,445)</b>	<b>Balance at 1 April</b>	<b>(1,472,427)</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
37,966	Charges for depreciation and impairment of non current assets	38,908
(5,390)	Revaluation losses and reversals on Property, Plant and Equipment	104,795
20,855	Revenue expenditure funded from capital under statute	17,955
177,657	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	9,571
<u>231,088</u>		<u>171,229</u>
(108,467)	Adjusting amounts written out of the Revaluation Reserve	(8,324)
<u>122,621</u>	Net written out amount of the cost of non current assets consumed in the year	<u>162,905</u>
	<b>Capital financing applied in the year:</b>	
(20,341)	Use of the Capital Receipts Reserve to finance new capital expenditure	(22,999)
(22,012)	Use of the Major Repairs Reserve to finance new capital expenditure	(22,349)
(34,746)	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	(37,880)
(7,932)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(8,639)
(10,572)	Capital expenditure charged against the General Fund and HRA balances	852
<u>(95,603)</u>		<u>(91,015)</u>
<b>(1,472,427)</b>	<b>Balance at 31 March</b>	<b>(1,400,537)</b>

## 24 UNUSABLE RESERVES (continued)

### Financial Instruments Adjustment Account

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

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

2017/18 £'000		2018/19 £'000
	- <b>Balance at 1 April</b>	-
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with	
	- statutory requirements	17,417
	- <b>Balance at 31 March</b>	<b>17,417</b>

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The 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.

2017/18 (Restated) £'000		2018/19 £'000
628,546	<b>Balance at 1 April</b>	600,906
(54,234)	Actuarial gains or losses on pensions assets and liabilities	75,532
	Reversal of items relating to retirement benefits debited or credited to the Surplus or	
69,584	Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	74,258
(71,908)	Employer's pensions contributions and direct payments to pensioners payable in the year	(30,840)
28,918	Adjustment for unwinding of pre-payment	(14,456)
<b>600,906</b>	<b>Balance at 31 March</b>	<b>705,400</b>

## 24 UNUSABLE RESERVES (continued)

### Collection Fund Adjustment Account

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

2017/18 £'000		2018/19 £'000
2,301	<b>Balance at 1 April</b>	9,027
	Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	
6,726		2,171
<b>9,027</b>	<b>Balance at 31 March</b>	<b>11,198</b>

### 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.

2017/18 £'000		£'000	2018/19 £'000
3,929	<b>Balance at 1 April</b>		3,187
(3,929)	Settlement or cancellation of accrual made at the end of the preceding year	(3,187)	
<u>3,187</u>	Amounts accrued at the end of the current year	<u>2,969</u>	
	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 requirements		(218)
<b>3,187</b>	<b>Balance at 31 March</b>		<b>2,969</b>

### 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.

2017/18 £'000		£'000	2018/19 £'000
-	<b>Balance at 1 April</b>		-
-	Upward revaluation of investments	(321)	
-	Downward revaluation of investments	<u>859</u>	
-			538
-	<b>Balance at 31 March</b>		<b>538</b>

## 25 NOTE A TO THE CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2017/18 £'000		2018/19 £'000
2,950	Interest received	4,259
(10,800)	Interest paid	(27,917)
<b>(7,850)</b>		<b>(23,658)</b>

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

2017/18 (Restated) £'000		2018/19 £'000
37,966	Depreciation	38,908
(5,390)	Impairment and Downward valuations	104,795
31,731	Increase/(Decrease) in Creditors	2,517
(37,205)	(Increase)/Decrease in Debtors	(36,734)
(1,792)	Movement in Pension Liability	43,418
2,435	Other non-cash items charged to the net surplus or deficit on the provision of services	16,103
177,657	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	9,571
<b>205,402</b>		<b>178,578</b>

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

2017/18 (Restated) £'000		2018/19 £'000
-	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	35,684
(59,784)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(23,429)
(17,638)	Any other items for which the cash effects are investing or financing cash flows	(59,215)
<b>(77,422)</b>		<b>(46,960)</b>

## 26 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2017/18 £'000		2018/19 £'000
(103,656)	Purchase of property, plant and equipment, investment property and intangible assets	(117,509)
(412,569)	Purchase of short-term and long-term investments	(429,949)
25	Other payments for investing activities	(705)
56,944	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	19,047
365,120	Proceeds from short-term and long-term investments	422,693
35,304	Other receipts from investing activities	65,820
<b>(58,832)</b>	<b>Net cash flows from investing activities</b>	<b>(40,603)</b>

## 27 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2017/18 £'000		2018/19 £'000
-	Cash receipts of short- and long-term borrowing	55,403
-	Billing Authorities - Council Tax and NNDR adjustments	-
-	Other receipts from financing activities	14,824
(2,351)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,417)
(1,340)	Repayments of short- and long-term borrowing	(66,374)
<b>(3,691)</b>	<b>Net cash flows from financing activities</b>	<b>1,436</b>



## 27a CASH FLOW- RECONCILIATION OF FINANCIAL LIABILITIES FROM FINANCING ACTIVITIES

	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)
<b>Net cash outflow from financing activities</b>	<b>(149,175)</b>	<b>13,085</b>	<b>(68)</b>	<b>(136,158)</b>

## 28 TRADING OPERATIONS

The following services are reported as trading activities

	2017/18			2018/19			Balance at 31 March 2019 £'000
	Expenditure £'000	Income £'000	(Surplus)/ Deficit £'000	Expenditure £'000	Income £'000	(Surplus)/ Deficit £'000	
Street Trading	2,529	(2,332)	(197)	2,299	(2,294)	5	(565)
<b>TOTAL TRADING ACCOUNTS</b>	<b>2,529</b>	<b>(2,332)</b>	<b>(197)</b>	<b>2,299</b>	<b>(2,294)</b>	<b>5</b>	<b>(565)</b>

## 29 CONTINGENT LIABILITIES & CONTINGENT ASSETS

### CONTINGENT LIABILITIES

#### Housing Transfers to Registered Social Landlords

Between March 1998 and March 2016 the Council transferred tenanted and leasehold properties to other landlords - 7,457 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to East End Homes; 2,079 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields Housing Association. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council. The amount of the potential liability cannot be determined with any certainty at present.

## 30 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.

2018/19	BCF £'000
<b>Income</b>	
The Council	(23,165)
Tower Hamlets Clinical Commissioning Group (CCG)	(25,465)
	<b>(48,630)</b>
<b>Expenditure</b>	48,630
<b>Surplus/(Deficit) for the year</b>	-

2017/18	BCF £'000
<b>Income</b>	
The Council	(19,616)
Tower Hamlets Clinical Commissioning Group (CCG)	(25,611)
	<b>(45,227)</b>
<b>Expenditure</b>	45,227
<b>Surplus/Deficit for the year</b>	-

## 31 MEMBERS' ALLOWANCES

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

	2017/18 £'000	2018/19 £'000
Allowances	888	1,016
<b>Total</b>	<b>888</b>	<b>1,016</b>

## 32 OFFICERS' REMUNERATION

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

2017/18	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution <sup>5</sup> £	Other £	Total £
Mr W Tuckley - Chief Executive	198,894	83	-	38,956	-	237,933
<b>Corporate Directors</b>						
Children's Services	140,862	21	-	-	-	140,883
Health, Adults & Community	124,947	-	-	24,240	-	149,187
Mr G White - Governance & Monitoring Officer (Interim) <sup>1</sup>	42,562	-	-	-	-	42,562
Governance & Monitoring Officer <sup>2</sup>	92,053	-	-	17,854	-	109,907
Mr A Dalvi - Place <sup>3</sup>	89,510	-	82,956	4,568	-	177,034
Place <sup>4</sup>	99,957	216	-	19,392	-	119,565
Public Health	102,579	-	-	14,751	-	117,330
Resources	127,422	81	-	24,733	-	152,236

<sup>1</sup> Left 07/07/2017

<sup>2</sup> Commenced 03/07/2017

<sup>3</sup> Retired 31/05/2017. Salary includes elements relating to leave paid and notice period.

<sup>4</sup> Commenced 13/06/2017

<sup>5</sup> Pension contributions paid by Council towards future pension payable under terms of Local Government Pension Scheme. Scheme actuary calculates these required employer contributions.

2018/19	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution <sup>4</sup> £	Other £	Total £
Mr W Tuckley - Chief Executive <sup>1</sup>	202,872	-	-	39,735	15,564	258,171
<b>Corporate Directors</b>						
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 <sup>2</sup>	89,105	37	-	16,246	-	105,388
Resources (Acting) <sup>3</sup>	49,208	-	-	9,547	-	58,755

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

<sup>2</sup> Left 11/11/2018

<sup>3</sup> Commenced 12/11/2018

<sup>4</sup> Pension contributions paid by Council towards future pension payable under terms of Local Government Pension Scheme. Scheme actuary calculates these required employer contributions.

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 (£)	2017/18					2018/19				
	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff
50,000 - 54,999	236	(1)	123	(9)	359	354	(1)	138	(11)	492
55,000 - 59,999	181	-	51	(5)	232	289	(2)	49	(5)	338
60,000 - 64,999	89	(2)	36	(5)	125	142	(2)	36	(4)	178
65,000 - 69,999	51	(2)	22	(5)	73	84	(1)	23	(7)	107
70,000 - 74,999	36	(1)	20	(1)	56	49	-	28	(5)	77
75,000 - 79,999	27	(1)	29	(3)	56	32	-	30	(1)	62
80,000 - 84,999	18	-	3	(1)	21	35	(1)	7	(3)	42
85,000 - 89,999	13	-	5	(2)	18	16	-	4	(1)	20
90,000 - 94,999	8	-	8	(5)	16	21	(1)	8	(3)	29
95,000 - 99,999	4	-	6	(2)	10	8	(1)	2	(2)	10
100,000 - 104,999	5	-	3	(1)	8	8	-	6	(1)	14
105,000 - 109,999	2	-	2	(1)	4	2	-	4	-	6
110,000 - 114,999	1	-	2	(2)	3	1	-	5	(5)	6
115,000 - 119,999	5	-	-	-	5	2	(1)	1	(1)	3
120,000 - 124,999	1	-	1	(2)	2	5	-	2	(1)	7
125,000 - 129,999	1	-	1	-	2	-	-	-	-	-
130,000 - 134,999	1	-	-	-	1	2	-	-	-	2
135,000 - 139,999	-	-	1	(1)	1	1	-	-	-	1
140,000 - 144,999	-	-	1	(1)	1	-	-	-	-	-
	679	(7)	314	(46)	993	1,051	(10)	343	(50)	1,394

## Exit Payments

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

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£000)	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
0 - 20,000	-	3	188	81	188	84	1,202	793
20,001 - 40,000	-	1	44	46	44	47	1,199	1,346
40,001 - 60,000	-	1	19	9	19	10	903	465
60,001 - 80,000	-	-	7	15	7	15	464	1,020
80,001 - 100,000	-	1	4	3	4	4	363	365
100,001 - 150,000	-	-	11	4	11	4	1,378	498
150,001 - 200,000	-	-	5	2	5	2	850	347
200,001 - 250,000	-	-	2	2	2	2	437	449
<b>Total</b>	-	<b>6</b>	<b>280</b>	<b>162</b>	<b>280</b>	<b>168</b>	<b>6,796</b>	<b>5,283</b>

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.

## 33 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.

	2017/18 £'000	2018/19 £'000
<b>Expenditure</b>		
Property, Plant and Equipment	103,657	117,509
Heritage Assets	25	-
Revenue Expenditure Funded from Capital Under Statute	20,855	17,955
<b>TOTAL</b>	<b>124,537</b>	<b>135,464</b>
<b>Sources of Finance</b>		
Borrowing	36,866	53,088
Capital Grants and Contributions	34,746	37,880
Capital Receipts	20,341	22,999
Major Repairs Reserve	22,012	22,349
Direct Revenue Funding	10,572	(852)
<b>TOTAL</b>	<b>124,537</b>	<b>135,464</b>

	2017/18 £'000	2018/19 £'000
<b>Opening Capital Financing Requirement</b>	<b>281,703</b>	<b>310,637</b>
<b>Capital investment</b>		
Property, Plant and Equipment	103,657	117,509
Heritage Assets	25	-
Revenue Expenditure Funded from Capital under Statute	20,855	17,955
<b>Sources of finance</b>		
Capital Grants and Contributions	(34,746)	(37,880)
Capital Receipts	(20,341)	(22,999)
Major Repairs Reserve	(22,012)	(22,349)
Sums set aside from revenue:		
• Direct Revenue Funding	(10,572)	852
• Minimum Revenue Provision	(7,483)	(8,188)
• HRA Revenue Provision for Debt Repayment on Finance Lease Principal	(449)	(451)
<b>Closing Capital Financing Requirement</b>	<b>310,637</b>	<b>355,086</b>

## 34 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.

	2017/18 £'000	2018/19 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	210	212
Additional fees payable to external Audit for inquiries relating to previous year	21	-
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	20	29
Fees payable in respect of other services provided by external auditors during the year	37	2
<b>Total</b>	<b>288</b>	<b>243</b>

## 35 DEDICATED SCHOOLS GRANT

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

Notes	DSG Receivable for 2017/18	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2017/18 before Academy Recoupment	-	329,295	329,295
B	Academy figure Recouped 2017/18	-	(47,492)	(47,492)
C	Total DSG after Academy Recoupment 2017/18	-	281,803	281,803
D	Brought forward from 2016/17	-	-	1,655
E	Carry forward to 2018/19 agreed in advance	-	-	-
F	Agreed initial budgeted distribution in 2017/18	1,655	281,803	283,458
G	In-year adjustments	-	-	-
H	Final budget distribution for 2016/17	1,655	281,803	283,458
I	Less actual central expenditure	-	(264,445)	(264,445)
J	Less actual ISB deployed to schools	(18,827)	-	(18,827)
K	Council contribution for 2017/18	-	-	-
<b>L</b>	<b>Carry forward to 2018/19 agreed in advance</b>	<b>(17,172)</b>	<b>17,357</b>	<b>185</b>

- A DSG figure as issued by DfE in March 2018.  
 B Academy figure Recouped 2017/18.  
 C Total DSG after Academy Recoupment 2017/18.  
 D Figure brought forward from 2016/17.  
 E The amount which the Council decided after consultation with the schools forum to carry forward to 2018/19 rather than distribute in 2017/18.  
 F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.  
 G Changes to Initial distribution in 2017/18.  
 H Budgeted distribution of DSG at year end.  
 I Actual amount of central expenditure items in 2017/18.  
 J Amount of ISB distributed to schools.  
 K Contribution from the Council in 2017/18 which substituted for DSG in funding the Schools Budget.  
 L Difference between budgeted distributions and actuals plus carry forward agreed in advance.

Notes	DSG Receivable for 2018/19	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2018/19 before Academy Recoupment	88,411	254,925	343,336
B	Academy figure Recouped 2018/19	(5,258)	(61,699)	(66,957)
C	Total DSG after Academy Recoupment 2018/19	83,153	193,226	276,379
D	Brought forward from 2017/18	185	-	185
E	Carry forward to 2019/20 agreed in advance	-	-	-
F	Agreed initial budgeted distribution in 2018/19	83,338	193,226	276,564
G	In-year adjustments	786	-	786
H	Final budget distribution for 2018/19	84,124	193,226	277,350
I	Less actual central expenditure	(88,663)	-	(88,663)
J	Less actual ISB deployed to schools	-	(193,226)	(193,226)
K	Council contribution for 2018/19	(33)	-	(33)
<b>L</b>	<b>Carry forward to 2019/20</b>	<b>(4,572)</b>	<b>-</b>	<b>(4,572)</b>

- A DSG figure as issued by DfE in March 2019.  
 B Academy figure Recouped 2018/19.  
 C Total DSG after Academy Recoupment 2018/19.  
 D Figure brought forward from 2017/18.  
 E The amount which the Council decided after consultation with the schools forum to carry forward to 2019/20 rather than distribute in 2018/19.  
 F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.  
 G Changes to Initial distribution in 2018/19.  
 H Budgeted distribution of DSG at year end.  
 I Actual amount of central expenditure items in 2018/19.  
 J Amount of ISB distributed to schools.  
 K Contribution from the Council in 2018/19 which substituted for DSG in funding the Schools Budget.  
 L Difference between budgeted distributions and actuals plus carry forward agreed in advance.

## 36 GRANT INCOME

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

	2017/18	2018/19
	£'000	£'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Non-Ringfenced Government Grants</b>		
Business Rate Related Grants	(5,554)	(12,503)
Local Service Support Grant	-	(34)
New Homes Bonus	(24,185)	(20,749)
Revenue Support Grant (Formula Grant)	(54,133)	-
<b>Total Non-Ringfenced Government Grants</b>	<b>(83,872)</b>	<b>(33,286)</b>
<b>Capital Grants and Contributions</b>		
Schools-funded Capital Programme	(1,989)	(2,753)
Transport for London Funding	(1,291)	(3,012)
Major Works Contributions	(6,163)	(9,547)
Capital Maintenance Grant	(3,065)	(2,599)
Basic Needs/New Pupil Places	(6,837)	-
Community Infrastructure Levy (CIL)	(15,968)	(15,171)
Building the Pipeline Housing Grant	(1,700)	-
GLA Building Council Homes for Londoners	-	(3,250)
Developers' Contributions (capital)	(5,369)	(11,877)
Other Capital Grants	(1,378)	(2,299)
<b>Total Capital Grants and Contributions</b>	<b>(43,760)</b>	<b>(50,508)</b>
<b>Credited to Services</b>		
Capital Grants funding REFCUS	(4,910)	(1,756)
Developers' Contributions (capital) funding REFCUS	(2,924)	(2,403)
Developers' Contributions (revenue)	(3,567)	(3,147)
Dedicated Schools Grant	(281,803)	(277,165)
Education Services Grant	(1,049)	-
PFI Credits	(8,997)	(8,706)
School Sixth Form Grant	(14,962)	(13,316)
Pupil Premium Grant	(19,947)	(18,273)
Public Health Grant	(35,963)	(35,129)
Housing Benefit Subsidy	(257,898)	(228,123)
Better Care Fund	(8,658)	(11,907)
Community Infrastructure Levy (revenue)	(853)	(663)
Flexible Homelessness Support	(4,788)	(4,590)
Universal Infant Free School Meals	(2,735)	(2,737)
Community Learning	(2,381)	(2,474)
Adult Social Care Support	(1,472)	(916)
Teachers' Pay Grant	-	(900)
Unaccompanied Asylum Seeker Grant	(708)	(991)
Adult Social Care Winter Pressures	-	(1,465)
Physical Education and Sport	(972)	(1,199)
Tackling Troubled Families	(1,607)	(1,474)
London Enterprise Panel Programme	(1,751)	(2,300)
Other Revenue Grants	(5,591)	(9,986)
<b>Total Credited to Services</b>	<b>(663,536)</b>	<b>(629,620)</b>
<b>Total Grant Income in Comprehensive Income &amp; Expenditure Account</b>	<b>(791,168)</b>	<b>(713,414)</b>

## 36 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 2018 £'000	31 March 2019 £'000
<b>Capital Grants Receipts in Advance</b>		
Developers' Contributions (capital)	(76,924)	(88,312)
New Homes Bonus London Enterprise Panel (LEP) - capital element	(851)	(453)
Other conditional capital grants and contributions	(573)	(648)
<b>Total Capital Grants Receipts in Advance</b>	<b>(78,348)</b>	<b>(89,413)</b>
<b>Revenue Grants Receipts in Advance</b>		
Developers' Contributions (revenue)	(12,471)	(8,230)
New Homes Bonus London Enterprise Panel (LEP) - revenue element	(2,604)	(304)
Other conditional revenue grants	(907)	(488)
<b>Total Revenue Grants Receipts in Advance</b>	<b>(15,982)</b>	<b>(9,022)</b>
<b>Total Grant Receipt in Advance Balances</b>	<b>(94,330)</b>	<b>(98,435)</b>

## 37 RELATED PARTIES

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

### Central Government

Central government has effective control over the general operations of the Council– it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from central government departments and other grant making bodies are set out in the subjective analysis in Note 37 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2019 are within the creditors note.

### Partnerships

The Council has partnership arrangements with the following organisations:

Ocean Regeneration Trust, the New Deal for the Community (NDC) successor organisation  
Tower Hamlets Clinical Commissioning Group (CCG)

### Pension Fund

The Council oversees the administration of the pension fund. The Pension Fund can borrow from the Council. The Pension Fund accounts are presented on later pages to this Statement.

### Entities controlled or significantly influenced by the authority

Tower Hamlets Homes is a wholly owned subsidiary of London Borough of Tower Hamlets.

Seahorse Homes Ltd is a wholly owned subsidiary which hasn't commenced trading yet.

Mulberry Housing is a Community Bnefit Society which hasn't commenced trading yet.

### Membership of and relationship with other organisations

Where a Member has involvement with an external organisation, the Council discloses details of the relationship. In addition, if the Council makes material payments to the organisation, then details of amounts over £10,000 are disclosed.

Organisations	Members	Expenditure 2017-18	Income 2017-18	Expenditure 2018-19	Income 2018-19	Amounts due to Orgs. > £10k at 31/03/19	Amounts due to Authority > £10k at 31/03/19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bromley By Bow Centre	H Uddin	970		838		(10)	
Culloden Bangladeshi Parents Association	A M O Ahmed	11		20			
East London NHS Foundation Trust	D Jones	4,572		4,813	(323)	(374)	
East End Homes	A Cregan		(4,676)		(5,954)		388
Friends of Tower Hamlets Cemetery Park	D J Edgar	17		17			
Green Candle Dance Company	P Golds	68		58			
Mulberry Girls School	D Jones	32	(366)	162	(1,813)		
Poplar Harca	A M O Ahmed		(370)	3,878	(606)		
Rich Mix Cultural Foundation	D Jones		(2)	20			
St Pauls Way Trust School	R Saunders	48		37		(12)	
Tower Hamlets Community Housing	G Robanni	162	(35)	125	(71)	(26)	
Tower Hamlets Homes		32,642	(7,941)	33,965	(7,483)		994
Tower Hamlets Youth Sport Foundation	A Begum	17		49			
Wadajir Somali Centre	A M O Ahmed	39		33			

Organisations	Officer	Relationship With Organisation	Amounts due to Orgs. > £10k at 31/03/19	Amounts due to Authority > £10k at 31/03/19
Marathon Events Ltd	W Tuckley	Director		
Seahorse Homes Ltd	A Sutcliffe	Board member		30
	N Murton	Board member		
Mulberry Housing	A Sutcliffe	Board member		10
London Education Partnership	A Sutcliffe	Board member		



## 38 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.

#### Leased In Assets

	Buildings 31 March 2018 £'000	Buildings 31 March 2019 £'000
Poplar Baths Leisure Centre	18,482	18,020
Poplar Baths Housing	11,879	5,013
Dame Colet Residential Development	8,104	3,350
<b>Total</b>	<b>38,465</b>	<b>26,383</b>

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 2018 £'000	Buildings 31 March 2019 £'000
Finance lease liabilities (net present value of minimum lease payments)	28,915	28,041
Finance costs payable in future years	63,143	61,233
<b>Minimum lease payments</b>	<b>92,058</b>	<b>89,274</b>

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

	Minimum Lease		Finance Lease	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'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	78,134	75,350	24,542	23,668
	<b>92,058</b>	<b>89,274</b>	<b>28,915</b>	<b>28,041</b>

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. In 2017/18 no contingent rents were payable by the Authority.

## 38 LEASES (continued)

### Authority as Lessee

#### 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:

#### Leased In Assets

	Land & Buildings 31 March 2018 £'000	Vehicles Plant & Equipment 31 March 2018 £'000	Land & Buildings 31 March 2019 £'000	Vehicles Plant & Equipment 31 March 2019 £'000
<b>Health, Adults and Communities</b>				
Not later than one year	149	-	149	-
Later than one year and not later than five years	597	-	597	-
Later than five years	1,221	-	1,071	-
<b>Governance</b>				
Not later than one year	-	55	-	20
Later than one year and not later than five years	-	20	-	-
Later than five years	-	-	-	-
<b>Children's Services</b>				
Not later than one year	-	256	-	150
Later than one year and not later than five years	-	305	-	156
Later than five years	-	1	-	1
<b>Place</b>				
Not later than one year	2,874	314	2,874	240
Later than one year and not later than five years	3,818	652	1,009	410
Later than five years	2,175	-	2,101	-
<b>Total</b>				
<b>Not later than one year</b>	<b>3,023</b>	<b>625</b>	<b>3,023</b>	<b>410</b>
<b>Later than one year and not later than five years</b>	<b>4,415</b>	<b>977</b>	<b>1,606</b>	<b>566</b>
<b>Later than five years</b>	<b>3,396</b>	<b>1</b>	<b>3,172</b>	<b>1</b>
	<b>10,834</b>	<b>1,603</b>	<b>7,801</b>	<b>977</b>

## 38 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 2018 £'000	Vehicles Plant & Equipment 31 March 2018 £'000	Land & Buildings 31 March 2019 £'000	Vehicles Plant & Equipment 31 March 2019 £'000
<b>Health, Adults and Communities</b>				
Minimum Lease Payments	149	-	149	-
<b>Governance</b>				
Minimum Lease Payments	-	98	-	55
<b>Children's Services</b>				
Minimum Lease Payments	-	299	-	258
<b>Place</b>				
Minimum Lease Payments	2,908	606	2,873	315
<b>Total</b>				
<b>Minimum Lease Payments</b>	<b>3,057</b>	<b>1,003</b>	<b>3,022</b>	<b>628</b>

### 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 2018 £'000	31 March 2019 £'000
Not later than one year	(3,314)	(3,539)
Later than one year and not later than five years	(11,255)	(10,730)
Later than five years	(20,819)	(19,852)
	<b>(35,388)</b>	<b>(34,121)</b>

## 39 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

The Council is party to two Private Finance Initiative (PFI) schemes in respect of the design, construction, maintenance and servicing of 28 schools - the Mulberry and Group Schools schemes - until the years 2029 and 2027 respectively. Prior to 2010/11 the assets involved were treated as "off balance sheet" in accordance with International Financial Reporting Standards the assets are included on the Council's Balance Sheet, matched by a finance lease liability.

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

Movement on PFI Assets	Mulberry School (Academy) £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Asset value at 31 March 2018 (Restated)</b>	-	268,169	2,226	270,395
Depreciation	-	(2,242)	(178)	(2,420)
Revaluations	-	(74,536)	-	(74,536)
Enhancements	-	1,784	-	1,784
Derecognition	-	-	-	-
<b>Asset value at 31 March 2019</b>	-	<b>193,175</b>	<b>2,048</b>	<b>195,223</b>

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

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
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)
Within 11 - 15 years	-	-	-	-
	<b>(5,265)</b>	<b>(26,569)</b>	<b>(1,581)</b>	<b>(33,415)</b>
<b>Interest</b>				
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
Within 11 - 15 years	-	-	-	-
	<b>3,706</b>	<b>24,166</b>	<b>-</b>	<b>27,872</b>
<b>Service Charges</b>				
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
Within 11 - 15 years	-	-	-	-
	<b>6,734</b>	<b>24,232</b>	<b>-</b>	<b>30,966</b>

## 40 PENSIONS SCHEMES - DEFINED BENEFIT

### Participation in pensions schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not be payable until employees retire, the Council has a commitment to make the payments which needs to be disclosed at the time the employees earn their future entitlement.

The Council participates in three pensions schemes:

- The Local Government Pension Scheme (LGPS) administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority (LPFA)
- The Teachers' Pension Scheme (TPS), administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).

The LGP schemes are funded defined benefit final salary schemes, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The TPS is an unfunded defined benefit final salary scheme meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet pensions payments as they eventually fall due. It does, however, use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities (LEAs) of which the Council is one. It is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees and it is therefore accounted for on the same basis as a defined contribution scheme. This means that contributions are included on the basis of the actual amount paid into the scheme.

### Transactions Relating to Retirement Benefits

The cost of LGPS retirement benefits is recognised in the 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	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
<b>COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b>						
<i>Cost of Services</i>						
Current service costs	52,261	57,848	319	262	52,580	58,110
Past service costs	1,751	978	-	111	1,751	1,089
Impact of settlements	-	-	-	-	-	-
<i>Finance and Investment Income and Expenditure</i>						
Interest cost on defined benefit obligation	48,020	50,643	1,539	1,583	49,559	52,226
Interest income on plan assets	(32,981)	(35,713)	(1,325)	(1,454)	(34,306)	(37,167)
<b>Net charge to the Surplus or Deficit on Provision of Services</b>	<b>69,051</b>	<b>73,756</b>	<b>533</b>	<b>502</b>	<b>69,584</b>	<b>74,258</b>
<i>Other Comprehensive Income and Expenditure</i>						
Changes in demographic assumptions	-	-	-	(1,970)	-	(1,970)
Changes in financial assumptions	(35,927)	119,326	(2,014)	2,660	(37,941)	121,986
Other experience	-	-	-	-	-	-
Return on plan assets excluding amounts included in net interest	(14,292)	(43,901)	(2,001)	(4,086)	(16,293)	(47,987)
Actuarial losses (due to asset ceiling)	-	-	-	3,503	-	3,503
<b>Total charge in Comprehensive Income and Expenditure Statement</b>	<b>18,832</b>	<b>149,181</b>	<b>(3,482)</b>	<b>609</b>	<b>15,350</b>	<b>149,790</b>
<b>MOVEMENT IN RESERVES STATEMENT</b>						
Reversal of net charges made for retirement benefits	(69,051)	(73,756)	(533)	(502)	(69,584)	(74,258)
Actual amount charged against the General Fund/HRA balances	42,559	44,884	431	412	42,990	45,296
<b>* The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes</b>						

In 2018/19 the Council paid £14.664 million into the Teachers Pension Scheme, representing 16.5% of pensionable pay. The figures for 2017/18 were £15.893 million and 16.5% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of discretionary awards made to teachers upon retirement. In 2018/19 there were such payments of £0.781m (£0.760m in 2017/18).

## 40 PENSION SCHEME (continued)

### Assets and Liabilities in Relation to Retirement Benefits

#### Reconciliation of present value of scheme liabilities:

	The Council*		LPFA		Total	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Opening balance at 1st April	(1,921,272)	(1,945,978)	(68,653)	(64,971)	(1,989,925)	(2,010,949)
Current service cost	(52,261)	(57,848)	(319)	(262)	(52,580)	(58,110)
Past service costs	(1,751)	(978)	-	(111)	(1,751)	(1,089)
Effect of settlements	-	-	-	-	-	-
Interest cost	(48,020)	(50,643)	(1,539)	(1,583)	(49,559)	(52,226)
Contributions	(9,251)	(10,318)	(55)	(47)	(9,306)	(10,365)
Benefits paid	50,650	51,845	3,581	3,381	54,231	55,226
Remeasurement gains / (losses):						
Changes in demographic assumptions	-	-	-	1,970	-	1,970
Changes in financial assumptions	35,927	(119,326)	2,014	(2,660)	37,941	(121,986)
Other experience	-	-	-	-	-	-
<b>31st March</b>	<b>(1,945,978)</b>	<b>(2,133,246)</b>	<b>(64,971)</b>	<b>(64,283)</b>	<b>(2,010,949)</b>	<b>(2,197,529)</b>

\* The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes

#### Reconciliation of fair value of the scheme assets:

	The Council*		LPFA		Total	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Opening fair value of scheme assets	1,298,703	1,376,054	62,676	62,907	1,361,379	1,438,961
Interest income	32,981	35,713	1,325	1,454	34,306	37,167
Contributions						
Employees into the scheme	9,251	10,318	55	47	9,306	10,365
Employer	71,477	30,428	431	412	71,908	30,840
Benefits paid	(50,650)	(51,845)	(3,581)	(3,381)	(54,231)	(55,226)
Remeasurement gains / (losses):						
Return on plan assets	14,292	43,901	2,001	4,086	16,293	47,987
Actuarial losses (due to asset ceiling)	-	-	-	(3,503)	-	(3,503)
<b>31st March</b>	<b>1,376,054</b>	<b>1,444,569</b>	<b>62,907</b>	<b>62,022</b>	<b>1,438,961</b>	<b>1,506,591</b>

\* The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes

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 Sheet

	The Council*		LPFA		Total	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Present value of scheme liabilities	(1,945,978)	(2,133,246)	(64,971)	(64,283)	(2,010,949)	(2,197,529)
Fair value of plan assets	1,376,054	1,444,569	62,907	62,022	1,438,961	1,506,591
<b>Total deficit in the schemes</b>	<b>(569,924)</b>	<b>(688,677)</b>	<b>(2,064)</b>	<b>(2,261)</b>	<b>(571,988)</b>	<b>(690,938)</b>

\* The Council includes the pre-transfer pension liability of those staff who transferred to Tower Hamlets Homes

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 £690.9 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 £29.5 million in the year to 31st March 2020.

## 40 PENSION SCHEME (continued)

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both schemes have been assessed by independent actuaries, based on the following main assumptions. Hymans Robertson LLP provide the LBTH report, Barnett Waddingham the LPFA report.

	The Council		LPFA	
	2017/18	2018/19	2017/18	2018/19
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	22.1 years	22.1 years	20.7 years	19.8 years
Women	24.1 years	24.1 years	23.7 years	22.7 years
Longevity at 65 for future pensioners:				
Men	23.9 years	23.9 years	23.1 years	21.6 years
Women	25.8 years	25.8 years	26 years	24.4 years
Rate of inflation	2.4%	2.5%	2.4%	2.5%
Rate of increase in salaries	2.2%	2.3%	3.9%	4.0%
Rate of increase in pensions	2.4%	2.5%	2.4%	2.5%
Rate for discounting scheme liabilities	2.6%	2.4%	2.5%	2.3%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%		

\* Pre-April 2008 service - 75% for post-April 2008 service

### Major categories of assets as a proportion of total assets

The categories of assets are as follows.

	The Council		LPFA	
	2017/18	2018/19	2017/18	2018/19
Equities	63%	63%	61%	50%
Bonds	19%	19%	0%	5%
Property	10%	10%	7%	9%
Infrastructure	0%	0%	4%	6%
Commodities	0%	0%	0%	0%
Cash	4%	4%	6%	8%
Cash flow matching	0%	0%	0%	0%
Target return portfolio/other	4%	4%	22%	22%

## 41 Income and Expenditure Analysed by Nature

The Council's expenditure and income as shown in the Comprehensive Income and Expenditure Statement is analysed as follows:

2017/18 (Restated) £'000		2018/19 £'000
	<b><u>Expenditure:</u></b>	
472,236	Employee benefits expenses	471,170
651,523	Other service expenses	685,382
89,597	Depreciation, amortisation and impairment	143,900
10,800	Interest payments	27,917
-	Net (gains)/losses on financial assets at fair value through profit and loss	124
49,559	Interest cost on pension liabilities	52,256
1,795	Precepts and levies	1,860
1,737	Payments to housing capital receipts pool	4,284
114,127	(Gains) and losses on disposal of non-current assets	(13,858)
<b>1,391,374</b>	<b>TOTAL EXPENDITURE</b>	<b>1,373,035</b>
	<b><u>Income:</u></b>	
(226,183)	Fees, charges and other service income	(218,789)
(2,950)	Interest and investment income	(5,929)
(34,306)	Interest income on pension assets	(37,197)
(205,712)	Income from council tax and non-domestic rates	(268,793)
(791,168)	Government grants and contributions	(713,414)
<b>(1,260,319)</b>	<b>TOTAL INCOME</b>	<b>(1,244,122)</b>
<b>131,055</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>128,913</b>



## 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	2017/18 £'000	2018/19 £'000
<b>EXPENDITURE</b>			
Repairs and maintenance		19,415	18,929
Supervision and management		36,584	38,954
Rents, rates, taxes and other charges		2,584	12,334
Depreciation of non-current assets	<a href="#">6</a>		
On dwellings		17,052	15,912
On other assets		980	952
Revaluation losses (and reversals)		-	44,789
Debt management costs		72	79
Movement in the allowance for bad debts		(1,205)	(589)
Sums directed by the Secretary of State that are expenditure in accordance with the Code		10,047	9,013
<b>TOTAL EXPENDITURE</b>		<b>85,529</b>	<b>140,373</b>
<b>INCOME</b>			
Gross rental income			
Dwelling rents		(65,904)	(64,651)
Non dwelling rents		(4,402)	(4,195)
Charges for services and facilities		(20,609)	(19,426)
Contributions towards expenditure		(115)	(269)
<b>TOTAL INCOME</b>		<b>(91,030)</b>	<b>(88,541)</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		<b>(5,501)</b>	<b>51,832</b>
HRA services share of Corporate and Democratic Core		143	145
<b>NET COST OF HRA SERVICES</b>		<b>(5,358)</b>	<b>51,977</b>
<b>HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account</b>			
(Gain)/loss on sale of HRA non-current assets		(1,784)	(13,913)
Unattached capital receipts		(2,580)	(692)
Interest payable and similar charges <sup>1</sup>		3,909	21,444
Interest and investment income		(533)	(523)
Net interest on the net defined benefit liability	<a href="#">7</a>	47	20
Capital grants and contributions receivable		(7,882)	(12,878)
<b>DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES</b>		<b>(14,181)</b>	<b>45,435</b>

<sup>1</sup> 2018/19 figure includes £17,852k of finance costs relating 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.

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward		(39,079)		(47,561)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account	(14,181)		45,435	
Net additional amount required by statute to be debited to the HRA balance for the year	5,699		(42,514)	
Decrease (Increase) in the HRA Balance		<b>(8,482)</b>		<b>2,921</b>
<b>Balance on the Statutory HRA Carried Forward</b>		<b>(47,561)</b>		<b>(44,640)</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year</b>				
Revenue expenditure funded from capital under statute	(10,047)		(9,013)	
Capital grants and contributions	7,882		12,878	
Gain or loss on sale of HRA non-current assets	1,784		13,913	
Unattached capital receipts	2,580		692	
Reversal of revaluation losses on non-current assets	-		(44,789)	
Net charges made for retirement benefits in accordance with IAS19	844		813	
		3,043		(25,506)
<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year</b>				
Capital expenditure financed from revenue	2,207		(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)	
Transfer to / from Capital Adjustment Account	449		451	
		2,656		(17,008)
<b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>		<b>5,699</b>		<b>(42,514)</b>

## 2 HOUSING STOCK

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

	2017/18	2018/19
Low-rise flats (1-2 storeys)	255	257
Medium-rise flats (3-5 storeys)	6,761	6,694
High-rise flats (6 or more storeys)	3,776	3,751
Houses and bungalows	776	774
<b>TOTAL AT 31<sup>st</sup> MARCH</b>	<b>11,568</b>	<b>11,476</b>

## 3 NON-CURRENT ASSETS

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

	2017/18 £'000	2018/19 £'000
Dwellings	1,201,143	1,030,754
Other Land and Buildings	58,166	58,294
Surplus Assets Not Held for Sale	11,878	13,724
Assets Under Construction	9,507	17,706
Assets Held for Sale	0	160
<b>TOTAL</b>	<b>1,280,694</b>	<b>1,120,638</b>

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	Assets Under Construction £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 31 <sup>st</sup> March 2017	1,190,747	58,341	10,432	31,517	-	1,291,037
Additions, disposals, transfers and revaluations	10,396	(175)	1,446	(22,010)	-	(10,343)
Total value at 31 <sup>st</sup> 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)
<b>TOTAL VALUE AT 31<sup>st</sup> MARCH 2019</b>	<b>1,030,754</b>	<b>58,294</b>	<b>13,724</b>	<b>17,706</b>	<b>160</b>	<b>1,120,638</b>

The vacant possession value of dwellings within the Council's HRA was £4,319 million in 2018/19 (£4,464 million in 2017/18). 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

	2017/18 £'000	2018/19 £'000
<b>Balance at 1<sup>st</sup> April</b>	(9,459)	(5,485)
Transfer from Capital Adjustment Account - depreciation	(18,038)	(16,864)
Financing of capital expenditure	22,012	22,349
<b>Balance at 31<sup>st</sup> March</b>	<b>(5,485)</b>	<b>-</b>

## 5 CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

	2017/18			2018/19		
	Dwellings £'000	Other £'000	Total £'000	Dwellings* £'000	Other £'000	Total £'000
<b>Expenditure</b>	23,849	10,302	<b>34,151</b>	25,162	13,150	<b>38,312</b>
		3				
<b>Sources of finance</b>						
Borrowing	-	94	<b>94</b>	895	544	<b>1,439</b>
Capital Receipts	973	151	<b>1,124</b>	1,248	394	<b>1,642</b>
Capital Grants and Contributions	8,720	-	<b>8,720</b>	9,725	3,199	<b>12,924</b>
Major Repairs Reserve	11,966	10,046	<b>22,012</b>	13,336	9,013	<b>22,349</b>
Direct Revenue Financing	2,190	11	<b>2,201</b>	(42)	-	<b>(42)</b>
<b>TOTAL CAPITAL FINANCING</b>	<b>23,849</b>	<b>10,302</b>	<b>34,151</b>	<b>25,162</b>	<b>13,150</b>	<b>38,312</b>

\*These figures include that element of project spend classified as Assets Under Construction which will ultimately result in Council Dwellings

### (ii) Capital Receipts

Capital receipts (gross) in 2018/19 from the disposal of non-current assets within the HRA amounted to £22.591 million (£27.183 million in 2017/18) as follows:

	2017/18 £'000	2018/19 £'000
Dwellings	27,183	22,591
<b>TOTAL CAPITAL RECEIPTS</b>	<b>27,183</b>	<b>22,591</b>

## 6 DEPRECIATION

	2017/18 £'000	2018/19 £'000
Dwellings	17,052	15,912
Other Land and Buildings	986	952
<b>TOTAL DEPRECIATION</b>	<b>18,038</b>	<b>16,864</b>

## 7 PENSION COSTS

These figures represent the cost of pensions attributable to the HRA. Further details of the treatment of pensions costs are shown in note 40 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	
	2017/18 £'000	2018/19 £'000
<b>HRA INCOME AND EXPENDITURE STATEMENT</b>		
<i>Cost of Services</i>		
Current service costs	4,275	4,414
Past service costs	461	1
Impact of settlements	-	-
<i>Finance and Investment Income and Expenditure</i>		
Interest cost on defined benefit obligation	2,606	2,827
Interest income on plan assets	(2,559)	(2,807)
<b>Net charge to the HRA Surplus or Deficit on Provision of Services</b>	<b>4,783</b>	<b>4,435</b>
<b>STATEMENT OF MOVEMENT IN HRA RESERVES</b>		
Reversal of net charges made for retirement benefits	(4,783)	(4,435)

## 8 RENT ARREARS

	2017/18 £'000	2018/19 £'000
Gross rent arrears at 31 <sup>st</sup> March	5,082	5,011
Arrears as % of gross rent collected	7.7	7.6
Provision made for bad debts	4,038	4,098

## 9 TRANSFERS FROM GENERAL FUND (AS DIRECTED BY SECRETARY OF STATE)

Authorities are allowed to transfer sums to the HRA from another revenue account on the basis of directions issued by the Government. No sums were transferred during 2018/19.

## 10 ITEM 8 INTEREST ADJUSTMENT

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

# COLLECTION FUND

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.

2017/18			2018/19		
Business Rates £'000	Council Tax £'000	Total £'000	Business Rates £'000	Council Tax £'000	Total £'000
<b>INCOME</b>					
-	(115,157)	(115,157)	-	(122,619)	(122,619)
(421,154)	-	(421,154)	(431,394)	-	(431,394)
(23,461)	-	(23,461)	(14,829)	-	(14,829)
(15,481)	-	(15,481)	(15,062)	-	(15,062)
<b>(460,096)</b>	<b>(115,157)</b>	<b>(575,253)</b>	<b>(461,285)</b>	<b>(122,619)</b>	<b>(583,904)</b>
<b>EXPENDITURE</b>					
<b>Apportionment of Previous Year Surplus/(Deficit):</b>					
(657)	-	(657)	(15,028)	-	(15,028)
(394)	1,000	606	(11,357)	1,500	(9,857)
(263)	333	70	(11,473)	429	(11,044)
<b>Precepts, demands and shares</b>					
148,075	-	148,075	-	-	-
134,614	85,836	220,450	292,816	93,777	386,593
166,024	24,861	190,885	164,709	27,980	192,689
<b>Business Rate Supplement</b>					
15,465	-	15,465	15,045	-	15,045
16	-	16	17	-	17
<b>Charges to the Collection Fund</b>					
138	2,771	2,909	(18,450)	1,626	(16,824)
19,500	-	19,500	24,000	-	24,000
1,017	-	1,017	1,029	-	1,029
<b>483,535</b>	<b>114,801</b>	<b>598,336</b>	<b>441,308</b>	<b>125,312</b>	<b>566,620</b>
23,439	(356)	23,083	(19,977)	2,693	(17,284)
13,598	(2,337)	11,261	37,037	(2,693)	34,344
<b>37,037</b>	<b>(2,693)</b>	<b>34,344</b>	<b>17,060</b>	<b>-</b>	<b>17,060</b>

## (Surplus)/Deficit on the Collection Fund

2017/18			2018/19		
Business Rates £'000	Council Tax £'000	Total £'000	Business Rates £'000	Council Tax £'000	Total £'000
14,311	-	14,311	(718)	-	(718)
11,111	(2,088)	9,023	11,198	-	11,198
11,615	(605)	11,010	6,580	-	6,580
<b>37,037</b>	<b>(2,693)</b>	<b>34,344</b>	<b>17,060</b>	<b>-</b>	<b>17,060</b>

# 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 January 2018 and is summarised in the table below:

Band	Valuation Bands	Ratio to Band D	2017/18 No. of Dwellings	2017/18 Equated No. of Dwellings	2018/19 No. of Dwellings	2018/19 Equated No. of Dwellings
A	Up to £40,000	6/9	1,059	706	669	446
B	£40,001 and up to £52,000	7/9	21,823	16,973	21,872	17,012
C	£52,001 and up to £68,000	8/9	34,334	30,519	35,212	31,299
D	£68,001 and up to £88,000	9/9	25,056	24,056	25,156	25,156
E	£88,001 and up to £120,000	11/9	18,049	22,060	18,950	23,161
F	£120,001 and up to £160,000	13/9	8,334	12,037	9,034	13,050
G	£160,001 and up to £320,000	15/9	3,335	5,558	3,770	6,283
H	Over £320,001	18/9	526	1,053	631	1,262
			112,516	112,962	115,294	117,669
	Adjustment for Reduction Scheme & Collection Rate			(24,178)		(22,574)
	<b>Council Tax Base</b>			<b>88,784</b>		<b>95,095</b>

## 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 2018/19 was 49.3p (47.9p for 2017/18) and the rate for small businesses was set at 48.0p (46.6p for 2017/18). The total rateable value in the borough as at 31st March 2019 was £1,039 million (£1,046 million at 31 March 2018).

## 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 2018/19 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	2017/18 £'000	2018/19 £'000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED</b>			
<b>Contributions</b>			
From employers			
Normal	7	(30,311)	(31,885)
Augmentation	7	(2,462)	(1,796)
Deficit funding	7	(43,338)	(53)
From members	7	(10,819)	(11,102)
<b>Transfers in</b>			
Transfers in from other pension funds	8	(5,966)	(6,157)
<b>Benefits</b>			
Pensions	9	42,711	45,194
Lump sum benefits	9	13,192	13,580
<b>Payments to and on account of leavers</b>			
Refunds of contributions	10	274	224
Transfers out to other pension funds	10	4,761	4,848
<b>Administrative expenses</b>	11	509	1,151
<b>NET ADDITIONS/(DEDUCTIONS) FROM DEALINGS WITH MEMBERS</b>		<b>(31,449)</b>	<b>14,004</b>
<b>RETURN ON INVESTMENTS</b>			
		2017/18 £'000	2018/19 £'000
Investment income	12	(18,281)	(16,473)
Taxes on Income		167	73
Change in market value of investments	14a	(66,617)	(72,628)
Investment management expenses	11	3,251	2,774
<b>NET RETURN ON INVESTMENTS</b>		<b>(81,480)</b>	<b>(86,254)</b>
Net increase in the Fund during the year		(112,979)	(72,250)
Add: Opening net assets of the scheme		(1,367,677)	(1,480,656)
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>(1,480,656)</b>	<b>(1,552,906)</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2017/18 £'000	2018/19 £'000
<b>Investments Assets</b>			
Pooled Investment Vehicles			
Unit Trusts	14	1,302,839	1,390,480
Property	14	142,803	157,351
Legacy	14	0	4
Other	14	0	(38)
		1,445,642	1,547,797
Cash Balances (held directly by the Fund)	14	8,733	6,512
Cash Balances (held by the Fund's external managers)	14	26,484	2,710
Other investment balances	14	832	979
<b>Current Assets</b>	21	1,179	1,188
<b>Current Liabilities</b>	22	(2,214)	(6,280)
<b>TOTAL NET ASSETS</b>		<b>1,480,656</b>	<b>1,552,906</b>

# 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 scheme 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

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE 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 2019

	31st March 2018	31st March 2019
<b>Number of employees in the scheme</b>		
LBTH	6,116	5,944
Other employers	693	836
	<b>6,809</b>	<b>6,780</b>
<b>Number of pensioners</b>		
LBTH	5,975	5,847
Other employers	358	397
	<b>6,333</b>	<b>6,244</b>
<b>Number of deferred pensioners</b>		
LBTH	7,369	7,340
Other employers	448	489
	<b>7,817</b>	<b>7,829</b>
<b>Total number of members in pension scheme</b>	<b>20,959</b>	<b>20,853</b>

# 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 2019. Employers' contributions are set based on triennial actuarial valuations. The last such valuation was at 31 March 2016. 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 scheme 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. 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 2018/19 financial year and its financial position at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (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 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. 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. Amounts not due until future years are classed as long term financial assets.

#### **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.

#### **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 current financial asset.

As at 31st March 2019 the Fund had no direct property holdings.

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.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **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 the 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**

The investment management fees are charged directly to the Fund.

# 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

#### **j) 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.

#### **k) 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.

#### **l) 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

### **m) 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.

### **n) 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).

### **o) 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.

### **p) 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.

### **q) 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 2019, the Fund has £705.0m (45.4%) under LCIV management. A further £350.9m (22.0%) 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:

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 £198m.

a 0.5% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £20m.

## NOTE 6: EVENTS AFTER THE REPORTING DATE

Management have reviewed and there are no significant events after the reporting period.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 7: CONTRIBUTIONS RECEIVABLE

	2017/18 £'000	2018/19 £'000
<b>Employees</b>		
Council Employees Normal Contributions	(9,367)	(9,458)
Admitted Bodies Employees Normal Contributions	(128)	(115)
Scheduled Bodies Employees Normal Contributions	(1,324)	(1,529)
<b>Total</b>	<b>(10,819)</b>	<b>(11,102)</b>
<b>Employers</b>		
Council Employer's Normal Contributions	(26,099)	(27,059)
Admitted Bodies Employers' Normal Contributions	(598)	(602)
Scheduled Bodies Employers' Normal Contributions	(3,614)	(4,224)
<b>Total</b>	<b>(30,311)</b>	<b>(31,885)</b>
Council Employer's Special Contributions	(2,462)	(1,796)
Deficit Funding	(43,338)	(53)
<b>Total</b>	<b>(45,800)</b>	<b>(1,849)</b>

## NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

	2017/18 £'000	2018/19 £'000
<b>Transfer Values</b>		
Transfer Values Received - Individual	(5,966)	(6,157)
<b>Total</b>	<b>(5,966)</b>	<b>(6,157)</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 9: BENEFITS PAYABLE

	2017/18 £'000	2018/19 £'000
Pensions	42,711	45,194
Lump Sums Retirement Benefits	11,522	11,899
Lump Sums Death Benefits	1,670	1,681
<b>Total</b>	<b>55,903</b>	<b>58,774</b>
By type of employer		
Administering authority	53,740	56,399
Scheduled bodies	1,402	1,525
Admitted bodies	761	850
<b>Total</b>	<b>55,903</b>	<b>58,774</b>

### NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2017/18 £'000	2018/19 £'000
Transfer values paid	4,761	4,848
Refunds to members leaving service	274	224
<b>Total</b>	<b>5,035</b>	<b>5,072</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 11: MANAGEMENT EXPENSES

	2017/18 £'000	2018/19 £'000
Administration	398	976
Investment management expenses	3251	2,774
Oversight & Governance	111	175
<b>Total</b>	<b>3,760</b>	<b>3,925</b>

## NOTE 11A: MANAGEMENT EXPENSES

	2017/18 £'000	2018/19 £'000
Management Fees	3191	2,605
Custody Fees	22	51
Transaction Costs	38	118
	<b>3,251</b>	<b>2,774</b>

## NOTE 12: INVESTMENT INCOME

	2017/18 £'000	2018/19 £'000
Fixed interest securities	0	(9)
Equity dividends	(363)	(49)
Pooled property Investments	(6,395)	(5,885)
Pooled Investments -unit trusts and other managed funds	(11,471)	(10,475)
Interest on cash deposits	(52)	(55)
	<b>(18,281)</b>	<b>(16,473)</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 13: EXTERNAL AUDIT COSTS

	2017/18 £'000	2018/19 £'000
Audit Fees Payable in respect of external audit	21	21
<b>Total</b>	<b>21</b>	<b>21</b>

## NOTE 14: INVESTMENTS

	2017/18 £'000	2018/19 £'000
Equities	13	4
Pooled Investments	1,302,826	1,390,480
Pooled Property Investments	142,803	157,351
Other	0	(38)
<b>Total</b>	<b>1,445,642</b>	<b>1,547,797</b>
Other Investment Balances		
Cash Deposits	8,733	2,710
Cash Deposits	26,484	6,512
Amounts Receivable for Sales of Investments	0	99
Investment Income Due	832	881
<b>Total</b>	<b>36,049</b>	<b>10,202</b>
<b>Total Investment Assets</b>	<b>1,481,691</b>	<b>1,557,999</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	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)
	<b>1,445,642</b>	<b>329,470</b>	<b>(299,849)</b>	<b>72,534</b>	<b>1,547,797</b>
<b>Other Investment Balances</b>					
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
<b>Net Investment Assets</b>	<b>1,481,691</b>			<b>72,628</b>	<b>1,557,999</b>

	Market Value 31 Mar 2017 £'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 2018 £'000
Equities	324,294	46,649	(314,634)	(56,296)	13
Pooled Investments	894,752	145,185	149,079	113,810	1,302,826
Pooled Property Investments	133,610	13,943	(9,215)	4,466	142,803
	<b>1,352,656</b>	<b>205,777</b>	<b>(174,770)</b>	<b>61,980</b>	<b>1,445,642</b>
<b>Other Investment Balances</b>					
Cash Deposits	4,096			4,637	35,217
Investment Income Due	1,673			0	832
Amounts Payable for Purchases	(45)			0	0
<b>Net Investment Assets</b>	<b>1,358,380</b>			<b>66,617</b>	<b>1,481,691</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 14B: ANALYSIS OF INVESTMENTS

	2017/18 £'000	2018/19 £'000
<b>Equities</b>		
<b>UK</b>		
Quoted	13	4
	<b>13</b>	<b>4</b>
<b>Pooled Funds - additional analysis</b>		
<b>UK</b>		
Fixed income unit trust - quoted	81,152	91,800
Equity unit trust - quoted	1,221,674	130,574
<b>Overseas</b>		
Fixed income unit trust - quoted	0	334,399
Equity unit trust - quoted	0	696,885
<b>UK &amp; Overseas</b>		
Diversified Growth	0	136,822
	<b>1,302,826</b>	<b>1,390,480</b>
UK Pooled property investments	142,803	157,351
	<b>142,803</b>	<b>157,351</b>
Other	0	(38)
<b>Investment Assets</b>		
Cash Deposits held by Managers	8,733	2,710
Cash Deposits held Internally	26,484	6,512
Investment Income Due	832	881
Amounts Receivable from Sales	0	99
	<b>36,049</b>	<b>10,202</b>
<b>Net Investment Assets</b>	<b>1,481,691</b>	<b>1,557,999</b>



# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

	2017/18 £'000	2018/19 £'000
<b>Investments managed by regional asset pool</b>		
London LGPS CIV	585,774	705,087
	<b>585,774</b>	<b>705,087</b>
<b>Investments managed outside of regional asset pool</b>		
Schroder	142,803	392,306
Legal & General	568,210	350,995
Goldman Sachs	77,077	52,626
Insight Investment	71,779	46,901
Legacy	0	4
Internally managed cash	26,484	6,512
Fund manager cash	8,733	2,710
	<b>895,086</b>	<b>852,054</b>
	<b>1,480,860</b>	<b>1,557,141</b>

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

Security	Market value as at 31st March 2018 £'000	% total of fund	Market value as at 31st March 2019 £'000	% total of fund
LCIV (BG) GE	318,033	21%	345,890	22%
LGIM MSCI WORLD TRGTINDX FND H	247,536	17%	244,453	16%
SCHRODER - EQUITY PROTECTION S	0	0%	234,956	15%
LCIV (BG) DGF	136,444	9%	136,822	9%
LCIV (RF) ARF	131,297	9%	130,574	8%
LCIV (CQS) MAC	0	0%	91,800	6%
LGIM FTSE ALL WORLD TARGET IND	81,152	5%	83,774	5%
GSAM STAR II	77,077	5%		
LGIM OVER 5Y INDEX- LINKED GILTS	74,546	5%		
LGIM FTSE ALL WORLD TARGT INDX	164,962	11%		
	<b>1,231,047</b>	<b>82%</b>	<b>1,268,269</b>	<b>81%</b>

## 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 15A: 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

#### Fair Value Hierarchy

	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	1,547,835	4	1,390,480	157,351	1,547,835
Loans and receivables	9,222	9,222	0	0	9,222
Amounts receivable from Sales	99	99	0	0	99
Investment Income Due	881	881	0	0	881
Other	(38)	(38)	0	0	(38)
	<b>1,557,999</b>	<b>10,168</b>	<b>1,390,480</b>	<b>157,351</b>	<b>1,557,999</b>

	Market Value as at 31 Mar 2018	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	1,445,642	13	1,302,826	142,803	1,445,642
Loans and receivables	35,217	35,217	0	0	35,217
Investment Income Due	832	832			832
	<b>1,481,691</b>	<b>36,062</b>	<b>1,302,826</b>	<b>142,803</b>	<b>1,481,691</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

There were no transfers between levels 1 and 2 during the year.

### NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	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	(5,178)	1054	1,676	157,351
<b>Total</b>	<b>142,803</b>	<b>0</b>	<b>16,995</b>	<b>(5,178)</b>	<b>1,054</b>	<b>1,676</b>	<b>157,351</b>

	Assessed valuation range (+/-) %	Value 31 Mar 2019 £'000	Value on Increase £'000	Value on Decrease £'000
UK Property Funds	10%	157,351	173,086	141,616
<b>Total</b>		<b>157,351</b>	<b>173,086</b>	<b>141,616</b>

	Market Value 1 Apr 2017 £'000	Transfers in/out of level 3	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses)	Market Value 31 Mar 2018 £'000
UK Property Funds	133,609	0	13,943	(9,215)	4,466	0	142,803
<b>Total</b>	<b>133,609</b>	<b>0</b>	<b>13,943</b>	<b>(9,215)</b>	<b>4,466</b>	<b>0</b>	<b>142,803</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2018			Market Value as at 31 Mar 2019		
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
<b>Financial assets</b>					
0	0	0	4	0	0
1,302,839	0	0	1,390,480	0	0
142,803	0	0	157,351	0	0
0	8,733	0	0	2,710	0
0	26,484	0	0	6,512	0
0	0	0	0	99	0
0	1,179	0	0	1,188	0
<b>1,445,642</b>	<b>36,396</b>	<b>0</b>	<b>1,547,835</b>	<b>10,509</b>	<b>0</b>
<b>Financial liabilities</b>					
0	0	0	0	(38)	0
0	0	(2,214)	0	0	(6,280)
<b>0</b>	<b>0</b>	<b>(2,214)</b>	<b>0</b>	<b>(38)</b>	<b>(6,280)</b>
<b>1,445,642</b>	<b>36,396</b>	<b>(2,214)</b>	<b>1,547,835</b>	<b>10,471</b>	<b>(6,280)</b>
<b>1,479,824</b>			<b>1,552,026</b>		

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	2017/18 £'000	2018/19 £'000
<b>Financial Assets</b>		
Fair value through profit or loss	(57,514)	(72,534)
Loans and receivables	(4,637)	(94)
Financial assets at amortised cost	(4,466)	0
<b>Total Financial Assets</b>	<b>(66,617)</b>	<b>(72,628)</b>

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)

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 (State Street Bank) and holds cash relating to the investment activities and the other is the LBTH Pension Fund bank account and this is used to hold cash relating to member activities.

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets. As at 31 March 2019, liquid assets were £1,396m representing 90.0% of total assets of the Fund assets (£1,338m as at 31 March 2018). The majority of these investments can be in fact liquidated within a matter of days.

# NOTES TO THE PENSION FUND ACCOUNTS

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

### **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 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.

### **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 cashflows 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 31/03/2019	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Cash and cash equivalents</b>	9,222	0.2%	9,240	9,204
<b>Investment portfolio assets:</b>				
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
<b>Total assets available to pay benefits</b>	<b>1,557,999</b>		<b>1,659,098</b>	<b>1,456,901</b>

Asset type	Market Value as at 31/03/2018	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Cash and cash equivalents</b>	35,217	0.4%	35,358	35,076
<b>Investment portfolio assets:</b>				
UK fixed Income unit trusts	74,546	8.2%	80,659	68,433
Overseas fixed Income unit trusts	148,856	8.2%	161,062	136,650
UK equity unit trusts	131,310	9.7%	144,047	118,573
Overseas equity unit trusts	811,683	9.7%	890,416	732,950
Pooled property Investments	142,803	1.8%	145,373	140,233
Other PIV	136,444	4.1%	142,038	130,850
Investment income due	832	0.0%	832	832
<b>Total assets available to pay benefits</b>	<b>1,481,691</b>		<b>1,599,785</b>	<b>1,363,597</b>

#### Currency Exposure - asset type

Asset type	Market Value as at 31/03/2019	Change in year in the net assets available to pay benefits	
	£'000	+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
<b>Total change in assets available</b>	<b>1,031,284</b>	<b>1,115,850</b>	<b>946,718</b>

Asset type	Market Value as at 31/03/2018	Change in year in the net assets available to pay benefits	
	£'000	+9.0%	-9.0%

#### Overseas Equities

Overseas Fixed Income Funds	148,856	162,253	135,459
Overseas Equity Funds	811,683	884,734	738,632
<b>Total change in assets available</b>	<b>960,539</b>	<b>1,046,987</b>	<b>874,091</b>



## NOTES TO THE PENSION FUND ACCOUNTS

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

#### INTEREST RATE RISK

Asset type	Market Value as at 31/03/2019	Market Value as at 31/03/2018
	£'000	£'000
<b>Cash and cash equivalents</b>		
Cash	9,222	35,217
<b>Total</b>	<b>9,222</b>	<b>35,217</b>

#### Interest rate risk sensitivity analysis

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

Asset type	Market Value as at 31/03/2018	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000	£'000	£'000
<b>Cash and cash equivalents</b>			
Cash	35,217	352	-352
<b>Total change in assets available</b>	<b>35,217</b>	<b>352</b>	<b>-352</b>

#### CREDIT RISK

Summary	Rating	Market Value as at 31/03/2019	Market Value as at 31/03/2018
		£'000	£'000
<b>Money Market Fund</b>	AAA	6,000	24,000
<b>Bank current accounts</b>			
Custody cash account	AA	2,710	8,733
National Westminster Bank Plc	AA	512	2,484
<b>Total</b>		<b>9,222</b>	<b>35,217</b>

# 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 last such valuation took place as at 31 March 2016 and the next valuation is due to take place as at 31 March 2019.

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 scheme 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.

Normally this is three years but in some cases a maximum period of 12 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional employer contributions.

The 2016 statutory triennial revaluation of the Pension Fund estimated the deficit on the Fund to be £235M and the funding level to be 82.8%. This compares to a deficit at the previous revaluation in 2013 of £365M and a corresponding funding level of 71.8%.

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).

Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the fund's website.

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
	<b>13,974</b>	<b>14,603</b>	<b>15,256</b>

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 £2,188 million (£2,007 million in 2017/18). This includes both vested and non-vested benefits.

Year ended	31 Mar 2018 £m	31 Mar 2019 £m
Active members	792	933
Deferred members	509	554
Pensioners	706	701
	<b>2,007</b>	<b>2,188</b>

### 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 2016 using financial assumptions that comply with IAS19

### Demographic assumptions

The demographic assumptions used are consistent with those used for the funding valuation as at March 2016.

Average future life expectancies at age 65 years	Male	Female
Current pensioners	22%	24%
Future pensioners	24%	26%

### 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:	#####	#####
Inflation/pension increase rate assumption	2.4%	2.5%
Salary increase	2.2%	2.3%
Discount rate	2.6%	2.4%

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 21: CURRENT ASSETS

	2017/18 £'000	2018/19 £'000
Short term debtors		
Contributions due - employees	27	35
Contributions due - employers	88	124
Payroll	73	403
Sundry debtors	991	536
Other	0	90
<b>Total</b>	<b>1,179</b>	<b>1,188</b>

## NOTE 22: CURRENT LIABILITIES

	2017/18 £'000	2018/19 £'000
Sundry creditors	(1,899)	(1,279)
Transfer values payable (leavers)	(218)	(1,548)
Benefits payable	(97)	(3,415)
Other investment	0	(38)
<b>Total</b>	<b>(2,214)</b>	<b>(6,280)</b>

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

	2017/18 £'000	2018/19 £'000
Aviva	12	19
Equitable Life	5	2
	<b>17</b>	<b>21</b>

Additional voluntary contributions (AVC's) were paid to Aviva and Equitable Life 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 (£814k 2017/18) 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 2019, the Fund held an average investment of £11.5m (£11.4m 31 March 2018), earning interest of £55k, (£90k 2017/18)

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.0m (£2.8m 2017/18) from this company.

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

### Fund Administration Expenses

	2017/18 £'000	2018/19 £'000
Payroll/HR Support	494	494
Central Finance	320	175
	<b>814</b>	<b>669</b>

## NOTE 25A: KEY MANAGEMENT PERSONNEL

Employees holding key positions in the financial management of the fund as at 31st March 2019 include:

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

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

	2017/18 £'000	2018/19 £'000
Short term benefits	37	34
Long term/post retirement benefits	22	22

## NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There were no contingent liabilities as at 31st March 2019.

Auditors' Report 2018/19 – to follow.

Included after audit for publication

## 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 2018/19 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 31<sup>st</sup> March 2019 and its income and expenditure for the year ended 31<sup>st</sup> March 2019.

**Kevin Bartle**

Interim Corporate Director of Resources (Section 151 Officer)

Date:



# **Annual Governance Statement**

## **2018/2019**

## **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 the last year. This report summarises our review and conclusions.

We are satisfied that the Council has adequate governance arrangements in place. Governance is generally working well but we acknowledge that there are areas where we must improve, particularly in relation to pensions administration and the Council's statement of accounts and spending; this remains work in progress. We are committed to improving and have included a plan to record actions for 2019/20. We will report progress against these actions at the next annual review.

## **Signed on behalf of the London Borough of Tower Hamlets**

---

Will Tuckley, Chief Executive

---

John Biggs, 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). But what is governance? 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 and the Local Government Association (LGA) – Corporate Peer Challenge, 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 2017/18 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, the Local Government Association, as well as the work of internal and external audit.

<b>Principal</b>	<b>Governance Arrangements</b>
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.</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. 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. Whilst the Council seeks to always operate lawfully, during 2018/19 it has become apparent that the Council breached the law when administering the pensions scheme. Once recognised the Council reported the breaches to the Pensions Regulator and has put in place a remediation plan to rectify the issues. Further details are available <a href="#">here</a>.</p> <p>The Council has appointed the required statutory officers which includes the Head of Paid Service (Chief Executive), the Monitoring Officer (Corporate Director, Resources) and the Chief Finance Officer, sometimes referred to as the Section 151 Officer (Corporate Director, Resources). These three officers meeting regularly to discuss governance issues.</p> <p>The Council operates a Standards (Advisory) Committee to manage issues of Member conduct. In accordance with best practice, the Committee is chaired by a person that is independent of the authority. The Council recognises that its Members play an important role in setting the tone from the top and is disappointed that one Member failed to maintain the required standards. Councillor Muhammad Halun Miah Harun resigned in 2018 and was prosecuted by the Council. Mr Harun was convicted of social housing fraud and imprisoned for 16 months.</p>

	<p>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. The approach to whistleblowing has recently been reviewed by Internal Audit (in 2019/20).</p> <p>Committee reports and decisions have been published online to ensure transparency and Executive decisions are subject to the 'Call-In' process by backbench Councillors who can raise any concerns they may have.</p> <p>The Council maintains a Register of Interests (for officers and Members) which includes a requirement to declare interests at meetings ensure 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.</p> <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.</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 has met throughout the year and has considered reports from internal and external audit as well as other updates, reports, and advice from the Chief Financial Officer and Monitoring Officer.</p>
<p>B. Ensuring openness and comprehensive stakeholder engagement.</p>	<p>Council meetings are 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 has 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.</p> <p>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.</p> <p>The Council has sought community views on a wide range of issues and has undertaken regular consultation and engagement with citizens and service users.</p> <p>The Council's Overview and Scrutiny Committee has 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 interest are represented.</p> <p>Social media channels have been used extensively to support the Council's engagement with stakeholders.</p> <p>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.</p>
<p>C. Defining outcomes in terms of sustainable</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</p>

<p>economic, social, and environmental benefits</p>	<p>outcomes. The Council has a structured set of plans which turn our vision into actions, through Directorate, Key Council Strategies and Team Plans. The plan has been published in the Council's website.</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>D. Determining the interventions necessary to optimise the achievement of the intended outcomes.</p>	<p>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 clearance 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>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 in accordance with the Personal Development Review process (PDR).</p> <p>The Council has adopted TOWER values and new Competency Framework to support officers in delivering services.</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.</p> <p>Staff are provided with opportunities for further development through the PDR and PDP processes.</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>F. Managing risks and performance through robust internal control and strong public financial management.</p>	<p>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</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 Register has been regularly reviewed the Corporate Leadership Team and independently by the Audit Committee.</p> <p>During the last year, the Corporate and Divisional leadership teams received training on Risk Management. Refresher training is provided annually.</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.</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 ant-fraud work have been reported to, and reviewed by, the Audit Committee.</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 were presented for approval by the Council.</p>
--	---

	<p>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>Members and senior management have been provided with regular reports on performance and progress towards outcome achievement.</p> <p>All reports to Council, Cabinet and Committees are required to set out key implications and information in areas such as risk, equalities and environmental impact.</p> <p>The Audit Committee is responsible for considering the Council’s arrangements for internal governance and financial management and to recommend any actions accordingly. It has received a number of relevant reports such as annual internal audit plans, reports from external audit, anti-fraud and corruption initiatives and risk management.</p> <p>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.</p>
<p>G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.</p>	<p>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.</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 its Council, Cabinet and Overview and Scrutiny Committee meetings to ensure full transparency of the meetings.</p> <p>The Council's 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>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.</p> <p>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 Internal Audit, 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.</p> <p>As the Council's most senior decision making body, 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>
--	---

## 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 2018/19 annual opinion to the Audit Committee in July 2019.

*On the basis of the audit and counter fraud activity undertaken during the year, and taking into consideration external assurances provided by Ofsted and the Local Government Association Corporate Peer Challenge as well as management's progress in addressing governance, risk and control weaknesses, it is my opinion that I can provide **reasonable assurance** that the authority has adequate systems of internal control and that they have, in the main, been operating effectively in practice.*

*The framework of governance, risk management and control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.*

The full report from July 2019 is available [here](#) (item 5.6).

Given this AGS has been reproduced several months after the annual opinion was first stated, we have asked whether there is any additional commentary the Head of Internal Audit would like to add. The Head of Internal Audit has stated:

Since stating my opinion in July 2019 new information has been brought to my attention which includes a resubmission of the Annual Assurance Statement from the Corporate Director of Resources. This statement records significant governance issues related to the statement of accounts and Council spending.

As stated above, my opinion takes into consideration the internal audit and counter fraud activity undertaken during the year, as well as external assurances provided by Ofsted and the Local Government Association Corporate Peer Challenge and management's progress in addressing governance, risk and control weaknesses. I have recorded limitations to the scope of my opinion which state:

*“The internal audit plan cannot address all risks across the Council and the plan represents 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. However, I have confirmed there were no audits of Information Technology (IT) related risks in 2018/19. Whilst I understand IT services are outsourced, I consider this lack of review material and I am limiting the scope of my opinion to exclude IT related risks. I will ensure that IT related governance, risks and controls are subject to internal audit in 2019/20 and will engage the support of specialist IT auditors.”*

In considering this new information, I have decided to clarify the scope of my annual opinion so that stakeholders who may wish to rely on the opinion are clear on its limitations and why the opinion between internal and external audit may differ. The following paragraph has been added to the annual reporting of the Head of Internal Audit at 10.1.

*“Internal Audit does not audit the Council’s annual statement of accounts and therefore the work of Internal Audit and my opinion do not cover the associated financial statements or 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.”*

In addition, to support management in addressing these emerging governance issues, and provide independent assurance to the Audit Committee, I will reconsider the focus and scope of the remaining audits in the 2019/20 audit plan. The outcomes of these audits will be reported to senior management and the Audit Committee.

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

## **External Audit & Inspections**

### External Audit

In July 2018 KPMG, the previous external auditor, completed their audit of the 2017/18 financial statements. Within the Annual Audit Letter presented to the Audit Committee, the auditor issued an unqualified opinion in relation to the Council’s 2017/18 statutory

financial statements. This means that KPMG concluded that the financial statements gave a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

However, the 2017/18 value for money (VFM) work, KPMG issued a qualified conclusion on the Council's arrangements to secure value for money for 2017/18. KPMG specifically concluded that "the authority had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2017/18. KPMG remained satisfied that none of the outstanding issues have an adverse impact on the 'sustainable resource development' criterion. KPMG therefore issued a qualified VFM conclusion on an 'except for' basis, which is consistent with the VFM opinion given in 2016/17.

From 1 September 2018 Deloitte LLP was appointed as the Council's external auditor, this was following the decision of the Council to opt in to 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 financial statements before the deadline of 31 July. In July 2019 Deloitte reported to the Audit Committee that their audit was ongoing and would not be complete because of delays in delivery of supporting working papers for audit from management and delays in receiving information and explanations in response to subsequent audit queries. There are were also open issues which needed to be resolved prior to finalisation of their report. The significant issues they highlighted included misstatements and disclosure deficiencies.

The auditors also indicated they would most likely be issuing a qualified "value for money conclusion" because Ofsted's 2018 report and subsequent monitoring reports indicated (notwithstanding the improvement trajectory) that proper arrangements to secure to secure economy, efficiency and effectiveness in the use of resources were not in place throughout the whole of the period covered (the 2018/19 financial year).

The full report is available [here](#) (item 4).

In response, the Council developed an action plan that has been overseen by the S.151 Officer and the Deputy Section 151 Officer; additional resources have been sourced to complete the plan and produce a revised set of accounts and a dedicated finance improvement team has been created for additional support. The Council anticipates the accounts will be closed by November 2021.

## Other Inspections

During 2018/19 external inspectors from Ofsted and the Local Government Association have completed inspections and reviews, summary details are as follows.

### Ofsted

As a follow up to the April 2017 report published by Ofsted in respect of Tower Hamlets' Single Inspection of Children in need of help and protection, children looked after and care leavers and the Local Safeguarding Children Board, all of the scheduled Ofsted monitoring visits have now been completed. The full inspection of the service was completed during June 2019. The majority of the monitoring reports have highlighted areas of improvement across Children's Social Care. They have also helpfully pointed out areas where further work is required, and we have focused much activity on strengthening these aspects of practice in order that we can present a strong and positive account of practice throughout the upcoming inspection. The final judgement from the full inspection in June was published at the end of July 2019 and Ofsted rated the Council as Good.

The full report is available [here](#).

### Local Government Association (LGA) – Corporate Peer Challenge

During June 2018, the council took part in a four day Local Government Association led Corporate Peer Challenge. The LGA Peer Challenge team were asked to review the following:

1. How the Council adequately addressed the directions issued by MHCLG and the expectations of the departed commissioners.
2. Whether the Council is addressing its chosen priorities and delivery continued improvements to local residents and businesses.
3. Whether the Council is identifying key challenges and setting realistic and ambitious targets for the future.



The final feedback report issued to the Mayor and the Chief Executive concluded that:

- The council has transformed and improved the culture of the organisation due to the hard work and commitment of the Mayor, Members and officers throughout the organisation. It was recognised that such a transformation has been delivered by strong leadership from the Mayor and Chief Executive, and positive relationships between Members and officers. The Peer Team also found that staff appreciate the open and positive culture that the senior leadership are championing and feel more engaged. Furthermore, there are strong relationships between the council and partners and an encouraging sense of optimism amongst partners for the future and the way the council is progressing.
- The Peer Team concluded that Tower Hamlets is a borough with enormous opportunities and potential. The borough has a diverse and vibrant community and the council has a relatively healthy financial position and an enviable asset base with the potential to invest, innovate, and drive through further change.
- The Corporate Peer Challenge identified a number of areas where the council can continue to improve. There are still large areas in the council in need of modernisation and some services are still traditional and paternalistic. The council needs to increase the pace of change in the borough and is currently too risk averse as a result of past decision making. Furthermore, the council needs to take a more proportionate risk-based approach and empower officers to be less cautious and bureaucratic in order to drive through improvements at a faster rate. To ensure that the Council moves forward quickly, the council needs to have an unrelenting focus on the areas of failure including those identified by Ofsted in Children's Services

As a result of the feedback received improvement actions were developed with the delivery of these monitored by the Transformation & Improvement Board which is chaired by the Mayor with external representation. The action plan responding to the recommendations can be found [here](#).

The full report is available [here](#).

#### Planning Peer Challenge Tower Hamlets Council

In 2018 the Council commissioned a peer challenge of its planning service with the Planning Advisory Service and Local Government Association. In the final report, issued in December 2018, the report authors concluded:

“The planning service is performing well against all of the government’s national planning performance indicators and has addressed a specific legacy performance issue. It is not ‘resting on its laurels’; a process improvement review has recently been completed and the commissioning of this planning peer challenge is a clear indicator of the service’s commitment to continuous improvement.

The Place Directorate should build on the local plan work already completed and the strategies for the opportunity areas to turn the Mayor’s priorities into a clear vision and strategy for the whole organisation. The Place Directorate departments should be clear on how they will work together (and on what) and the whole organisation will need to be committed to joined-up, corporate planning and delivery. The planning service will then be able to fully address how it needs to be organised and structured to play its full part.”

The authors made a series of recommendations which the council accepted and are progressing. This includes, key appointments being made, the establishment of a new Regeneration function with a series of area boards, new working relationships being embedded across Place, and the Planning service has developed new committee arrangements for briefing Councillors on major schemes and for engaging residents in the planning process. The planning service continues to monitor and manage performance carefully and evolve its learning and development offer to meet available resources”. A copy of the report is available upon request.

## **Council Owned Companies and Partnerships**

### 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.

During 2018/19, the Council commissioned Altair to support it in exploring options for the delivery of its housing management services beyond the end of the current management agreement. The review was undertaken in two stages; consisting of a baseline assessment and an options review.

The purpose of the baseline Assessment stage of the project was to review the current strategic, operational and financial context of LBTH, and to assess the effectiveness of THH as a housing manager, considering its strengths and challenges.

Overall, Altair assessed that THH is a generally well-performing housing manager in terms of both housing management performance and cost. There is room for improvement in some key areas of service delivery, but evidence of performance improvements over recent years and an extensive transformation programme currently being delivered are positive.

The review further found no performance or financial imperative to significantly change the housing management arrangements for the LBTH stock currently managed by THH.

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 about the governance, risk management and internal control arrangements. The opinion was as follows:

*On the basis of the audit work undertaken during the 2018/19 financial year, my overall opinion on the organisation's system of governance, risk and control is that **substantial** 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.*

### Seahorse Homes Limited

Seahorse Homes Limited is a wholly owned company limited by shares established in 2017, to provide market rented homes and deliver a return on investment, both to cross-subsidise affordable housing and to fund wider General Fund services. The agreed business plan sets out its intention to acquire homes and then to develop homes. The Council holds 100% of the shares in this

company and has initially committed £6m in equity. The company has yet to start trading. The Board of Directors is comprised of three Council officers. Following staffing changes within the Council the composition of the Board is being reviewed to minimise potential conflict of interests.

#### Mulberry Housing Society

Mulberry Housing Society is a not-for-profit charitable Community Benefit Society (CBS) established in 2017. The Council funds the CBS and holds two of five seats of the Board, the others being held by independent people initially appointed by the Council. The Board of Directors is comprised of two council officers and three independent members. The society is seeking to acquire homes which will be let at sub-market rent levels in order to meet housing needs. There were no financial transactions through the CBS in 2018/19. As an independent CBS, the Council does not have any equity shareholding in the company but intends to fund activities through retained right to buy receipts and loan finance.

#### PLACE Ltd (Pan-London modular Temporary Accommodation)

This not-for-profit company limited by guarantee (CLG) was set up by the Council in 2018 is a collaborative enterprise between a group of London Boroughs. The company will purchase modular homes that can be delivered to 'meanwhile' sites across the capital and relocated several times over a minimum 40 year lifespan. The pilot site is likely to be in Tower Hamlets. The company has secured capital grant from the Greater London Authority, which will be administered by the Council. In addition, the Council is considering providing a capital loan facility to the company. As a CLG, the Council does not have an equity shareholding in the company.

#### Capital Letters (London) Ltd (Pan-London TA procurement hub)

This not-for-profit company limited by guarantee (CLG) was set up by the Council in 2018 and is a collaborative enterprise between a group of London Boroughs. The company will lease private properties for use as temporary accommodation and tenancies to prevent homelessness. The company has secured revenue grant funding from MHCLG which will initially be administered by the Council; a Chief Executive and Chief Finance Officer have been appointed in 2019 and they will be adopting their own processes

and procedures including for the payment of salaries and maintenance of accounting systems. The Council may provide a loan facility to the company to support positive cash flow. As a CLG, the Council does not have an equity shareholding in this company.

### **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 2017/18

In 2017/18 the AGS included three significant governance issues which needed to be addressed during 2018/19. All actions have been completed and closed.

<b>No.</b>	<b>Action</b>	<b>Outcome</b>
1	To continue to effectively deliver the commitments outlined and defined within the Best Value Improvement Plan as a response to the findings of the Commissioners.	The improvement plan outcomes have been delivered.

2.	To continue to deliver improvements in Children's Services that respond to the Ofsted findings.	Ofsted re-inspected the authority and published their report in July 2019 which concluded the Council has made significant improvements and rated the service as Good.
2	The 2017/18 Internal Audit of the Leaving Care Service governance and control arrangements received a Nil assurance rating to this audit and which recommended that a full service review is undertaken.	This action has been delivered. Internal Audit continued to provide support and assisted the service in reconciling its records and payments. A further audit will be undertaken in 2019/20.

Significant Governance Issues Identified in 2018/19

All five Corporate Directors submitted their returns for 2018/19 to the Chief Executive. The Corporate Directors of Place, Governance, Children's & Culture confirmed there were no significant governance issues. The Corporate Directors for Health, Adults & Community and Resources identified several issues, the most significant were as follows. In addition, the Audit Committee requested that concerns in relation to consultations be included.

No.	Issue	Action	Responsible	Timescale
1	Outstanding Payments to care providers end of year accrual process and implementation of Electronic Home Care Monitoring. Associated adverse end of year budget position in relation to adult social care.	<p>Outstanding Payments Hub established to recover position on monies owed to providers – external input to design (Socitm) and CPMO oversight and support.</p> <p>Review of accruals process and improvements to monthly budget process particularly around home care.</p>	<p>Claudia Brown, Divisional Director, Adult Social Care &amp; Allister Bannin, Finance</p> <p>Adrian Osborne, Finance Business Partner &amp; relevant managers</p>	<p>December 2019</p> <p>Monthly</p>

No.	Issue	Action	Responsible	Timescale
		Commissioned review of Electronic Home Care Monitoring from Socitm – final report now prepared and recommendations being discussed and implemented.	Denise Radley & Divisional Directors & Finance Business Partner	End July 2019 and then implementation
2	Adult Social Care Improvement – consistent practice and quality	Improvement Board replaced by Quality Assurance Board during 2018/19. 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.	Claudia Brown, Divisional Director Adult Social Care	Plans extend throughout 2019/20
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"> <li>• Weaknesses in how accruals have been raised.</li> <li>• Pension fund deficit and accounting.</li> <li>• Valuation of infrastructure and temporary accommodation assets.</li> <li>• Accounting processes for the collection and general funds.</li> </ul>	<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>Corporate Director, Resources.</p> <p>Divisional Director, Finance, Procurement and Audit.</p>	April 2020

No.	Issue	Action	Responsible	Timescale
4	The Council is in an overspend position. 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.	The Corporate Leadership Team is committed to meeting the financial challenges. All directorates will monitor 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.	Corporate Directors and Budget Managers.	March 2020
5	Budget Management needs to be improved across the Council	<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>CLT will adopt a more challenging approach to the delivery of Recovery Plans and discretionary spending decisions.</p>	<p>Divisional Director, Finance, Procurement and Audit</p> <p>Corporate Directors and all Budget Managers</p>	March 2020
6	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	<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>	Divisional Director, Finance, Procurement and Audit	September 2020



No.	Issue	Action	Responsible	Timescale
	<p>provide the Regulator with a robust improvement plan and work programme. These issued include:</p> <ul style="list-style-type: none"> <li>• Failure to provide Annual Benefit Statements to 100% of scheme members.</li> <li>• Outstanding scheme tax returns from previous years.</li> <li>• Failure to issue Annual Allowance Statements to all scheme members who require one.</li> <li>• A lack of policy documents and data quality issues.</li> </ul>	<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>Remediation plan to be submitted to Pensions Board in March 2020.</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</p>	<p>Corporate Director, Resources</p> <p>Corporate Director, Children's and Culture.</p>	January 2020

No.	Issue	Action	Responsible	Timescale
		presented to the Directorate for their consideration and implementation.		
8	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>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>	Head of Internal Audit	March 2020
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. 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"> <li>• An absence of accepted set of standards or guidance on conducting consultation and engagement activities.</li> <li>• Consultation responses often being held by the consulting team and thus inaccessible to colleagues – who may then go out to consult on similar issues.</li> <li>• The lack of a standard means of providing feedback to the community on the impact of their contributions.</li> </ul>	<p>In line with our Community Engagement Framework 2018-21, a Transforming Consultation and Engagement programme has been set up to deliver:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>	<p>Divisional Director of Strategy, Policy and Performance</p> <p>Divisional Director of Communication and Marketing</p>	July 2020

## Conclusion and Opinion

### Opinion

We are satisfied that the Council has adequate governance arrangements in place. Governance is generally working well but we acknowledge that there are areas where we must improve, particularly in relation to the Council's statement of accounts and spending. We are committed to improving and have included a plan to record actions for 2019/20. We will report progress against these actions at the next annual review.

### Definitions

As part of this review we have provided an opinion on the level of assurance that the governance arrangements can provide and whether the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. To assist with this assessment, we have defined the opinion ratings as follows:

<b>Good</b>	Strong governance arrangements exist, they are operating effectively, and minimal improvements are required.
<b>Adequate</b>	The governance arrangements are adequate and support the Council in meeting its objectives, but improvements are required to achieve good governance.
<b>Requires Improvement</b>	There are significant governance issues which may result in the Council failing to achieve its objectives.

## GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

### FINANCIAL TERMS

**Accounting period** – The period of time covered by the Council's accounts. The Council's financial year is from the period 1<sup>st</sup> April to the following 31<sup>st</sup> March.

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

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

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

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

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

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

**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 (PWL) debt.

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

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

**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  
**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