



# **LONDON BOROUGH OF TOWER HAMLETS**

## **STATEMENT OF ACCOUNTS 2006-07**

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## FOREWORD BY THE CHIEF FINANCIAL OFFICER

I am pleased to introduce the Council's full Statement of Accounts for 2006/07, which brings together the financial results of all the Council's operations for the year. The accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006 and the Best Value Accounting Code of Practice 2006. These constitute "proper accounting practice" which councils must comply with by statute and represent a change from previous years with the introduction of the income and Expenditure replacing the Consolidated Revenue Account. The Income and Expenditure accounts shows the resources expended and earned by the Council. This is different to the actual costs borne by the Council's General Fund and the two figures are reconciled in the Statement of Movement on the General Fund Balance. The Council has also produced a summary of the accounts, which is less technical and detailed than the full statement and has been produced following consultation with stakeholders. This is available from the address at the end of this foreword or on the Council's website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk).

The accounts reflect a period of financial consolidation for Tower Hamlets Council. The Council's Use of Resources score was '3', the second highest category, against the Audit Commission's 'harder test'. This contributed towards the Council's overall score as a '3 Star' authority, deemed to be improving strongly.

The Council's finances overall are sound. Expenditure in year was well under control and the revenue budget was marginally underspent. Long term loan debt reduced during the year by £61.6 million.

Pressures on the Council's budget year on year from demographic growth, new legislation and inflation generally exceed the additional resources made available by the Government. However, the Council has delivered savings which have enabled the budget to be balanced and increases in Council Tax minimised and kept at affordable levels.

Tower Hamlets' Council Tax remains, for 2007/08, the fifth lowest charge in London. At the same time, the Council continues its strategy of building up reserves against foreseen and unforeseen eventualities, while fully taking into account its ambitious improvement programme.

In addition, the Council adopted its Efficiency Strategy in May 2005 and has delivered the Gershon efficiency target a year ahead of schedule. Efficiency savings agreed in setting the General Fund budget for 2006/07 totalled £5.5m.

The Council has continued its policy of transferring its housing stock to Registered Social Landlords, subject to the consent of tenants and leaseholders. The financial impact of this has been kept under regular review and actions taken to manage the transition involved and the effects on both the Housing Revenue Account and the General Fund. For those estates that did not vote for stock transfer, plans are in place to lever in funding by setting up an ALMO in October 2007.

In addition, £84.5 million was directly invested in assets and infrastructure. Significant investment in schools, housing and streets was achieved, as well as substantially completing the Council's Office Accommodation Strategy.

The Council anticipates that the Government's 2007 Comprehensive Spending Review will allocate a smaller increase in funding to the authority than in recent years. This is, however, a situation to which the Council is well placed to respond because of prudent and effective financial management.

**Alan Finch**  
**Chief Financial Officer**

## The accounting statements

These comprise:

- The **Statement of Accounting Policies** on which the figures in the accounts are based.
- The **Income and Expenditure Account** reports the net cost for the year of *all* the functions for which the authority is responsible for, 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 of the local authority's functions, in three distinct sections
- The **Statement of the Movement on the General Fund Balance (SMGFB)** discloses the income receivable and expenditure incurred in the Council's operations for the year. In addition to the I&E statement it includes amounts that are required by statute and non-statutory proper practices to be charged to the General Fund.
- The **Statement of Total Recognised Gains and Losses (STRGL)** in accordance with FRS 3 *Reporting Financial Performance* requires *all* gains and losses to be included in this statement, as not all gains and losses experienced by the Council are reflected in the I & E, in accordance with UK GAAP.
- The **Housing Revenue Account**, 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. It details in more detail the income and expenditure on HRA services included in the whole authority I&E Account.
- 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 to preceptors and the General Fund. It reflects the statutory requirement for billing authorities to maintain a separate Collection Fund.
- The **Balance Sheet**, which is fundamental to understanding the financial position of the Council at the year-end and shows its balances and reserves, its long-term indebtedness, net current assets employed in operational activities and summarised information on fixed assets held.
- The **Cash Flow Statement**, summarising 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.
- The **Pension Fund Account**, which provides information about the financial position, performance and the financial adaptability of the pension fund. It shows the results of the stewardship of management, that is, the accountability of management for the resources entrusted to it, and the disposition of its assets at the period end.

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**, which starts at page 71.

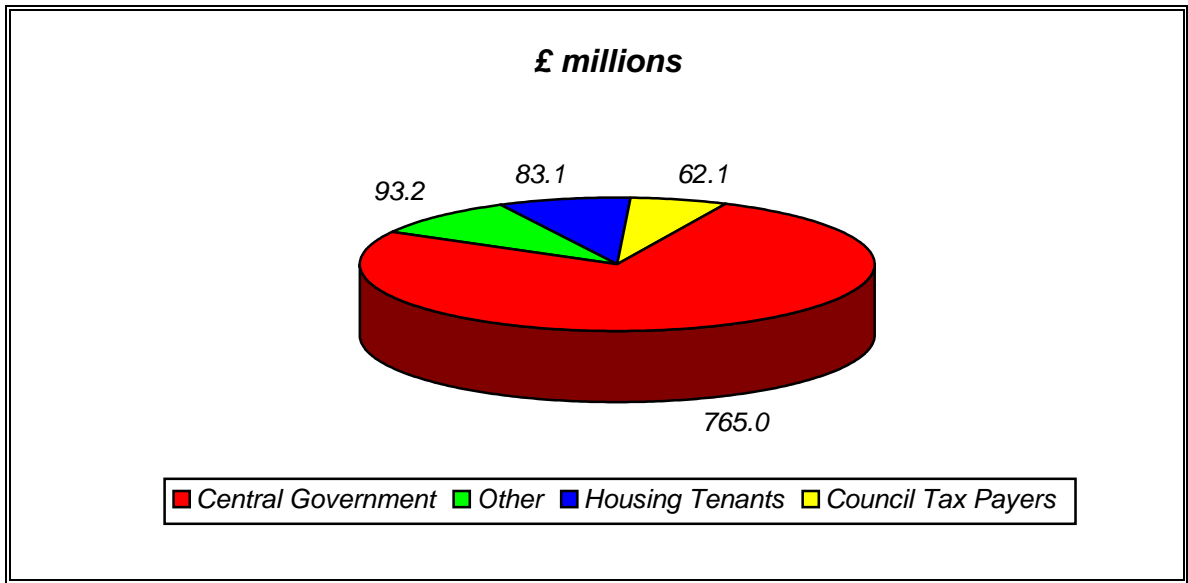
The **Statement of Accounting Policies**, which follows, includes and explains some changes in accounting policy since last year.

## Review of the year

The Council's expenditure and income is defined either as revenue (spending on the day to day running of services) or capital (spending on items that provide a benefit for more than one year such as building a school). The following shows revenue income and expenditure for the year.

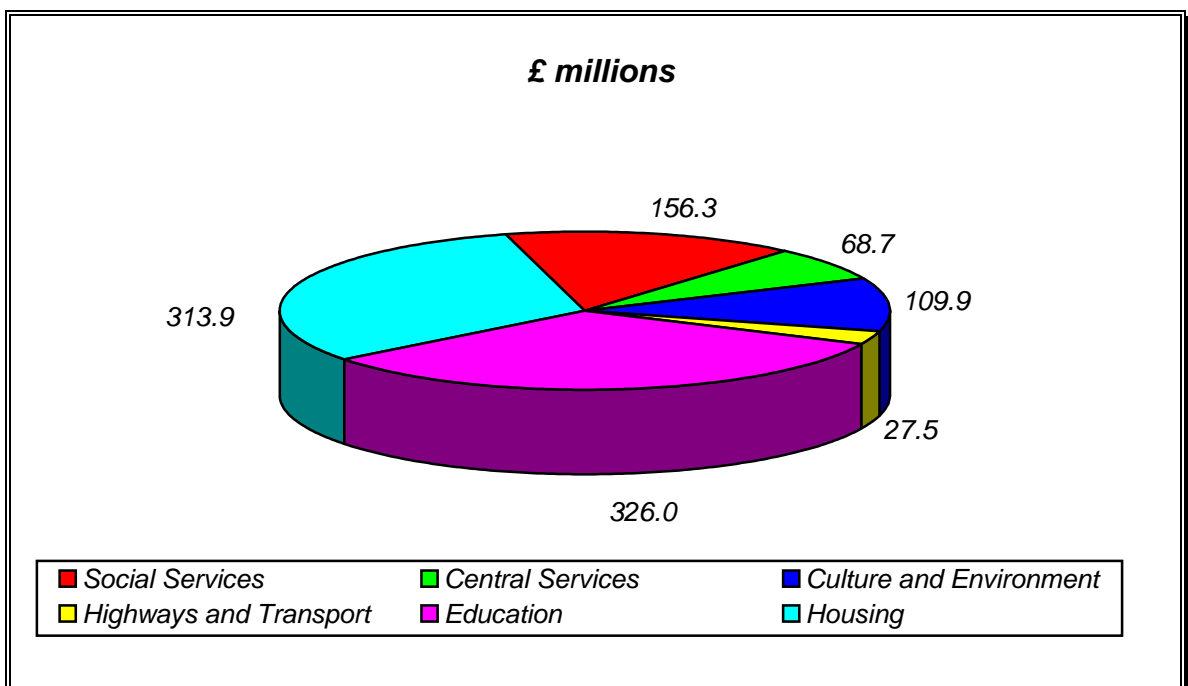
### WHERE THE MONEY CAME FROM

The Council's overall income for the year was £1,003.4 million (£1,095.8 million in 2005-06) and came from a number of different sources:



### HOW THE MONEY WAS SPENT

The Council spent £1,002.3 million (£1,086.3 million in 2005-06) on services:



Grants from Central Government form the biggest single source of income to the Council - £765.0 million (£739.0 million in 2005/2006). Of this, approximately 73% is grant towards the costs of providing specific services. This is a major change from previous years due to the introduction of the Dedicated Schools Grant. The rest is grant for the Council's service provision as a whole.

Income received from housing tenants' rents and other charges amounted to £83.1 million (£96.2 million in 2005/2006). The reduction is due to the transfer of some housing stock to Registered Social Landlords. "Other" income of £93.2 million (£209.6 million in 2005-06) includes fees and charges from users of services provided by the Council and external interest receipts. The balance of £62.1 million came from Council Tax (£59.7 million in 2005-06).

£1,002.3 million was spent in the year (£1,095.3 million in 2005-06). 33% of spending was on Education, Social Services accounted for 16% and Culture and Environment (including leisure, environmental health, planning and refuse collection) 11%. A fuller analysis is shown in the Income and Expenditure Account on page 20.

Running expenses (such as maintaining buildings, running vehicles and buying supplies and services) accounted for approximately 61% of spending. Salaries and wages accounted for a further 34%. The balance was spent on "capital financing" (principal and interest payments on loans, leasing charges and asset rentals).

## REVENUE SPEND COMPARED TO BUDGET

The Council's revenue expenditure and income is divided between "General Fund" (services excluding council housing) and the "Housing Revenue Account" (a separate account for the Council acting as a housing landlord). The General Fund net budget requirement for the year was agreed at £267.89 million consisting of service budgets of £262.95 million and a net contribution to balances of £4.94 million. Actual spend amounted to £261.82 million, an under spending of £1.13 million, with a net contribution to balances of £6.07 million. The HRA expenditure requirement for the year was agreed at £74.34 million. In total there was a net under spending of £4.78 million. This has been added to the HRA balance. More details are shown below:

<b>General Fund</b>	<b>Budget £m</b>	<b>Actual £m</b>	<b>Variance £m</b>
Net expenditure	262.95	261.82	(1.13)
Contribution to balances	4.94	6.07	1.13
<b>Budget requirement</b>	<b>267.89</b>	<b>267.89</b>	<b>0.00</b>
Government Grants			
Revenue Support Grant	(33.29)	(33.29)	0.00
Redistributed Business Rates	(172.48)	(172.48)	0.00
Surplus on Collection Fund	(1.91)	(1.91)	0.00
<b>Council Tax requirement</b>	<b>60.21</b>	<b>60.21</b>	<b>0.00</b>

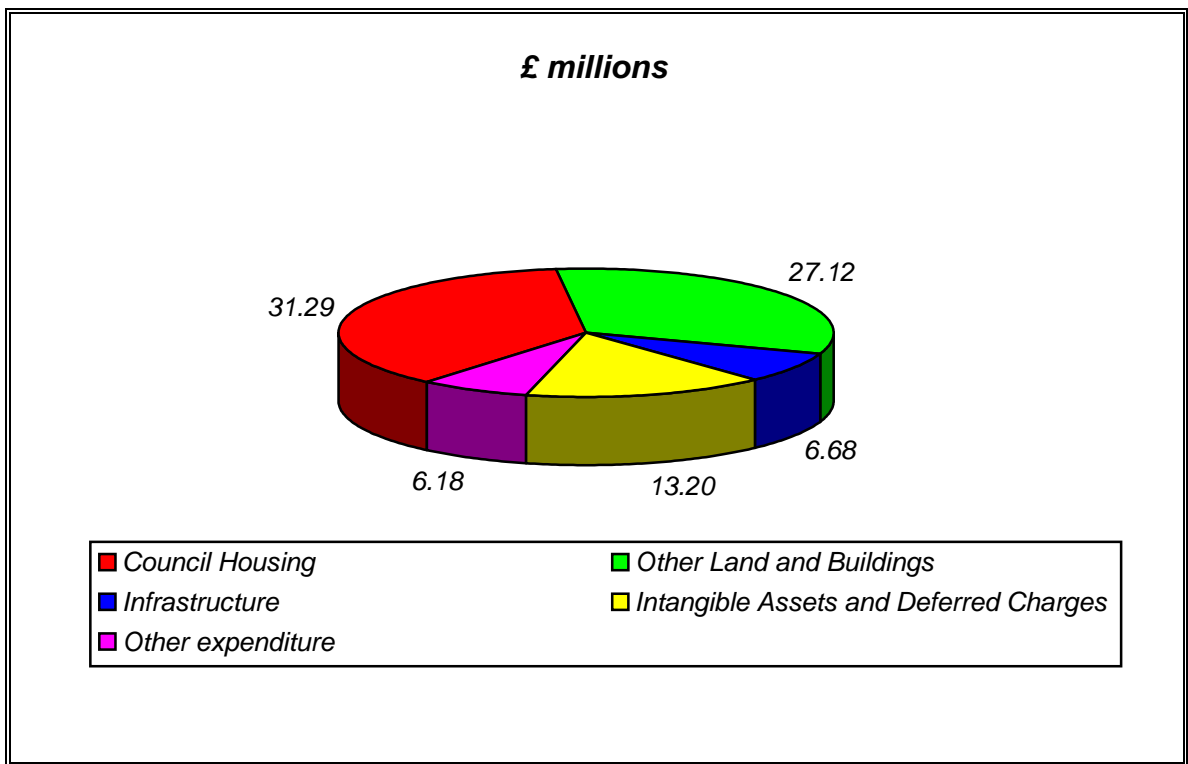
### Housing Revenue Account

	<b>Budget £m</b>	<b>Actual £m</b>	<b>Variance £m</b>
Expenditure	74.34	81.74	7.41
Accounting adjustments	32.77	28.78	(3.99)
<b>Budget requirement</b>	<b>107.10</b>	<b>110.52</b>	<b>3.42</b>
Income			
Rents	(50.53)	(69.30)	(18.77)
Government grant	(42.86)	(30.50)	12.36
Charges and contributions	(12.61)	(14.40)	(1.79)
Interest	(1.10)	(1.10)	0.00
<b>Taken from balance</b>	<b>(0.00)</b>	<b>(4.78)</b>	<b>(4.78)</b>

## PENSIONS

The Council offers retirement pensions to its staff and makes contributions to pension schemes on their behalf. Although the pension benefits are not payable until the staff retire, the Council has a commitment to make the payments and must account for them in the year in which the future entitlements are earned. This commitment is compared to the assets (investments) of the pensions schemes and the net amount is included in the accounts as the Council's "Pensions Liability". At the end of 2006-07 this liability was £305.39 million (£365.98 million at the end of 2005-06). Although this sum has an impact on the net worth of the Council as shown in its Balance Sheet, there are statutory arrangements for meeting the liability and the financial position of the Council remains healthy. The deficit will be addressed by increased contributions to the schemes over the remaining working lives of the staff.

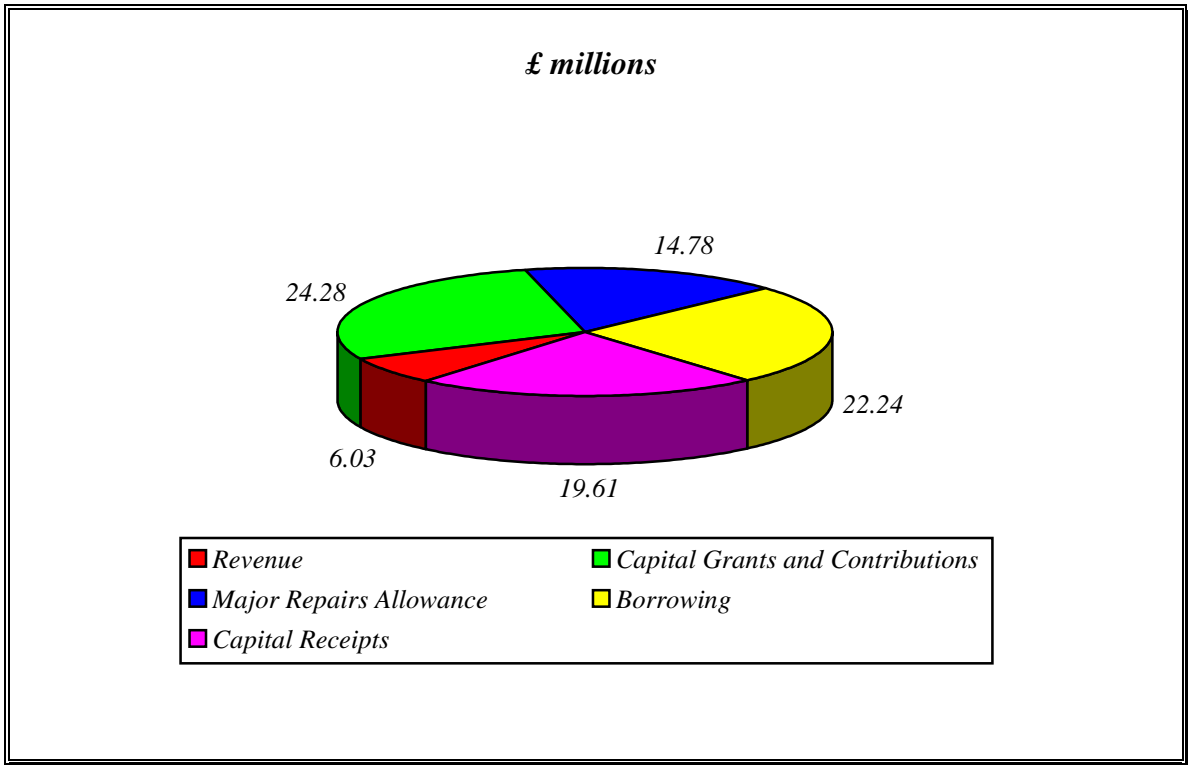
## CAPITAL SPENDING



Capital spending during the year amounted to £84.5 million (£95.6 million in 2005/2006). £31.29 million (£35.75 million in 2005/2006) of this was on projects relating to the conversion and improvement of the Council's housing stock. Spending on other land and buildings projects was £27.12 million (£32.74 million in 2005/2006) and was primarily on the refurbishment, improvement and extension of schools and the further development of Idea stores in the Borough. Infrastructure spending of £6.68 million (£7.23 million in 2005/2006) was mainly on improving the existing road system within the Borough and the provision of street lighting. Spending on Intangible Assets and Deferred Charges includes information technology, home improvement grants paid to homeowners and grants paid to voluntary organisations, and amounted to £13.2 million (£16.53 million in 2005-06).



## HOW CAPITAL SPENDING WAS PAID FOR



The Government pays the Council a grant called the Major Repairs Allowance to be spent on its housing stock. This amounted to £14.78 million for the year (£17.67 million in 2005-06). Capital receipts are income from the sale of assets, such as council houses. £19.61 million was used in 2006-07 (£22.85 million in 2005-06). The Council can pay for capital spending from its revenue monies and £6.03 million was used in the year (£2.78 million in 2005-06). There are other Government grants which have to be used for specific projects and the Council receives contributions from others (for example developers). A total of £24.28 million was used in 2006-07 (£25.36 million in 2005-06). Finally, the Council is allowed to borrow money to finance capital spending and £22.24 million was borrowed in the year (£26.96 million in 2005-06).

### **FURTHER INFORMATION**

Further information about the accounts and a copy of the summary of accounts are available from the Head of Corporate Finance, Mulberry Place, 5 Clove Crescent, London, E14 2BG. The summary is also on the Council's website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk).

## STATEMENT OF ACCOUNTING POLICIES

The Statement of Accounts summarises the Council's transactions for the 2006-07 financial year and its position at the year-end of 31<sup>st</sup> March 2007. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2006* ("the SORP") and the *Best Value Accounting Code of Practice 2006* ("BVACOP"). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

### Accruals of Income and Expenditure

Generally, activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable and receivable on borrowings is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.

Where income or expenditure has 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

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.

### 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, but where the timing of the transfer is uncertain. 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 revenue account when the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Provisions 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, the provision is reversed and credited back to the relevant revenue 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 obligation is settled.

### Bad and Doubtful Debts

An allowance for bad and doubtful debts reduces the value of debtors in the balance sheet. Although the allowance is not strictly a provision, it is described as such in the accounts. Any increase or decrease in the

allowance at the year-end is debited or credited to the appropriate service revenue account. The Council's policy is to write off debt only when all avenues to recover it have been exhausted.

## **Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover identified risks. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be funded from a reserve is incurred it is charged to the relevant revenue account and financed by a transfer from the reserve.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council – these reserves (which were recently reclassified as “accounts” by the SORP) are explained in the relevant policies below.

## **Government Grants and Contributions (Revenue)**

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant or contribution and there is reasonable assurance that the monies will be received. Revenue grants are matched in revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure and appropriations to and from reserves.

## **Retirement 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 the Department for Education and Skills (DfES)

All of the schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked 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 and revenue accounts are charged with the employer's contributions payable to the DfES in the year.

### **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. The use of this method means that the cost will increase as employees approach retirement.

Liabilities are discounted to their value at current prices, using a discount rate of 4.9%, derived from corporate bond yields (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years) as at 31<sup>st</sup> March 2004.

Assets attributable to the Council are included in the balance sheet at their fair value, principally market value for investments.

The net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned during the year, allocated to the revenue accounts of services for whom the employees worked

- past service cost – the increase in liabilities arising from decisions in the year the effect of which relates to years of service earned in earlier years, debited to the Net Cost of Services as part of Non-Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Net Operating Expenditure
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to Net Operating Expenditure
- gains and losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited to the Net Cost of Services as part of Non-Distributed Costs
- 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 – not charged to revenue
- contributions paid to the pension funds – cash paid as employer’s contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the contributions payable by the Council to the pension funds in the year. In the Statement of Movement on the General Fund Balance this means that the notional debits and credits for retirement benefits are replaced with amounts representing the cash paid to the pension funds and any amounts payable to the funds but unpaid at the year-end.

### **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.

### **VAT**

Income and expenditure excludes any amounts related to VAT, as generally all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

### **Overheads and support services**

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services.

### **Intangible Fixed Assets**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for at least one financial year. The balance is amortised to the relevant revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

## **Tangible Fixed Assets**

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. The de minimis level above which expenditure on tangible fixed assets is classified as capital is £50,000.

Measurement: Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value
- dwellings, other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use
- infrastructure assets and community assets – depreciated historical cost.

Net current replacement cost is assessed as:

- non-specialised operational properties – existing use value
- specialised operational properties – depreciated replacement cost
- investment properties and surplus assets – market value.

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains.

The Council's valuers undertook a revaluation of housing assets (non-dwellings) and miscellaneous properties (including sports centres, libraries, idea stores and parks) as at 1 April 2006.. An assumption has been made that all the properties exist and are presently in use by the Council or its tenants, nominees etc.

Impairment: The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- otherwise – written off against the Fixed Asset Restatement Account.

No impairment has been identified for 2006-07.

Disposals: When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Fixed Asset Restatement Account.

Amounts in excess of £10,000 received from disposals are credited to the Usable Capital Receipts reserve, which can then only be used for new capital investment or set aside to reduce the Council's borrowing requirement.

A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of deductions and allowances) is payable into a Government pool.

Depreciation: This is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- dwellings – in line with the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation
- other land and buildings – up to 60 years, individual asset lives are assessed by the valuer
- vehicles, plant and equipment – equipment 5 years. For vehicles and plant, a percentage of the value of each class of assets in the balance sheet is used, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 40 years.

Were an asset to have major components with different estimated useful lives, these would be depreciated separately.

Grants and contributions: Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the relevant assets, in line with the depreciation policy applied to them.

### **Charges to Revenue for Fixed Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- depreciation charges on tangible fixed assets used by the relevant service
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- amortisation of intangible fixed assets attributable to the service.

The charges made to service revenue accounts, support services and trading accounts are shown gross in the Income and Expenditure Account. They are subsequently reversed by way of a credit in the Statement of Movement on the General Fund Balance, as the Council is not required to raise council tax to cover depreciation, impairment losses or amortisation.

### **Deferred Charges**

Deferred charges represent expenditure that may be capitalised but does not result in the creation of tangible assets. Where the Council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, this is written off as expenditure to the relevant service revenue account in the year. A credit to the Statement of Movement on the General Fund Balance then reverses out the amounts charged to the Income and Expenditure Account to negate the impact on the level of Council Tax.

### **Leases**

#### **Finance Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the lease transfer to the Council, within the requirements of SSAP21 (Accounting for leases and hire purchase contracts). Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset. The liability is written down as the rent becomes payable) and
- a finance charge (debited to revenue as the rental becomes payable).

### **Operating Leases**

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on an equalized 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.

### **Repurchase of Borrowing**

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase or settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the balance sheet and written down to revenue on a straight-line basis over the term of the replacement loans.

### **Investments**

Investments are carried at cost. If the value of an investment were to fall below its cost, the investment is written down to market value and a provision for the unrealised loss made in the Income and Expenditure Account if this is unlikely to be a temporary fall.

### **Stocks and Work in Progress**

Stocks are included in the balance sheet at the lower of cost and net realisable value. Exceptionally, vehicle maintenance stocks are valued at the latest purchase price. Work in progress is valued at the lower of cost and net realisable value and is shown net of deposits and payments on account where appropriate.

### **Post Balance Sheet Events**

Amounts are adjusted in the Statement of Accounts if an event arises after the balance sheet date which provides additional evidence of conditions that existed at that date and materially affects the amounts to be included. If an event arises after the balance sheet date which concerns conditions which did not exist at that date, it is disclosed in the notes to the balance sheet if it is of such materiality that disclosure is required for the fair presentation of the financial statements. The Statement of Accounts was authorised for issue by the Chief Financial Officer on 28th June 2007 which is the date up to which events after the balance sheet date have been considered for this purpose.

### **Contingent Liabilities**

These are possible obligations which may require a payment or a transfer of economic benefits from the Council in the future. They are not recognised in the accounting statements as such but are disclosed by way of a note to the accounts.

### **Insurance**

The Council is self insured to meet most liability and property risks and has set aside amounts in a specific reserve to cover those risks in the future. Where an event takes place that gives the Council an obligation that probably requires settlement, an appropriate amount is transferred from the reserve to a provision established for that purpose.

### **Group Accounts**

The SORP requires that where a local authority has material interests in subsidiaries, associates and/or joint ventures, then group accounts must be produced alongside the authority's own financial statements. The Council has determined that it has no such interests and that group accounts are therefore not required.

## **Long Term Contracts – Private Finance Initiatives**

The Council is party to two Private Finance Initiative contracts which terminate in 2027 and 2029. The service element of contract payments is charged to the appropriate service revenue account. At commencement it was determined under Financial Reporting Standard 5 that the Council did not have an asset of the properties and they were written out of the Council's accounts. The assets will revert to the Council at the end of the contract terms.

The amounts are shown in the relevant notes to the Balance Sheet. The assets are valued annually and written on to the Council's balance sheet as long-term debtors (previously tangible fixed assets) over the lifetime of the contracts. The residual values of the debtors at the end of the contracts will be written on to the balance sheet as tangible fixed assets. An initial capital contribution by the Council under the contracts is treated as a deferred consideration under current assets - debtors and payments in advance (previously deferred charges), and charged to the appropriate service revenue account over the lifetime of the contract. The amounts charged are then reversed out of the Revenue Account to the Capital Financing Account so there is no impact on the level of council tax.

## **Landfill Allowance Trading Scheme**

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDA's) such as the Council to reduce the amount of biodegradable municipal waste disposed to landfill. An allowance to use landfill at a specified level (tonnes) is allocated to each WDA by the Department for Environment, Food and Rural Affairs (DEFRA). Allowances are tradable between WDA's in accordance with the Landfill Allowance Trading Scheme (LATS) which commenced on 1st April 2005. Transactions under LATS have been accounted for in accordance with Local Authority Accounting Panel (LAAP) Bulletin 64 issued by CIPFA and which applies to 2005-05 only. The allowance from DEFRA is valued at market value and treated as Government grant income under the Net Cost of Services. Allowances purchased are valued at cost and are treated as expenditure. Total allowances are carried on the balance sheet as a current asset matched by a provision for the obligation to hold allowances equal to landfill usage.



## Statement of Responsibilities for the Statement of Accounts

### The Council's responsibilities

The Council is required:

- o 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 Chief Financial Officer
- o to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- o to consider and approve the Statement of Accounts.

The Statement of Accounts 2006-07 was considered and approved by the Council's Pensions and Accounts Committee on 28<sup>th</sup> June 2007.

### The responsibilities of the Chief Financial Officer

The Chief Finance Officer 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 Chief Financial Officer has:

- o selected suitable accounting policies and then applied them consistently
- o made judgements and estimates that were reasonable and prudent
- o complied with the Code of Practice.

The Chief Financial Officer has also:

- o kept proper accounting records which were up to date
- o taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts 2006-07 presents fairly the financial position of the Council at 31<sup>st</sup> March 2007 and its income and expenditure for the year then ended.



Alan Finch CPFA  
Chief Financial Officer  
28th September 2007

# **STATEMENT ON INTERNAL CONTROL**

## **for the period 1<sup>st</sup> April 2006 to 31<sup>st</sup> March 2007**

### **SCOPE OF RESPONSIBILITY**

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this responsibility, the Council is also responsible for ensuring that there is a sound system of internal control that facilitates the effective exercise of its functions, and which includes arrangements for the management of risk.

### **PURPOSE OF THE SYSTEM OF INTERNAL CONTROL**

The system of internal 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 system of internal control is based on an ongoing process, designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively and economically. The system of internal control has been in place at the Authority for the financial year ended 31<sup>st</sup> March 2007, and up to the date of the approval of the annual report and accounts.

### **INTERNAL CONTROL ENVIRONMENT**

The key elements of the internal control environment are the Council's objectives, the decision-making framework, its policies and procedures, its systems for managing resources, and its arrangements for managing risk and monitoring performance.

#### **Establishing and monitoring of the Council's objectives**

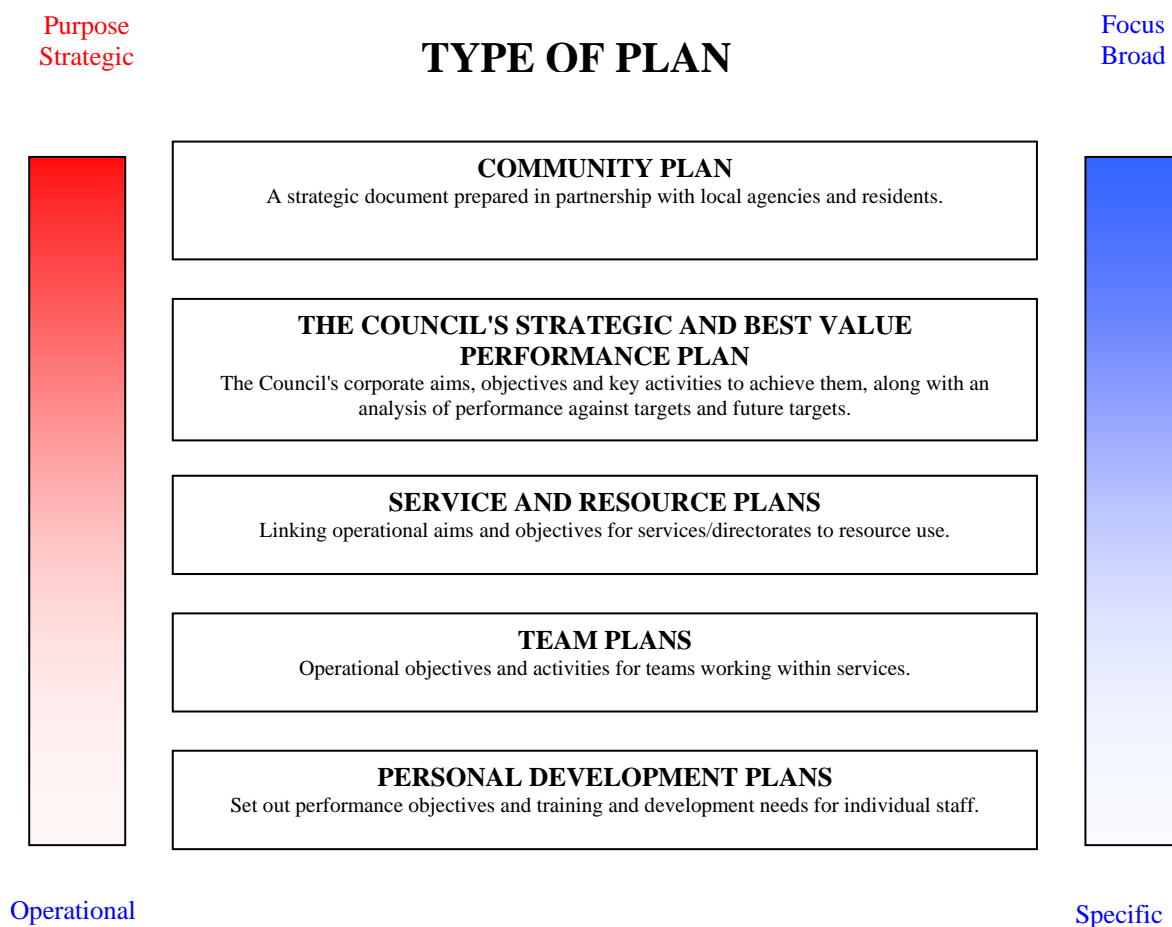
The Council has a clearly defined set of priorities and supporting objectives designed to achieve the vision, established through the Tower Hamlets' Community Plan, of improving the quality of life of all those who live and work in the borough. The Council's particular contribution to the implementation of the Community Plan is set out in a Strategic Plan, which defines the Authority's key objectives for the year together with associated activities and progress milestones. A Strategic Plan was in existence for the whole of the year under review.

Progress towards the achievement of those objectives is closely monitored across the organisation including regular reports to the Corporate Management Team, Cabinet Members and the Council's Scrutiny function.

## Performance Management

The Council operates a comprehensive performance management framework to ensure that strategic priorities are embedded in service, team and individual performance development plans; that resources are linked to operational aims and objectives; and that progress against plans and targets is monitored & evaluated at all levels.

The overall planning framework is illustrated in the following diagram.



## The decision making framework

The Council has an agreed Constitution that details how the Council operates, how decisions are made and the procedures that are to be followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is reviewed annually and will be reviewed next following publication of the CIPFA / SOLACE Code on Corporate Governance in June 2007.

The Executive is responsible for key decisions and comprises a Leader and a Cabinet, who are all appointed by the Council. All key decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policy and budget framework and any decisions the Executive wishes to take outside of that framework must be referred to the Council as a whole to decide. The Council operates a system of delegated

authority whereby the Executive delegates certain decisions to the Chief Executive and Senior Officers. This is set out in the scheme of delegation.

During 2006/07 the work of the Executive was scrutinised by an Overview and Scrutiny Committee and a number of Scrutiny Panels. A “call-in” procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

## **Compliance with policy, procedures, law and regulations**

The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as is reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Instructions, Codes of Conduct and Protocols. Key documents are available to Members and staff through the Council’s intranet and to a wider audience through publication on the Council’s website.

All policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

Internal Audit provides assurance and advice on internal control to the Corporate Management Team and Members. The service is provided in partnership with Deloitte. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control within systems and recommends improvements. It also supports the management of the Council in developing systems, providing advice on matters pertaining to risk and control.

Internal Audit is overseen by an Audit Panel comprising Members of the Cabinet, the Chair of the Overview and Scrutiny Committee, the Chief Executive, the Director of Resources and the Service Head of Corporate Finance (S151 officer). The Audit Panel reviews audit findings and the effectiveness of the internal audit function.

## **Risk management**

The Authority has embedded a Risk Management Strategy to identify and manage the principal risks to achieving its objectives. The Strategy recognises that the Council may not always adopt the least risky option, where the potential benefits to the community warrant the acceptance of a higher level of risk. All reports seeking decisions or approval to a proposed course of action contain an assessment of the risk involved.

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

## **Financial management**

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Head of Corporate Finance. The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a reasonable period.

Internal financial control is based on a well established framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of managers within the Council. The control arrangements in 2006/07 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a risk financing strategy;
- medium-term financial plans and projections;
- regular reporting of actual expenditure and income against budgets and spending forecasts;

- targets to measure financial and other performance;
- clearly defined prudential borrowing framework and indicators; and
- standing meetings of finance managers from across the Council.

## **The effective and efficient use of resources**

Value for money and continuous improvement are secured through a range of processes, including the application of best value principles and the carrying out of best value reviews. During 2006/07, the Council continued work on its efficiency programme. As part of its service and financial planning process, the Council set a stretch efficiency target and brought performance and perception data into the consideration of resource allocation.

The strategic planning process ensures that resources are focused on the priorities set out in the Strategic Plan. Processes for service and financial planning are aligned and the annual budget process evaluates new requirements for resources in terms of their contribution to the objectives of the Strategic Plan. Corporate guidance on team planning requires consideration of value for money issues in developing annual objectives. Reports concerned with proposed expenditure, reviewing or changing service delivery or the use of resources contain an efficiency statement setting out how the proposals will assist towards achieving greater efficiency.

## **Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review was conducted in accordance with the assurance framework and therefore focussed on the risks to the fulfilment of the Council's principal objectives, as set out in the Strategic Plan, and the controls in place to manage those risks.

The review of the effectiveness of the internal control framework involved the evaluation of the key sources of assurance:

1. The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound. A revised Constitution was agreed by full Council in March 2006. A further review of the Constitution will take place following publication of the revised CIPFA/SOLACE framework on Good Governance in Local Government.
2. The annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate and effective.
3. The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
4. The Council is subject to a range of external audit and inspection activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal control. The Council is rated as 'three star' and improving strongly in the Comprehensive Performance Assessment, including a score of three out of four for its use of resources. The results of inspections of individual services have shown significant improvement whilst both Children's and Adults Social Care Services have been awarded 3 stars with Excellent prospects for improvement for the second year. Children's Services also received a score of 4/4 in its Annual Performance Assessment.
5. Monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
6. The provisional outturn on the 2006/07 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.

## SIGNIFICANT INTERNAL CONTROL ISSUES

The review of the effectiveness of the system of internal control operating in 2006/07 has identified a number of areas where action is appropriate to enhance the internal control environment and ensure continuous improvement. The areas are set out below. In all cases work is already underway to address the action points.

- Further embed risk management by enhancing consistency across the organisation and providing training.
- Test the updated and revised Business Continuity Plan.
- Manage the creation of the Arms Length Management Organisation for Housing and appropriate client function.
- Implement the Financial Management Standard in primary schools and ensure all secondary schools meet the standard by March 2008.
- Establish a new service for property and asset management.
- Complete the implementation of the change programme of directorates.
- Make permanent appointments to key posts.
- Further develop arrangements to optimise asset management across public services.
- Test the processes for submitting major housing grant claims.
- Enhance arrangements over quality of working papers supporting the financial statements.
- Finalise the arrangements for the Council's Audit Panel.
- Enhance the Fixed Asset Register and the associated processes.

## CONCLUSION

We have been advised on the implications of the review of the effectiveness of the system of internal control by the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of internal control is effective. We are also satisfied that there are appropriate and effective plans in place to address identified weaknesses and to ensure continuous improvement in the system of internal control.



Chief Executive

Date: 28<sup>th</sup> SEPTEMBER 2007



Leader

Date: 28<sup>th</sup> SEPTEMBER 2007

## INCOME AND EXPENDITURE ACCOUNT

for the year ended 31st March 2007

This account brings together all of the functions of the authority and summarises all of the resources that the authority has generated, consumed or set aside in providing services during the year.

	Note	2006/07 Gross Expenditure £'000	2006/07 Gross Income £'000	2006/07 Net Expenditure £'000	2005/06 Net Expenditure £'000
Cultural, Environmental and Planning Services	5	109,864	67,125	42,739	49,863
Central Services		35,258	31,171	4,087	5,703
Education Services		326,026	303,398	22,628	208,387
Highways, Roads and Transport Services	6	27,482	12,821	14,661	11,166
Local Authority Housing (HRA)		81,737	114,347	(32,610)	(39,180)
Other Housing Services	7	232,155	224,500	7,655	10,226
Social Services		156,299	36,309	119,990	110,517
Corporate and Democratic Core	8	21,847	5,271	16,576	13,701
Non-distributed Costs		11,578	3,467	8,111	7,606
<b>NET COST OF SERVICES</b>		<b>1,002,246</b>	<b>798,409</b>	<b>203,837</b>	<b>377,989</b>
Total net (surplus)/deficit on Trading Accounts	9			5,253	(822)
Amounts due to levying authorities	10			1,500	1,551
Contribution to Housing Pooled Capital receipts				9,504	32,036
Interest payable				34,474	39,801
Amortised premiums and discounts				848	2,301
Interest and investment income				(7,186)	(5,630)
Pensions interest cost	50			51,410	47,089
Expected return on pensions assets	50			(43,641)	(35,497)
Net (gain)/loss on disposal of fixed assets	4			159	823
<b>NET OPERATING EXPENDITURE</b>				<b>256,158</b>	<b>459,641</b>
<b>INCOME FROM TAXATION AND GENERAL GOVERNMENT GRANT:</b>					
Council Tax income				(62,117)	(59,725)
Government grants (not attributable to specific services)				(34,151)	(310,279)
Distribution from non-domestic rate pool				(171,755)	(68,844)
<b>(SURPLUS)/DEFICIT FOR THE YEAR TRANSFERRED TO THE GENERAL FUND</b>				<b>(11,865)</b>	<b>20,793</b>

## STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise Council Tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government counts as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than Council Tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

	Note	2006/2007	2005/2006
		£'000	£'000
(Surplus)/Deficit for the year on the Income and Expenditure Account		(11,865)	20,793
Net additional amount required by statute, or non-statutory good practice to be taken into account when determining the surplus or deficit on the General Fund for the year	3	10,578	(28,225)
<b>General Fund surplus for the year</b>		<b>(1,287)</b>	<b>(7,432)</b>
General Fund Balance brought forward		(17,350)	(9,918)
<b>General Fund Balance carried forward</b>		<b>(18,637)</b>	<b>(17,350)</b>
School Balance brought forward		(21,037)	(17,681)
Movement on School Balances in year		(10,238)	(3,356)
<b>School Balance carried forward</b>		<b>(31,275)</b>	<b>(21,037)</b>



## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

	2006/2007	2005/2006
	£'000	£'000
(Surplus)/Deficit on the Income and Expenditure Account for the year	(11,865)	20,793
(Surplus)/Deficit arising on revaluation of fixed assets	(32,132)	605,728
Actuarial (gains)/losses on pension fund assets and liabilities	(65,585)	39,641
Repayment of housing stock overhanging debt by DCLG	(46,288)	(94,462)
Movements between insurance reserve and provision	(5,059)	0
Collection Fund deficit - element relating to authority	496	596
Street Trading Account (surplus)/deficit	216	(66)
Capital receipts not related to the sale of an asset	118	(318)
<b>Total recognised (gains) and losses for the year</b>	<b>(160,099)</b>	<b>571,912</b>

## BALANCE SHEET

as at 31st March 2007

This statement shows the Council's balances and reserves and its long-term indebtedness, and the fixed assets and net current assets employed in its operations.

	Note	2006/2007 £'000	2006/2007 £'000	2005/2006 £'000
<b>Tangible Fixed Assets</b>	21/22			
<b>Operational assets</b>				
Dwellings		1,087,705		1,118,472
Other land and buildings		514,712		490,640
<b>Infrastructure assets</b>		80,657		76,263
Equipment		2,935		3,932
<b>Community assets</b>		40,156		37,441
<b>Non-operational assets</b>				
Investment properties		90,200		51,019
			1,816,365	1,777,767
<b>Long Term Debtors</b>	29		38,190	24,569
<b>Deferred Premiums on Early Repayment of Debt</b>	29		3,690	4,538
<b>Total Long Term Assets</b>			<b>1,858,245</b>	<b>1,806,874</b>
<b>Add Current Assets</b>				
Stocks and Work in Progress	30	3,944		3,245
Debtors	32	121,593		101,819
Investments	31	96,814		113,592
Cash and Bank		33,101		23,802
			255,452	242,458
<b>Less Current liabilities</b>				
Short Term Borrowing	34	38,012		34,391
Creditors	35	149,400		124,379
			187,412	158,770
<b>Total Assets less Current Liabilities</b>			<b>1,926,285</b>	<b>1,890,562</b>
<b>Less</b>				
Long Term Borrowing	37/38	326,452		388,031
Deferred Liabilities	36	0		589
Grants Unapplied	39	14,255		14,729
Capital Grants and Contributions Deferred	40	132,252		136,711
Provisions	41	28,130		24,818
Pensions Liability	50	305,393		365,980
			806,482	930,858
<b>TOTAL ASSETS LESS LIABILITIES</b>			<b>1,119,803</b>	<b>959,704</b>
<b>Represented by</b>				
Fixed Asset Restatement Account	43		706,129	701,598
Capital Financing Account	44		571,894	494,396
Capital Receipts Unapplied	45		7,814	9,359
Deferred Credits	46		722	970
Pensions Reserve	50		(305,393)	(365,980)
Major Repairs Reserve			45	163
Collection Fund			1,911	2,407
Street Trading Account	47		(152)	64
<b>Balances:-</b>				
General Fund			18,637	17,350
Housing Revenue Account			16,956	12,181
Earmarked Reserves	49		101,240	87,196
<b>TOTAL EQUITY</b>			<b>1,119,803</b>	<b>959,704</b>

The Statement of Accounts was authorised for issue by the Council's Chief Financial Officer on 28th September 2007. This is the date up to which events after the balance sheet date of 31st March 2007 have been considered for final accounts purposes.



28th SEPTEMBER 2007

## CASH FLOW STATEMENT

for the year ended 31st March 2007

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes

	Note	2006/2007 £'000	2006/2007 £'000	2005/2006 £'000	2005/2006 £'000
<b>REVENUE ACTIVITIES</b>					
<b>Expenditure</b>					
Cash paid in respect of employees		370,523		348,390	
Other operating costs		595,529		577,382	
Housing Benefit paid out		92,443		75,401	
Payments to NNDR Pool		239,643		215,966	
Payments of precepts		21,796		18,466	
Payments to Capital Receipts Pool		9,504		32,036	
			<b>1,329,438</b>		<b>1,267,641</b>
<b>Income</b>					
Rents (after rebates)		(27,845)		(31,743)	
Receipts from Council Tax payers		(61,133)		(58,060)	
Receipts from NNDR Pool		(171,755)		(68,844)	
Non domestic rate income		(250,018)		(219,841)	
Receipts from Community Charge payers		0		(1)	
Revenue Support Grant		(34,151)		(310,279)	
DSS grants for rent allowances		(92,772)		(73,605)	
Other Government grants	55	(462,472)		(301,429)	
Other revenue income		(298,975)		(251,602)	
			<b>(1,399,121)</b>		<b>(1,315,404)</b>
<b>NET CASH INFLOW FROM REVENUE ACTIVITIES</b>	54		<b>(69,683)</b>		<b>(47,763)</b>
<b>SERVICING OF FINANCE</b>					
Expenditure: interest paid		24,902		38,965	
Income: interest received		(6,018)		(7,946)	
<b>NET CASH OUTFLOW FROM THE SERVICING OF LOANS</b>			<b>18,884</b>		<b>31,019</b>
<b>CAPITAL ACTIVITIES</b>					
<b>Expenditure</b>					
Purchase of fixed assets		72,014		73,112	
Advances to long term debtors		450		6,227	
Deferred charges		10,196		13,425	
			<b>82,660</b>		<b>92,764</b>
<b>Income</b>					
Sale of fixed assets		(27,572)		(46,590)	
Other capital cash payments/(income)		(52,670)		(116,441)	
Receipts from long term debtors		(2,098)		(2,099)	
			<b>(82,340)</b>		<b>(165,130)</b>
<b>NET CASH INFLOW FROM CAPITAL ACTIVITIES</b>			<b>320</b>		<b>(72,366)</b>
<b>NET CASH INFLOW FROM ALL ACTIVITIES BEFORE FINANCING</b>			<b>(50,479)</b>		<b>(89,110)</b>
<b>MANAGEMENT OF LIQUID RESOURCES</b>					
Short Term Investments	56	(16,778)		(22,728)	
Short Term Borrowing	56	(3,621)		(8,764)	
			<b>(20,399)</b>		<b>(31,492)</b>
<b>FINANCING</b>					
Repayments of amounts borrowed	56	61,579		111,167	
<b>NET CASH OUTFLOW FROM THE REPAYMENT OF LOANS</b>			<b>61,579</b>		<b>111,167</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	56		<b>(9,299)</b>		<b>(9,435)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1. SERVICE EXPENDITURE ANALYSIS

The service expenditure analysis has been compiled in accordance with the Best Value Accounting Code of Practice.

### 2. EXPLANATION OF PRIOR PERIOD ADJUSTMENTS

In the 2006/07 Statement of Accounts, the Council has adopted three significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- (i) capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts
- (ii) credits for government grants deferred are now shown under 'Net Cost of Services', against the appropriate heading, rather than under 'Net Operating Expenditure'
- (iii) gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only the figures that have changed are included in the table):

	Consolidated Revenue Account in 2005/06 Accounts £000s	Removal of Capital Financing Charges £000s	Relocation of Government Grants Deferred Credits £000s	Recognition of Gains and Losses on Disposal of Fixed Assets £000s	2005/06 Comparatives in Income and Expenditure Account £000s
Cultural, Environmental and Planning Services	62,071	(7,972)	(4,236)		49,863
Central Services	6,209	(46)	(460)		5,703
Education Services	221,173	(11,345)	(1,441)		208,387
Highways, Roads and Transport Services	15,398	(3,420)	(812)		11,166
Local Authority Housing (HRA)	13,241	(52,421)			(39,180)
Other Housing Services	11,990	(154)	(1,610)		10,226
Social Services	111,795	(940)	(338)		110,517
Corporate and Democratic Core	13,874	(173)			13,701
Non-distributed Costs	8,488	(875)	(7)		7,606
<b>Impact on Net Cost of Services</b>	<b>464,239</b>	<b>(77,346)</b>	<b>(8,904)</b>	<b>0</b>	<b>377,989</b>
Profit/loss on disposal of fixed assets				823	823
Asset Management Revenue Account (interest payable and similar charges in 2006/07)	(42,665)	73,562	8,904		39,801

### 3. NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

	2006/07	2006/07	2005/06	2005/06
	£'000	£'000	£'000	£'000
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>				
Amortisation of intangible fixed assets	(888)		(745)	
Depreciation and impairment of fixed assets	(13,868)		(12,883)	
Excess of depreciation of HRA assets over the MRA	(2,160)		(1,294)	
Deferred considerations adjustment	(1,250)		(1,150)	
Government Grants Deferred amortisation	26,261		8,903	
Write downs of deferred charges to be financed from capital resources	(10,196)		(13,425)	
Net profit/(loss) on sale of fixed assets	(159)		(823)	
Net charges made for retirement benefits in accordance with FRS 17	(38,584)	(40,844)	(34,830)	(56,247)
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>				
Minimum revenue provision for capital financing	7,551		7,166	
Capital expenditure financed from the General Fund	6,030		6,129	
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(9,504)		(32,036)	
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	33,586	37,663	29,590	10,849
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>				
Transfer of statutory surplus for the year on the Housing Revenue Account	4,776		5,161	
Transfers made at the discretion of the Council to or from reserves that have been earmarked for specific purpose	8,983	13,759	12,012	17,173
<b>Net additional amount required to be credited to the General Fund balance for the year</b>		<b>10,578</b>		<b>(28,225)</b>

### 4. GAIN/LOSS ON DISPOSAL OF FIXED ASSETS

This represents the gain/loss to the Council on the sale of fixed assets. The effects are reversed in the Statement of Movement on General Fund Balance to avoid the impact on the general fund revenue balance. The assets are valued to market value at the point of sale

	2006/07	2005/06
	£'000	£'000
Capital Receipts Received	(27,601)	(46,848)
Market Value of Assets Sold	27,601	46,848
Cost of Disposal	159	823
<b>Loss on Disposal</b>	<b>159</b>	<b>823</b>

## 5. PLANNING SERVICES: BUILDING REGULATIONS CHARGING ACCOUNT

The Council is required to disclose information regarding the setting of charges for the administration of its Building Control function. The statement below shows the total cost of the building control function divided between chargeable and non-chargeable activities.

	2006/2007			2005/2006		
	Chargeable £'000	Non Chargeable £'000	Total Outturn £'000	Chargeable £'000	Non Chargeable £'000	Total Outturn £'000
<b>Expenditure</b>						
Employee costs	1,243	686	1,929	1,096	690	1,786
Transport	24	15	39	23	13	36
Premises	110	63	173	121	66	187
Supplies and services	191	21	212	101	17	118
Support services	104	229	333	107	87	194
<b>Total Expenditure</b>	<b>1,672</b>	<b>1,014</b>	<b>2,686</b>	<b>1,448</b>	<b>873</b>	<b>2,321</b>
<b>Income</b>						
Building Regulation Fees	1,681	236	1,917	1,563	176	1,739
Other Income	0	49	49	0	19	19
<b>Total Income</b>	<b>1,681</b>	<b>285</b>	<b>1,966</b>	<b>1,563</b>	<b>195</b>	<b>1,758</b>
<b>Deficit (Surplus) for the year</b>	<b>(9)</b>	<b>729</b>	<b>720</b>	<b>(115)</b>	<b>678</b>	<b>563</b>

## 6. CONTROLLED PARKING ACCOUNT

The Council operates a separate Controlled Parking Account in accordance with s.55 of the Road Traffic Regulation Act 1984 (as amended by the 1991 Road Traffic Act), the costs of which are incorporated within the income and expenditure for Highways, Roads and Transport Services

This account records all income and expenditure attributable to on-street parking activities, including enforcement. The account may incur a deficit in the year in which case the deficit must be made good from the General Fund at the end of the year. The use of any surplus is prescribed by legislation and is restricted largely to reinvestment within the service and highways and transportation initiatives.

	2006/2007	2005/2006
	£'000	£'000
<b>Expenditure</b>		
Employee costs	3,653	3,633
Premises	672	327
Transport	127	123
Supplies and services	1,276	1,271
Third party payments	457	587
Support services	1,777	1,886
Capital financing	28	31
Increase in provision for bad debts	2,627	11
<b>Total Expenditure</b>	<b>10,617</b>	<b>7,869</b>
<b>Income</b>		
Fees and charges	10,153	10,464
<b>Total Income</b>	<b>10,153</b>	<b>10,464</b>
<b>(Surplus)/Loss for the year</b>	<b>464</b>	<b>(2,595)</b>
Balance at 1st April	934	1,048
Surplus for year	(464)	2,595
Funding of General Fund service initiatives.	(470)	(2,709)
<b>Balance at 31st March</b>	<b>0</b>	<b>934</b>

## 7. HOUSING SERVICES

The Housing Revenue Account (HRA), which is separately reported at page 54, is consolidated into the Income and Expenditure Account. Before consolidation certain adjustments are required to ensure the proper reporting of expenditure and income for the Council as a whole. The amounts consolidated are as follows:

	2006/2007 Gross Expenditure £'000	2006/2007 Gross Income £'000	2006/2007 Net Expenditure £'000	2005/2006 Net Expenditure £'000
Housing Revenue Account (page 54)	83,528	(114,188)	(30,660)	(37,924)
Internal recharges				
Corporate and Democratic Core	(1,791)		(1,791)	(1,256)
<b>Local Authority Housing</b>	81,737	(114,188)	(32,451)	(39,180)
Other Housing	232,155	(223,555)	8,600	11,869
Internal recharges				
Supporting people		(945)	(945)	(1,643)
<b>Other Housing Services</b>	232,155	(224,500)	7,655	10,226
<b>NET COST OF SERVICES</b>	<b>313,892</b>	<b>(338,688)</b>	<b>(24,796)</b>	<b>(28,954)</b>

## 8. MEMBERS' ALLOWANCES

Includes total allowances paid to Council Members of £837,794 in 2006/2007 (£816,866 in 2005/2006).

## 9. TRADING ACCOUNTS

The following accounts have been treated as "Trading Accounts" in 2006/2007 in accordance with Best Value Criteria

	2006/2007		2005/2006	
	Expenditure £'000	Income £'000	Surplus/ (Deficit) £'000	Surplus/ (Deficit) £'000
Vehicle Maintenance	7,247	7,317	70	156
Cleansing and Welfare Catering	10,109	9,802	(307)	(303)
Building and Property Services	701	725	24	(27)
Support Services	32,598	32,139	(459)	738
Administrative Buildings *	22,250	17,667	(4,581)	258
<b>TOTAL TRADING ACCOUNTS</b>	<b>72,905</b>	<b>67,650</b>	<b>(5,253)</b>	<b>822</b>

\*A temporary planned deficit was incurred during the implementation of the Council's Office Accommodation Strategy and funded from an earmarked reserve.

## 10. LEVIES

Levies payable by the Council for services received were as follows:

	2006/2007	2005/2006
	£'000	£'000
Lee Valley Regional Park Authority	224	211
Environment Agency	88	134
London Pensions Fund Authority	1,188	1,206
<b>Total levies</b>	<b>1,500</b>	<b>1,551</b>

## 11. PRIVATE FINANCE INITIATIVE PROJECTS

The Council has entered into two Private Finance Initiative (PFI) projects for the refurbishment and replacement of schools. The first was signed on 28th March 2002 and financially closed on 28th June 2002. The value of the scheme is £327.03 million. Services commenced on 30th June 2002 and will end on 31st August 2027. The second was signed on 29th March 2002 and financially closed on 17th May 2002. The value of the scheme is £63.27 million. Services commenced on 31st May 2002 and will end on 31st March 2029.

The projected payments under the PFI agreements are as follows:

	2006/2007	2005/2006	2006/2007	2005/2006
	Mulberry	Mulberry	Grouped	Grouped
	School	School	Schools	Schools
	£'000	£'000	£'000	£'000
Contracted payments due within 1 year	2,010	1,991	12,105	11,422
Contracted payments due within the following 5 years	10,392	10,295	63,065	62,444
Contracted payments after year ending 31st March 2012	39,358	39,641	206,770	217,382

## 12. AGENCY INCOME AND EXPENDITURE

The Council has an agency agreement with Thames Water Authority whereby the Council is responsible for collecting water charges on behalf of Thames Water Authority from council tenants. Thames Water Authority pays the Council a commission for this work. Administration costs of £840,000 have been incurred in 2006/07 and income of £905,000 has been received.

## 13. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

The Council is empowered by this Act to enter into an agreement with another local authority or public body for the provision of any administrative professional or technical service. The authority entered into an agreement in May 2004 with the London Boroughs of Barking and Dagenham, Hackney, Havering and Newham to establish the London Thames Gateway Development Corporation (LTGDC). The LTGDC has the power to determine various planning applications within its area above an agreed threshold. The income received by the Council in 2006/07 from this agreement amounted to £363,455 (2005/06 £78,955).



## 14. OFFICERS' EMOLUMENTS

The numbers of employees whose remuneration, excluding pension fund contributions, was equal to or greater than £50,000 were as follows:

Remuneration Band £	2006/2007		2005/2006	
	Other	Teaching	Other	Teaching
	Staff*	Staff	Staff*	Staff
50,000 - 59,999	102	180	90	140
60,000 - 69,999	35	46	33	45
70,000 - 79,999	15	10	9	9
80,000 - 89,999	7	7	8	7
90,000 - 99,999	6	5	8	1
100,000 - 109,999	2	1	2	0
110,000 - 119,999	3	0	4	0
120,000 - 129,999	3	0	1	0
130,000 - 139,999	2	0	1	0
140,000 - 149,999	1	0	0	0
150,000 - 159,999	0	0	0	0
160,000 - 189,999	1	0	1	0
<b>Total employees</b>	<b>177</b>	<b>249</b>	<b>157</b>	<b>202</b>

\*Figures include payments relating to redundancy/severance to 3 officers in 2005/06 and 12 officers and 2 teaching staff in 2006/07.

## 15. PUBLICITY

Section V of the Local Government Act 1986 requires the Council to disclose separately its expenditure on publicity.

	2006/2007	2005/2006
	£'000	£'000
Recruitment advertising	1,081	942
Media and public relations	1,217	1,300
Other	2	1
<b>Total expenditure</b>	<b>2,300</b>	<b>2,243</b>

## 16. AUDIT FEES

Fees payable to the Audit Commission for external audit services were as follows:

	2006/2007	2005/2006
	£'000	£'000
Core audit in accordance with s.5 of the Audit Commission Act 1998	414	396
Statutory inspections in accordance with s.10 of the Act	26	18
Audit of grant claims	195	200
Other services	30	0
<b>Total expenditure</b>	<b>665</b>	<b>614</b>

## 17. ECONOMIC DEVELOPMENT

The Local Government (Promotion of Economic Development) Regulations 1990 require authorities to disclose any financial assistance given to relevant bodies in the form of a loan with a rate of interest at less than market rate. At 31st March 2007 the Council had no outstanding loan agreements of this nature.

## 18. SECTION 137 OF THE LOCAL GOVERNMENT ACT 1972

This section, as amended, empowers councils to make contributions to certain charitable funds, not-for-profit bodies and mayoral appeals. No such contributions were made in 2006-07 nor 2005-06.

## 19. RELATED PARTY TRANSACTIONS

The Code of Practice on Local Authority Accounting requires disclosure of additional information regarding transactions between the Council and related parties in accordance with Financial Reporting Standard 8. 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.

(i) **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. Details of transactions with government departments are set out in a note to the Cash Flow Statement.

(ii) **Partnerships**

The Council has partnership arrangements with the following organisations:  
NDC (New Deal for the Community)

(iii) **Pension Fund**

The Council borrows from the Pension Fund. The year end balance is shown in note 34 to the Core Financial Statements. The Pension Fund accounts are presented on pages 63 to 69 of this Statement.

(iv) **Membership of and relationship with other organisations**

Council Members have made declarations of their interests in the following organisations to which the Council made payments in 2006-07:

Organisations	Councillor	Payments by the Council £'000
Age Concern	A. Jackson	808
Bethnal Green and Victoria Park Housing Association	J. Peck	401
Collective of Bangladesh School Governors	M Uz Zaman	73
Cultural Industries Development Agency	C. Hawkins	210
East End Homes	M Uz Zaman	1,007
Eastside Books Ltd	D. Jones	21
Ensign Youth Club	A. Asad	74
Greenwich & Dockland Festival	R. Bawden	25
Island Sports Trust	P. Golds	3
Poplar Harca	M Uz Zaman	1,363
Rich Mix Cultural Enterprise	C. Hawkins	165
St. Hilda's East	S. Khatun	1,127
Stepney Dynamic Youth Club	A. Rahman Khan	6
Stepney Football Club	A. Ullah	12
South Poplar and Limehouse Action for Secure Housing	M. Shahid Ali	82
Tower Hamlets Community Housing Ltd	A. Rahman Khan	567
	H. Abbas	
	S. Islam	
	A Omer	
	A. Salique	
Tower Hamlets Community Transport Ltd	M. Uz Zaman	126
Tower Hamlets Sports Council	A. Chowdhury	13
	S. Rouse	
Toynbee Hall	L. Alexander	192
Wapping Bangladesh Associations	A. Ullah	19
	<b>Senior Officer</b>	
Edudata UK Ltd	Sara Williams	3

## 20. POOLED BUDGETS

Under the terms of a Section 31 Agreement (Health Act 1999), the Council entered into five Pooled Budget and Lead Commissioning agreements with the Primary Care Trust. The Council will manage and deliver statutory functions, alongside the Primary Care Trust, in respect of the following:

- (a) Integrated Community Equipment Service (ICES)
- (b) Services for Adults with Learning Difficulties (LDSA)
- (c) Integrated Services for Disabled Children in the Children's Trust Pathfinder (DCTP)
- (d) Commissioning Health and Social Care Services for Adults with Learning Disabilities (CLDSA)
- (e) Occupational Therapy Services (OTS)

\*\* No Agreement for Child and Adolescent and Mental Health Services (CAMHS) was entered into for 2006/07

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

2006-07	ICES £'000	LDSA £'000	DCTP £'000	CLDSA £'000	CAMHS** £'000	OTS £'000
<b>Income</b>						
The Council	801	1,229	5,029	16,083	0	1,512
Tower Hamlets Primary Care Trust	538	1,554	1,287	2,284	0	1,151
Learning Disabilities Development Fund				236	0	0
Child and Adolescent Health Service						
	1,339	2,783	6,316	18,603	0	2,663
<b>Expenditure</b>	1,339	2,783	6,316	18,603	0	2,663
<b>Surplus/Deficit for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

2005-06	ICES £'000	LDSA £'000	DCTP £'000	CLDSA £'000	CAMHS £'000	OTS £'000
<b>Income</b>						
The Council	807	1,180	5,416	14,529	415	1,356
Tower Hamlets Primary Care Trust	524	1,427	1,407	2,308	56	1,052
Learning Disabilities Development Fund	0	0	0	222	0	0
Child and Adolescent Health Service	0	0	0	0	1,259	0
	1,331	2,607	6,823	17,059	1,730	2,408
<b>Expenditure</b>	1,331	2,607	6,823	17,059	1,730	2,408
<b>Surplus/Deficit for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>21 TANGIBLE FIXED ASSETS</b>	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Infrastructure</b>	<b>Equipment</b>	<b>Community</b>	<b>Non-Operational</b>	<b>Totals</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Value as at 1st April 2006</b>	<b>1,264,529</b>	<b>578,618</b>	<b>92,169</b>	<b>28,627</b>	<b>37,441</b>	<b>59,307</b>	<b>2,060,691</b>
Additions	31,296	27,115	6,677	1,577	3,023	1,580	71,268
Disposals	(15,109)	(10,471)			(2,021)		(27,601)
Revaluations	(178,349)	5,758			1,713	30,843	(140,035)
<b>Value at 31 March 2007</b>	<b>1,102,367</b>	<b>601,020</b>	<b>98,846</b>	<b>30,204</b>	<b>40,156</b>	<b>91,730</b>	<b>1,964,323</b>
<b>Depreciation as at 1st April 2006</b>	<b>146,057</b>	<b>87,978</b>	<b>15,906</b>	<b>24,695</b>	<b>0</b>	<b>8,288</b>	<b>282,924</b>
Depreciation for the year	14,662	11,170	2,284	2,574			30,690
Revaluations	(146,057)	(12,840)				(6,758)	(165,655)
<b>Depreciation as at 31st March 2007</b>	<b>14,662</b>	<b>86,308</b>	<b>18,190</b>	<b>27,269</b>	<b>0</b>	<b>1,530</b>	<b>147,959</b>
<b>TOTAL NET BOOK VALUE at 31st March 2007</b>	<b>1,087,705</b>	<b>514,712</b>	<b>80,656</b>	<b>2,935</b>	<b>40,156</b>	<b>90,200</b>	<b>1,816,364</b>

Capital expenditure on dwellings relates principally to the conversion, improvement and enhancement of existing stock. The relative fixed assets holdings of the General Fund and Housing Revenue Account can be analysed as follows: -

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Infrastructure</b>	<b>Equipment</b>	<b>Community</b>	<b>Non-Operational</b>	<b>Totals</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Housing Revenue Account	1,087,705	42,462	162	233	(403)	77,836	1,207,995
General Fund		472,247	80,494	2,702	40,559	12,365	608,367
<b>TOTAL NET BOOK VALUE at 31st March 2007</b>	<b>1,087,705</b>	<b>514,709</b>	<b>80,656</b>	<b>2,935</b>	<b>40,156</b>	<b>90,201</b>	<b>1,816,362</b>

<b>22. TANGIBLE FIXED ASSET VALUATION</b>	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Infrastructure</b>	<b>Equipment</b>	<b>Community</b>	<b>Non-Operational</b>	<b>Totals</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Analysis of Revaluations of Fixed Assets</b>							
Valued at historic cost			80,656		40,156		120,812
Valued at current value in:							
2006/2007: dwellings and other HRA etc.	1,087,705	514,712		2,935		90,200	1,695,552
2005/2006: dwellings and other HRA etc.	1,118,472	22,350		3,932		51,019	1,195,773
2004/2005: dwellings and other land and buildings		116,503					116,503
2003/2004: schools and leisure		301,733					301,733
2002/2003: offices and community buildings		38,688					38,688
<b>Value at 31 March 2007</b>	<b>1,087,705</b>	<b>514,712</b>	<b>80,656</b>	<b>2,935</b>	<b>40,156</b>	<b>90,200</b>	<b>1,816,364</b>

## 22. FIXED ASSET VALUATION (continued)

The freehold and leasehold properties which comprise the Council's property portfolio have been valued by the Council's Head of Corporate Property Services, Ian D Gillian, FRICS.

### **General Fund Property Valuation**

The Council normally operates a five-year rolling programme of revaluation. Approximately 1/5th of the asset portfolio is revalued every year. In 2003/2004 the Council revalued all General Fund assets held at current value in order to separately identify land and buildings on the fixed asset register. The valuations carried out complied with the requirements of Financial Reporting Standard (FRS) 15, "Tangible Fixed Assets", issued by the Accounting Standards Board. A table showing the analysis of revaluations of fixed assets is shown above.

Properties considered by the Council to be specialised within the definition provided by FRS 15 were valued on the basis of depreciated replacement cost. Properties considered by the Council to be non-specific were valued on the Existing Use Value basis.

Community assets have been included at historic cost. All assets with the exception of community assets are depreciated on a straight line basis. The projected asset lives, which form the basis of the depreciation charges, have been reviewed by the Head of Property Services.

The Head of Property Services and the Chief Financial Officer have undertaken a review of the value of assets as required under FRS 11, "Impairment of Fixed Assets", and do not consider that impairment will impact on such values.

### **Housing Revenue Account Property Valuation**

The valuation of Housing Revenue Account assets has been carried out by Hilbery Chaplin, Chartered Surveyors in accordance with guidelines produced by central government in the "Guidance on Stock Valuation for Resource Accounting".

For council dwellings the Major Repairs Allowance has been used as a reasonable estimate of depreciation, as it represents the estimated average annual cost of maintaining the condition of the housing stock over a 40 year period.

### **Depreciation**

Depreciation on a straight line basis is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation). The bases adopted for each type of asset is disclosed in the Statement of Accounting Policies on page 8.

### 23. DEFERRED CHARGES

These are created when expenditure has been incurred on items which would otherwise be treated as revenue but are classified as capital for control purposes and have been financed from capital resources. Once financed, the expenditure is charged to revenue in the year it is incurred. The following table shows the movements in the year.

	2006-07		2005-06	
	Expenditure £'000	Revenue Charge £'000	Expenditure £'000	Revenue Charge £'000
Improvement grants	1,675	(1,675)	1,809	(1,809)
Grants to voluntary organisations	2,182	(2,182)	1,792	(1,792)
Church schools	347	(347)	438	(438)
Cash incentive scheme	454	(454)	964	(964)
I.T. development	1,566	(1,566)	2,874	(2,874)
Other	3,972	(3,972)	5,548	(5,548)
<b>TOTAL</b>	<b>10,196</b>	<b>(10,196)</b>	<b>13,425</b>	<b>(13,425)</b>

### 24. CAPITAL EXPENDITURE AND FINANCING

(i) The following table shows how capital expenditure was financed in the year:

	2006/2007 £'000	2005/2006 £'000
<b>Expenditure</b>		
Tangible Fixed Assets		
<i>Operational</i>	69,688	79,015
<i>Non Operational</i>	1,580	78
Intangible Fixed Assets	888	745
Deferred Consideration	2,117	2,355
Deferred Charges	10,196	13,425
	<b>84,469</b>	<b>95,618</b>
<b>Source of Finance</b>		
Borrowing	22,245	26,963
Capital Receipts and Contributions	41,414	48,208
Major Repairs Reserve	14,780	17,666
Direct Revenue Funding	6,030	2,781
	<b>84,469</b>	<b>95,618</b>

## 24. CAPITAL EXPENDITURE AND FINANCING (continued)

(ii) The following table shows the relationship to the Council's Capital Financing indicator under the Prudential Code for Capital Finance in Local Authorities:

	2006/2007 £'000	2005/2006 £'000
<b>Opening Capital Financing Requirement</b>	<b>541,651</b>	<b>567,702</b>
<b>Capital Investment</b>		
Operational Assets	71,268	79,093
Intangible Assets	888	745
Deferred Charges	10,196	13,425
Deferred Consideration	2,117	2,355
Other Long Term Liabilities	0	48,616
<b>Sources of Finance</b>		
Capital Receipts and Contributions	(41,414)	(48,208)
Major Repairs Reserve	(14,780)	(17,666)
Direct Revenue Funding	(6,030)	(2,781)
Net Revenue Provision	(7,551)	(7,166)
<b>Stock transfer loans repaid</b>	<b>(46,288)</b>	<b>(94,464)</b>
<b>Closing Capital Financing Requirement</b>	<b>510,057</b>	<b>541,651</b>
<b>Explanation of movements in the year</b>		
Increase (decrease) in underlying need to borrow (supported by Government financial assistance)	14,704	15,724
Repayment of External Loans Resulting from Stock Transfer	(46,288)	(94,464)
Increase in underlying need to borrow (unsupported by Government financial assistance)	(10)	52,689
<b>Decrease in Capital Financing Requirement</b>	<b>(31,594)</b>	<b>(26,051)</b>

## 25. ANALYSIS OF TANGIBLE FIXED ASSETS

The tangible fixed assets of the Council can be analysed as follows:-

	2006/2007	2005/2006
<b>Land and buildings</b>	<i>Number</i>	<i>Number</i>
Dwellings	15,703	17,649
Administrative buildings	51	52
Commercial properties	833	833
Depots	10	10
Cemeteries	2	2
Public mortuary	1	1
Recreation and leisure facilities	59	59
Schools	53	53
Social services establishments - Residential Homes, Day Centres etc.	33	33
Other	77	78
	<i>Hectares</i>	<i>Hectares</i>
<b>Parks and open spaces</b>	236	236
	<i>Kilometres</i>	<i>Kilometres</i>
<b>Infrastructure</b>		
Principal built up roads	14.7	14.7
Other built up roads	248.2	248.2

## 26. CAPITAL COMMITMENTS

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £1.9 million at 31st March 2007.

	Committed sum £m	Costs to 31/3/2007 £m	2007/2008 onwards £m
Refurbishment of 62 Roman Road	2.10	0.20	1.90
<b>TOTAL</b>	<b>2.10</b>	<b>0.20</b>	<b>1.90</b>

## 27. LEASES

### Operating Leases

Two administrative buildings were leased during the year at Mulberry Place (15 years) and Anchorage House (13 years). These leases are accounted for as operating leases. The rents payable in 2006/07 were £3.4m.

	Other Land and Buildings £000
Operating Lease Payments in 2006/07	0
Operating Lease Payments in 2007/08	0
Operating Lease Payments in 2008/09 to 2009/12	3.4

### Finance Leases

The Council had 20 year leases on land and two administrative buildings at Millharbour, which expired in 2006-07.



## 28. INTANGIBLE FIXED ASSETS

These are computer software licences which are treated as non-financial fixed assets which do not have a substance but are controlled by and provide a future economic benefit to the Council. The cost of the licences is charged to revenue over the economic lives of the licences, which is currently one year.

	Balance at 1/4/2006 £'000	Expenditure 2006-07 £'000	Revenue Charge 2006-07 £'000	Balance at 31/3/2007 £'000
<b>Software licences</b>	0	888	-888	0

## 29. LONG TERM DEBTORS

	Balance at 1/4/2006 £'000	Advances £'000	Income and adjustments £'000	Balance at 31/3/2007 £'000
<b>Mortgages</b>				
<i>Housing associations</i>	0	0	0	0
<i>Right to buy</i>	1,006	93	(424)	675
<b>TOTAL MORTGAGES</b>	<b>1,006</b>	<b>93</b>	<b>(424)</b>	<b>675</b>
Private Finance Initiative schemes	22,545	5,921	0	28,466
Premature Loan Redemption	4,538	0	(848)	3,690
Sundry loans	1,018	8,857	(826)	9,049
<b>TOTAL LONG TERM DEBTORS</b>	<b>29,107</b>	<b>14,871</b>	<b>(2,098)</b>	<b>41,880</b>

## 30. STOCK AND WORK IN PROGRESS

	2006/2007 £'000	2005/2006 £'000
Work in progress: rechargeable works	3,923	3,228
Stocks	21	17
<b>TOTAL STOCKS AND WORKS IN PROGRESS</b>	<b>3,944</b>	<b>3,245</b>

## 31. TEMPORARY INVESTMENTS

Investments comprise short term deposits made for less than one year with banks, building societies and other local authorities.

### 32. DEBTORS AND PAYMENTS IN ADVANCE

	2006/2007 £'000	2005/2006 £'000
Government	24,472	12,645
Inland Revenue/Customs and Excise	7,653	8,011
Rates, Community Charge and Council Tax payers	17,886	17,735
Rents: sundry tenants	4,583	5,006
Rents: homeless families	10,933	9,531
Employees	549	204
Payments in advance	2,799	3,749
Deferred considerations	25,706	24,840
Sundry other	74,089	63,094
<b>TOTAL DEBTORS</b>	<b>168,670</b>	<b>144,815</b>
<b>Provisions for bad debts</b>		
Rents: sundry tenants	(3,429)	(3,801)
Housing benefits overpayments	(7,309)	(4,184)
Rents: homeless families	(10,755)	(9,293)
Controlled parking fees	(4,134)	(3,929)
Rates, Community Charge and Council Tax payers	(9,010)	(8,706)
Sundry debtors	(12,440)	(13,083)
<b>TOTAL PROVISIONS FOR BAD DEBTS</b>	<b>(47,077)</b>	<b>(42,996)</b>
<b>TOTAL NET DEBTORS</b>	<b>121,593</b>	<b>101,819</b>

### 33. DEFERRED CONSIDERATIONS

"Deferred considerations" are in respect of initial capital contributions by the Council under Private Finance Initiative schemes. The balances are to be written off to the appropriate service revenue accounts over the lifetime of the contracts. The amounts charged are, however, excluded when determining the General Fund Surplus so there is no impact on the level of council tax. Movements in the balance between years can be analysed as follows:

	2006/2007 £'000	2005/2006 £'000
Balance at beginning of year	24,840	23,635
Expenditure during the year	2,117	2,355
Charged to revenue	(1,250)	(1,150)
<b>Balance at end of year</b>	<b>25,707</b>	<b>24,840</b>

### 34. SHORT TERM BORROWING

	2006/2007 £'000	2005/2006 £'000
Borrowing payable within 1 year	31,701	17,948
Pension fund (see page 63)	6,311	16,443
<b>TOTAL SHORT TERM BORROWING</b>	<b>38,012</b>	<b>34,391</b>

### 35. CREDITORS AND RECEIPTS IN ADVANCE

	2006/2007	2005/2006
	£'000	£'000
Government	31,693	27,037
Inland Revenue/Customs and Excise	7,368	6,912
Other authorities	3	64
Rates, Community Charge and Council Tax payers	29,708	21,509
Rents: sundry tenants	1,144	1,244
Rents: homeless families	265	254
Receipts in advance	26,801	23,226
Sundry other	52,418	44,133
<b>TOTAL CREDITORS</b>	<b>149,400</b>	<b>124,379</b>

### 36. DEFERRED CREDITS

Deferred credits consist of deferred liabilities for the element of lease payments which meets the capital cost of properties acquired under a finance lease.

	2006/2007	2005/2006
	£'000	£'000
Finance Leases	0	589
	<b>0</b>	<b>589</b>

### 37. LONG TERM BORROWING

Source of loan:	Interest rate payable %	2006/2007	2005/2006
		£'000	£'000
Public Works Loan Board	4.5-9.7	326,452	388,031
<b>TOTAL LONG TERM BORROWING</b>		<b>326,452</b>	<b>388,031</b>

### 38. LOAN MATURITY SCHEDULE

	2006/2007	2005/2006
	£'000	£'000
1-2 Years	15,459	19,520
2-5 Years	54,188	43,711
5-10 Years	116,614	120,616
In 10 years or more	140,191	204,184
<b>TOTAL LOANS OUTSTANDING</b>	<b>326,452</b>	<b>388,031</b>

### 39. CAPITAL GRANTS UNAPPLIED

	2006/07
	£'000
Balance at 1 April 2006	14,729
Capital grants received	21,328
Total receipts for year	36,057
Receipts applied to finance capital expenditure	(21,802)
<b>Balance as at 31 March 2007</b>	<b>14,255</b>

#### 40. DEFERRED GOVERNMENT GRANTS AND CONTRIBUTIONS

These represent grants and contributions which have been applied to fund capital expenditure. They are released to revenue to match depreciation on the assets they funded, or fully released to revenue if there is no depreciation.

	2006/2007	2005/2006
	£'000	£'000
<b>Balance at 1 April 2006</b>	136,711	122,835
Grants and Contributions applied to capital investments	21,802	22,779
Amounts released in year	(26,261)	(8,903)
<b>Balance at 31 March 2007</b>	<b>132,252</b>	<b>136,711</b>

#### 41. PROVISIONS

The nature of material provisions and movements during the year are set out below.

	Balance at 1/4/2006 £'000	Used in Year £'000	Contribution in Year £'000	Balance at 31/3/2007 £'000
Insurance Fund (a)	10,257	4,962		5,295
Single Status (b)	1,805		987	2,792
Asylum Seekers (c)	625	525		100
Liability to DEFRA for BMW landfill usage (d)	1,329	103		1,226
Administrative Buildings Lease Equalisation (e)	9,212		1,125	10,337
Refund of residential and nursing care charges	656	656		0
Repayment of deposits (f)	0		496	496
Blessed John Roche school - closure	79	79		0
Education salaries liability (g)	196			196
Repayment of European funding (h)	250		144	394
Miscellaneous (i)	195			195
Schools' tax liability	134	134		0
Pension liability - part time staff (j)	50		350	400
E-procurement (k)	30			30
Barkantine PFI (l)	0		552	552
Housing Technical Services restructure	0		2,430	2,430
Over-recovery of service charges (n)	0		79	79
Housing subsidy (o)	0		3,539	3,539
Dangerous structures (p)	0		43	43
Youth and community contracts (q)	0		27	27
<b>TOTAL</b>	<b>24,818</b>	<b>6,459</b>	<b>9,772</b>	<b>28,131</b>

##### Nature of material provisions and/or movements

- 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.
- for additional costs resulting from the single status agreement which changed employees' conditions of service. An element of uncertainty exists regarding the amount, which is a global estimate, and the timing of payments although there is a likelihood that payments will be made in 2007/08.
- as cover for non-payment of Government grant in respect of payments by the Council for accommodation services. The provision was reduced during the year to reflect advice received from an external solicitor.
- the Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of biodegradable municipal waste (BMW). The Landfill Allowance Trading Scheme allocates tradable landfill allowances to each WDA up to the amount of the WDA's 'cap'. As landfill is used, a liability is recognised for actual BMW landfill usage.
- the provision is used to equalise the economic benefits of an initial rent free period or reverse premium over the term of a lease. An element of uncertainty exists over annual amounts payable as interest rates and future uplift levels cannot be predicted with accuracy.
- 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.

#### 41. PROVISIONS (continued)

- (g) to accommodate the anticipated pay rise due to ex-employees following the cessation of the national pay body in 1994.
- (h) there are a number of European funded schemes where there is a possibility that grant will need to be repaid.
- (i) this provision allows for accrued costs of negotiations with trade unions.
- (j) to provide for the potential liability of an employment tribunal case against the Council.
- (k) to provide for set up costs of electronic invoicing for small and local suppliers.
- (l) to provide for the potential liability of PFI credits not being issued by the DCLG for the Barkantine PFI Scheme.
- (m) redundancy notices were issued to 43 staff following an in-house restructure. The provision is required to meet the associated redundancy costs.
- (n) to provide for potential refund of overpayment of service charges.
- (o) to meet the potential repayment of housing subsidy in respect of a repayment of overhanging debt from the DCLG.
- (p) the Council is in dispute over the cost of various works under its dangerous structure obligations. The provision has been established to meet the cost of these works once the amount of the liability has been agreed.
- (q) the youth work contracts provide for a 10% bonus to be paid at the end of each contract year. This provision is to meet this obligation.

#### 42. MOVEMENT ON RESERVES

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance at 1/4/2006 £'000	Net Movement In Year £'000	Balance at 31/03/2007 £'000	Purpose of Reserve	Further Detail of Movements
Fixed Asset Restatement Reserve	701,598	4,531	706,129	Store of gains on revaluation of fixed assets	see note 43
Capital Financing Account	494,396	77,498	571,894	Store of capital resources set aside to meet past expenditure	see note 44
Usable Capital Receipts	9,359	(1,545)	7,814	Proceeds of fixed asset sales available to meet future capital investment	see note 45
Pensions Reserve	(365,980)	60,587	(305,393)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	see note 50
Housing Revenue Account	12,181	4,777	16,958	Resources available to meet future costs for council houses	see HRA statements
Major Repairs Reserve	163	(118)	45	Resources available to meet capital investment in council housing	see HRA statements
General Fund	17,350	1,287	18,637	Resources available to meet future costs for non-housing services	see Statement of Movement on General Fund Balance
Earmarked Reserves	87,196	14,044	101,240		see note 49
<b>TOTAL</b>	<b>956,263</b>	<b>161,061</b>	<b>1,117,324</b>		

#### 43. FIXED ASSET RESTATEMENT ACCOUNT

	2006/2007	2005/2006
	£'000	£'000
<b>Balance at 1st April</b>	701,598	1,354,176
Surplus/(Deficit) on revaluation and restatement	32,132	(605,729)
Disposal of fixed assets (net)	(27,601)	(46,849)
<b>BALANCE AT 31st MARCH</b>	<b>706,129</b>	<b>701,598</b>

This account contains the deficits or surpluses arising on the revaluation of assets and is written down by the net book value of assets as they are disposed of (see note 21 to the Core Financial Statements). The balance on the account is matched by fixed assets and does not represent cash resources available to the Council.

#### 44. CAPITAL FINANCING ACCOUNT

	2006/2007	2005/2006
	£'000	£'000
<b>Balance at 1st April</b>	494,396	385,313
Capital Financing		
<i>Capital receipts</i>	19,613	22,082
<i>Capital grants</i>	26,261	8,903
Revenue		
<i>General Fund</i>	1,247	881
<i>Housing Revenue Account</i>	2,300	1,900
<i>Planning Gains</i>	2,483	3,343
Other	0	5
<i>Major Repairs Allowance</i>	14,779	17,666
Minimum Revenue Provision (net of depreciation)	(6,317)	(5,719)
Stock transfer loans repaid	46,288	94,464
HRA depreciation	(16,822)	(19,123)
Write down of deferred charges	(12,334)	(15,319)
<b>BALANCE AT 31st MARCH</b>	<b>571,894</b>	<b>494,396</b>

The Capital Financing Account provides a balancing mechanism between the different rates at which assets are depreciated and financed. It also contains the amounts which are required by statute to be set aside for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. The balance on the account is matched by fixed assets and does not represent resources available to the Council.

#### 45. CAPITAL RECEIPTS UNAPPLIED

	Housing	Other	Total
	£'000	£'000	£'000
<b>Balance at 1st April, 2006</b>	<b>1,669</b>	<b>7,690</b>	<b>9,359</b>
Receipts from sales of assets	15,388	12,184	27,572
<b>Total receipts for year</b>	<b>17,057</b>	<b>19,874</b>	<b>36,931</b>
Receipts paid to central government	(9,504)	0	(9,504)
Receipts applied to finance capital expenditure	(1,000)	(18,613)	(19,613)
<b>BALANCE AT 31st MARCH 2007</b>	<b>6,553</b>	<b>1,261</b>	<b>7,814</b>

#### 46. DEFERRED CAPITAL RECEIPTS

Deferred capital receipts relate to principal repayments due from mortgages granted for the purchase by individuals of council houses.

	2006/2007	2005/2006
	£'000	£'000
Mortgages	722	970
	<b>722</b>	<b>970</b>

#### 47. STREET TRADING ACCOUNT

	2006/2007	2005/2006
	£'000	£'000
<b>Expenditure</b>		
Employee costs	1,064	823
Refuse collection and disposal	702	653
Support services	450	450
Other expenditure	94	110
Increase in provision for bad debts	0	40
<b>Total Expenditure</b>	<b>2,310</b>	<b>2,076</b>
<b>Income</b>		
Street trading charges	2,094	2,130
Other income	0	12
Decrease in provision for bad debts	0	0
<b>Total Income</b>	<b>2,094</b>	<b>2,142</b>
<b>Deficit/(surplus) for the year</b>	<b>216</b>	<b>(66)</b>
Balance at 1st April	64	(2)
Surplus for the year	(216)	66
<b>BALANCE AT 31st MARCH</b>	<b>(152)</b>	<b>64</b>

The Council operates a separate Street Trading Account under the London Local Authorities Act 1990. S.32 of the Act enables the Council to recover from the traders the reasonable costs in connection with their functions under the Act - notably, refuse collection/disposal and administrative/technical support.

#### 48. CONTINGENT LIABILITIES

##### Housing Transfers to Registered Social Landlords

Between March 1998 and March 2006 the Council transferred tenanted and leasehold properties to other landlords - 5,513 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 292 to Swan Housing Association; 2,792 to Eastend Homes; 984 to Toynbee Island Homes; and 238 to Bethnal Green and Victoria Park Housing Association. The Council has to offer 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

##### Further Stock Transfers

A number of further transfers of Council Housing Estates are taking place over the next few years which require environmental warranties to be given for land on the estates. These potential liabilities are being covered by taking out insurance as cover for the first 10 years. Although some liability may occur to the Council after year 10, most if not all of the potential for claims will occur in the first 5 years following transfer when the major works will be carried out.

## 49. EARMARKED RESERVES

	2006/2007	2005/2006
	£'000	£'000
<b>Corporate</b>		
Insurance Fund (a)	21,668	15,980
Housing Choice (b)	18,706	15,500
Final Accounts review (c)	2,198	2,325
Trading Account net balances (d)	834	1,676
Community use of buildings (e)	989	886
Personal Computers refresh (f)	751	751
<b>Chief Executive's</b>		
Corporate initiatives (g)	1,441	1,441
Miscellaneous Information Technology (IT) projects (h)	380	380
Underspend carried forward (i)	175	195
<b>Development and Renewal</b>		
Building Control (j)	124	115
Neighbourhood Renewal (k)	2,675	0
<b>Environment and Culture</b>		
Administrative Buildings Dilapidations (l)	0	4,411
Parking Control (m)	0	934
Underspend carried forward (n)	250	520
Administrative buildings car parks (o)	13	86
<b>Education</b>		
Schools delegated balances (p)	31,275	21,037
Education miscellaneous (q)	2,257	2,469
Standards Fund (r)	0	702
Schools-specific contingency (s)	0	284
Underspend carried forward (t)	330	330
<b>Housing</b>		
Housing Revenue Account (HRA) Earmarked Reserve (u)	16,000	16,000
Dilapidations (v)	1,174	1,174
<b>TOTAL EARMARKED RESERVES AT 31st MARCH</b>	<b>101,240</b>	<b>87,196</b>

The nature of the above reserves is described below and on the next page.

- (a) The Council is self insured for most liability and property risks. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision.
- (b) The Council is currently considering the transfer of its housing stock, if agreed by tenants. This reserve represents the accumulated amount set aside towards meeting the anticipated future corporate cost to the General Fund of making the transfer. The reserve was increased during the year in accordance with the Council's budget.
- (c) Held to meet any unfunded expenditure identified following a review of the Council's final accounts.
- (d) This balance represents the accumulated net surpluses on internal trading accounts. See also note 9 to the Core Financial Statements.



#### 49. EARMARKED RESERVES (continued)

- (e) Reserve for future strategies in respect of community use of buildings.
- (f) Reserve established to meet the future cost of replacing personal computers.
- (g) Reserve established to provide time-limited resources to accelerate performance improvement or efficiency programmes.
- (h) For various projects to achieve Best Value and help meet national "e-government" targets.
- (i) A reserve established to carry forward any unspent Chief Executive budget to the new financial year.
- (j) Under Government regulations chargeable building control activities should break even over a 3 year period. The reserve represents the surplus on such activities in the year.
- (k) A reserve established to fund additional neighbourhood renewal expenditure.
- (l) For necessary end of lease dilapidation repairs to administrative buildings. This reserve has now been fully utilised.
- (m) Reserve operated in accordance with the Road Traffic Act 1991. This reserve has been fully utilised in the year. See note 6 to the Core Financial Statements.
- (n) A reserve established to carry forward any unspent budget for cleansing and the installation of a fixed generator in the town hall to the new financial year.
- (o) An amount carried forward to fund the costs of green transport initiatives under the Green Transport Policy.
- (p) This represents unapplied revenue balances held by the Council on behalf of schools with delegated spending authority. The balance is committed to be spent on the education service.
- (q) Minor balances relating to building improvements and unspent grants
- (r) A reserve established to carry forward unspent matched funding. This reserve has now been fully utilised.
- (s) A reserve established to carry forward a contingency for unexpected and unavoidable expenditure by schools. This reserve has now been fully utilised.
- (t) A reserve established to carry forward unspent Education budget provision.
- (u) The reserve is in accordance with the Housing Business Plan approved by Cabinet on 6th August 2003. It was created because of the potential disposal of a significant amount of the Council's housing stock as part of "Housing Choice". This could result in timing differences between the loss of income in respect of dwelling rents and service charges, and expenditure reductions. In addition there remain uncertainties regarding housing subsidy as the Government has changed the management and maintenance allowance within its calculation. The reserve has been established so that both the timing differences and subsidy uncertainty can be properly managed. This will ensure the Council has the ability to adjust financing to avoid significant future fluctuations in the Housing Revenue Account and thereby maintain overall financial stability.
- (v) For the replacement of furniture in and repairs to properties used by the Homeless Persons Unit.

## 50. PENSION SCHEME

The Council offers retirement benefits to its staff as part of their terms and conditions of employment and makes contributions to pension schemes on their behalf. The schemes are the Local Government Pension Scheme (LGPS), administered separately either by the Council or the London Pensions Fund Authority (LPFA), and the Teachers' Pension Scheme.

### (i) Non-Education employees

In 2006/2007 the Council paid £35.2 million (£29.5 million in 2005/2006) into the Local Government Pension Scheme, which it administers. This represented 27.5% (23.6% in 2005/06) of pensionable pay.

The LGPS is a "funded" scheme, which means that both the Council and staff contribute into a fund at a rate calculated to balance the amount of benefits payable in the future with the amount of income (including investment income) received by the fund. The contribution rate was determined by the scheme's actuary based on a triennial revaluation undertaken on 31 March 2004. The revaluation calculated the deficit to be £192 million and the contribution rate is based on recovering this amount over a twenty year period. The future and past service contribution amounts and rates required to recover the deficit are set out below:

	% of Pensionable Pay			
	2006/2007 £'000	2005/2006 £'000	2006/2007 %	2005/2006 %
Future service rate	18,551	18,173	14.50	14.50
Past Service rate	13,433	13,160	10.50	10.50

The Council has discretion to increase pension payments in particular circumstances. The capital costs of agreed increases are as follows:

	2006/2007	2005/2006
	£'000	£'000
In year	1,522	1,053
Earlier years for which payments are still being made	8,972	8,528
	<b>10,494</b>	<b>9,581</b>

### (ii) Education Employees

Additionally, the Council pays contributions into the Teachers' Pension Scheme, and the Local Government Pension Scheme (separately administered by the London Pensions Fund Authority (LPFA)) on behalf of employees transferred from the defunct Inner London Education Authority. Contributions are as follows:

	% of Pensionable Pay			
	2006/2007 £m	2005/2006 £m	2006/2007 %	2005/2006 %
London Pensions Fund Authority	0.41	0.46	19.30	19.30
Teacher's Pension Scheme	8.98	8.22	13.65	13.50
	<b>9.39</b>	<b>8.68</b>		

The Council is responsible for all pension payments, and related annual increases, relating to added years benefits it has awarded. The relevant amounts are as follows: -

	% of Pensionable Pay			
	2006/2007 £m	2005/2006 £m	2006/2007 %	2005/2006 %
Annual pension payments	0.220	0.210	0.09	0.09
Lump sum payments on retirement	0.170	0.030	0.00	0.01
	<b>0.390</b>	<b>0.240</b>		

The Teachers' Pension Scheme is a defined benefit scheme, administered by the Department for Education and Skills (DfES). Although the scheme is unfunded, it uses a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities (LEAs). However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts 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. That amount was £8.98 million in 2006-07 (£8.22 million in 2005-06) representing 13.65% of pensionable pay (13.50% in 2005-06).

## 50. PENSION SCHEME (continued)

### Transactions Relating to Retirement Benefits

When retirement benefits are earned from the LGPS scheme the future net cost to the Council is recognised under "Net Cost of Services". The cost is 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. The use of this method means that the cost will increase as employees approach retirement. The interest cost (resulting from an adjustment for inflation) and expected return on the schemes' assets are recognised under "Net Operating Expenditure". However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement General Fund Balance during the year:

	The Council		LPFA		Total	
	2006/2007 £'000	2005/2006 £'000	2006/2007 £'000	2005/2006 £'000	2006/2007 £'000	2005/2006 £'000
<b>Income and Expenditure Account</b>						
<b>Net Cost of Services</b>						
Current service costs	27,489	20,700	635	538	28,124	21,238
Impact of settlements and curtailments	2,637	2,000	54	0	2,691	2,000
<b>Net Operating Expenditure</b>						
Interest cost	48,750	44,500	2,660	2,589	51,410	47,089
Expected return on assets in the scheme	(41,880)	(33,600)	(1,761)	(1,897)	(43,641)	(35,497)
<b>Net Charge to the Income and Expenditure Account</b>	<b>36,996</b>	<b>33,600</b>	<b>1,588</b>	<b>1,230</b>	<b>38,584</b>	<b>34,830</b>
<b>Statement of Movement in the General Fund Balance</b>						
Reversal of net charges made for retirement benefits in accordance with FRS 17	(36,996)	(33,600)	(1,588)	(1,230)	(38,584)	(34,830)
<b>Actual Amount Charged Against the General Fund Balance for pensions in the year</b>	<b>32,759</b>	<b>28,800</b>	<b>827</b>	<b>790</b>	<b>33,586</b>	<b>29,590</b>

### Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities attributable to the Council at 31 March in respect of the LGPS are shown below:

	The Council		LPFA		Total	
	2006/2007 £'000	2005/2006 £'000	2006/2007 £'000	2005/2006 £'000	2006/2007 £'000	2005/2006 £'000
Estimated assets	695,859	639,300	39,273	39,030	735,132	678,330
Estimated liabilities	(986,327)	(989,200)	(54,198)	(55,110)	(1,040,525)	(1,044,310)
<b>Net liability</b>	<b>(290,468)</b>	<b>(349,900)</b>	<b>(14,925)</b>	<b>(16,080)</b>	<b>(305,393)</b>	<b>(365,980)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total net liability of £305 million has a significant impact on the net worth of the Council as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the schemes' actuary.

## 50. 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 Hymans Robertson, an independent firm of actuaries, based on the latest triennial valuation as at 1 April 2004. Their main assumptions have been:

	The Council		LPFA	
	2006/2007	2005/2006	2006/2007	2005/2006
	%	%	%	%
Rate of inflation	3.2	3.1	3.2	3.1
Rate of increase in salaries	4.7	4.6	4.7	4.6
Rate of increase in pensions	3.2	3.1	3.2	3.1
Rate for discounting scheme liabilities	5.4	4.9	5.4	4.9

Assets are valued at fair value, principally market value from investments, and consist of the following categories, by proportion of total assets held.

	The Council			LPFA		
	Long Term Return	2006/2007	2005/2006	Long Term Return	2006/2007	2005/2006
	%	%	%	%	%	%
Cashflow matching				4.5	83.8	83
Equity investments	7.8	65.8	63.4	7.8	14.5	13.9
Bonds	4.9	19.2	21.7			
Property	5.8	12.5	11.5			
Cash	4.9	2.5	3.4	4.9	1.7	3.1

Although the Teachers' Pension Scheme is a defined benefits scheme, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees.

## 50. PENSION SCHEME (continued)

### Actuarial Gains and Losses

The actuarial gains and losses on the pension reserve are as follow:

	2006-2007		2005-2006		2004-2005		2003-2004		2002-2003	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
<b>The Council</b>										
Differences between the expected and actual return on assets	486	0.1	82,900	13.0	19,911	3.9	47,396	10.4	(97,800)	(26.5)
Differences between actuarial assumptions about liabilities and actual experience	15	0.0	149	0.0	2,802	0.3	785	0.1	70,400	11.5
Changes in the demographic and financial assumptions used to estimate liabilities	63,168		(118,900)		(134,133)					
	<b>63,669</b>	<b>6.5</b>	<b>(35,851)</b>	<b>(3.6)</b>	<b>(111,420)</b>	<b>(13.6)</b>	<b>48,181</b>	<b>7.4</b>	<b>(27,400)</b>	<b>(4.5)</b>
<b>London Pensions Fund Authority</b>										
Differences between the expected and actual return on assets	1	0.0	1,453	3.7	197	0.5	1,194	3.1	(364)	(1.0)
Differences between actuarial assumptions about liabilities and actual experience	(156)	(0.3)	(103)	(0.2)	(1,741)	(3.6)	(72)	(0.2)	96	0.2
Changes in the demographic and financial assumptions used to estimate liabilities	2,071		(5,140)		(6,886)					
	<b>1,916</b>	<b>3.5</b>	<b>(3,790)</b>	<b>(6.9)</b>	<b>(8,430)</b>	<b>(17.3)</b>	<b>1,122</b>	<b>2.6</b>	<b>(268)</b>	<b>(0.6)</b>
<b>Total</b>										
Differences between the expected and actual return on assets	<b>487</b>		<b>84,353</b>		<b>20,108</b>		<b>48,590</b>		<b>(98,164)</b>	
Differences between actuarial assumptions about liabilities and actual experience	<b>(141)</b>		<b>46</b>		<b>1,061</b>		<b>713</b>		<b>70,496</b>	
Changes in the demographic and financial assumptions used to estimate liabilities	<b>65,239</b>		<b>(124,040)</b>		<b>(141,019)</b>		<b>0</b>		<b>0</b>	
	<b>65,585</b>		<b>(39,641)</b>		<b>(119,850)</b>		<b>49,303</b>		<b>(27,668)</b>	

## 51. TRUST FUNDS

The Council acts as sole trustee for a number of Trust Funds, the principal ones being shown below. It should be noted that the Council's Balance Sheet does not include all Trust Fund assets and liabilities and so does not comply fully with relevant accounting standards, although the amounts involved are not material.

	Balance at 1/4/2006 £'000	Expenditure £'000	Income £'000	Balance at 31/3/2007 £'000
Welfare Savings (a)	459	185	198	472
King Bequest Fund (b)	13	0	0	13
Childrens Trust Funds (c)	29	16	0	13
Social Services Trust Funds: sundry other (d)	99	38	36	97
Tower Hamlets Further Education Trust (e)	289	0	16	305
Globe Town Picture Fund (f)	149	0	6	155
Millwall Park Compensation Fund (g)	314	0	13	328
Sundry Other (h)	6		50	56
<b>Total Trust Funds</b>	<b>1,358</b>	<b>239</b>	<b>319</b>	<b>1,439</b>

(a) This Fund represents monies held by Social Services residential establishments on behalf of residents in their care. It is used to finance the purchase of goods and services on request of residents.

(b) This Fund was established with a legacy from the will of a former resident of the borough. The terms of the will restrict expenditure to specific activities which enhance the environment of the local community.

(c) These Funds represent monies held and/or invested by the Council on behalf of children in care.

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

The Council also holds a number of deposits relating to Trust Funds administered by the Council. The funds are held in an interest bearing account maintained by the Council. The account is excluded from the financial statements relating to the Council. The relevant Trusts and transactions during the financial year ended 31st March 2007 may be summarised as follows:-

(e) This was established by the Council in conjunction with Canary Wharf Ltd with the objective of

"the advancement of education and training for the residents of the London Borough of Tower Hamlets". The Council is the sole Trustee and the Trust is registered with the Charities Commission (No. 1002772). Accounts relating to the Trust have been deposited with the Charities Commissioners.

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

(g) Funds received from the Docklands Light Railway to reinstate and improve Millwall Park following construction works.

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

## 52. STATEMENT OF NET ASSETS EMPLOYED

Total assets less liabilities as at 31 March can be analysed as follows:

	Balance at 31/03/07 £'000	Balance at 31/03/06 £'000
General Fund	67,811	10,863
Housing Revenue Account	1,051,991	956,916
<b>Total</b>	<b>1,119,802</b>	<b>967,779</b>

53. The Statement of Accounts was authorised for issue on 28th September 2007 by the Council's Chief Financial Officer Mr Alan Finch CPFA

#### 54. RECONCILIATION OF REVENUE CASH FLOW

	2006/2007	2005/2006
	£'000	£'000
Net General Fund Revenue Expenditure (see page 21)	(1,128)	(7,432)
Net Housing Revenue Account Expenditure (see page 54)	(4,776)	1,246
Net Statutory Street Trading Account Expenditure (see note 47page 44)	216	(66)
Net Collection Fund Revenue Expenditure (see page 60)	661	786
Deduct interest paid	(24,902)	(38,964)
Deduct Minimum revenue provision	(7,551)	(7,166)
Deduct Revenue Contributions to Capital	(6,030)	(6,129)
Payments to Capital Receipts Pool	9,504	32,036
(Increase)/decrease in revenue creditors	(26,715)	11,830
Increase/(decrease) in stocks	699	(655)
Add interest received	6,018	7,946
Deduct contributions to Reserves and Provisions (net)	(17,357)	(18,194)
Increase/(decrease) in revenue debtors	16,340	(5,335)
HRA Depreciation	(14,662)	(17,666)
<b>Revenue net cash flow</b>	<b>(69,683)</b>	<b>(47,763)</b>

#### 55. OTHER GOVERNMENT GRANTS

	2006/2007	2005/2006
	£'000	£'000
Alcohol and Drug Misuse	2,840	1,339
HIV/Aids	241	260
Asylum Seekers Accommodation	1,347	1,535
Promoting Independence	1,660	1,615
Preserved Rights	1,135	1,322
Children's Services	1,648	264
Dept of Health: Other	2,926	2,907
Other Social Services	4,455	3,787
DSS: Benefits: Administration	4,356	5,565
DSS: Benefits: Council Tax	30,099	22,312
DSS: Benefits: Rent Rebates	68,333	80,934
DCLG: Housing Subsidy	28,591	66,810
DCLG: Single Regeneration Grant	1,925	2,760
DCLG: Home Insulation & Improvement Grants	360	0
Home Office: Civil Defence	9	0
Standards Fund	36,639	27,478
Mandatory Awards	0	467
FEFC Access	418	428
Education and Training	26,930	20,486
Dedicated Schools Grant	197,620	0
Nursery and other childrens grants	5,780	3,043
European Regional Development Grants	0	178
European Social Grants	13	31
New Deal	4,201	6,269
Neighbourhood Renewal Fund	16,357	18,175
Supporting People	15,264	15,451
Connexions	638	2,524
Other Revenue Grants	8,687	15,489
<b>Total other revenue grants</b>	<b>462,472</b>	<b>301,429</b>

**56. MOVEMENTS IN CASH EQUIVALENTS & RECONCILIATION OF MANAGEMENT OF LIQUID RESOURCES, FINANCING TO BALANCE SHEET**

	31/03/07 £'000	31/03/06 £'000	Movement £'000	31/03/06 £'000	31/03/05 £'000	Movement £'000
Cash overdrawn	(19,197)	(16,024)	(3,173)	(16,024)	(22,846)	6,822
Other cash and officer balances	52,298	39,826	12,472	39,826	37,213	2,613
<b>Net increase in cash and cash equivalents</b>	<b>33,101</b>	<b>23,802</b>	<b>9,299</b>	<b>23,802</b>	<b>14,367</b>	<b>9,435</b>

Reconciliation of Management of Liquid Resources and Financing	Balance 31.3.06 £'000	Cash Flow £'000	Balance 31.3.07 £'000
<b><u>Management of Liquid Assets</u></b>			
Short Term Investments	113,592	-	96,814
Movement in short borrowing	34,391	-	38,012
<b><u>Financing</u></b>			
Long term borrowing	388,031	61,579	326,452
	<b>23,802</b>	<b>41,180</b>	<b>33,101</b>
<b><u>Balance Sheet</u></b>			
Short term investment	113,592	-	96,814
Movement in short borrowing	34,391	-	38,012
Movement in long term borrowing	388,031	61,579	326,452
	<b>536,014</b>	<b>41,180</b>	<b>461,278</b>



## 57. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, 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.

Details of the deployment of DSG receivable for 2006/07 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure £000s	Individual Schools Budget £000s	Total £000s
Original grant allocation to Schools Budget for the current year in the authority's budget	24,427	172,149	196,576
Adjustment to finalised grant allocation	578	466	1,044
DSG receivable for the year	<b>25,004</b>	<b>172,615</b>	<b>197,620</b>
Actual expenditure for the year	17,111	177,821	194,932
(Over)/underspend for the year	<b>7,893</b>	<b>(5,206)</b>	<b>2,688</b>
Planned top-up funding of ISB from Council resources	0	0	0
Use of schools budget brought forward	0	0	0
(Over)/underspend from prior year	0	0	0
<b>(Over)/underspend carried forward to 2007/08</b>	<b>7,893</b>	<b>(5,205)</b>	<b>2,688</b>

(Note 1)

Note 1: overspend in Individual Schools Budget reflects the movement of the School Specific Contingency in year, i.e. whilst categorised at the beginning of the year as central expenditure, the Contingency is distributed to schools in year and thus reflected in the actual spend at school level.

## 58 POST BALANCE SHEET EVENTS

There are no significant post balance sheet events to report

## HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

for the year ended 31st March 2007

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	2006/2007 £'000	2005/2006 £'000
<b>INCOME</b>			
Gross Rental Income			
Rents of dwellings	8	66,209	76,052
Non dwelling rents		3,088	6,293
Charges for services and facilities			
Heating and other charges		2,180	2,358
Leaseholder charges		11,508	11,451
HRA Subsidy receivable			
General		15,964	23,926
Major Repairs Allowance		14,662	17,829
Contribution towards expenditure		115	750
Reduction in provision for bad debts		621	
<b>TOTAL INCOME</b>		<b>114,347</b>	<b>138,659</b>
<b>EXPENDITURE</b>			
Repairs, maintenance and management			
Repairs and maintenance		22,000	32,326
Supervision and management		38,059	45,987
Rents, rates, taxes and other charges		2,318	2,590
Rent rebates		2,423	670
Increase in provision for bad debts			124
Depreciation of fixed assets	6		
On dwellings		14,662	17,666
On other assets		2,160	1,457
Debt management costs		115	112
<b>TOTAL EXPENDITURE</b>		<b>81,737</b>	<b>100,932</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		<b>(32,610)</b>	<b>(37,727)</b>
HRA services share of Corporate and Democratic Core		1,791	1,256
<b>NET COST OF HRA SERVICES</b>		<b>(30,819)</b>	<b>(36,471)</b>
Gain or loss on sale of HRA fixed assets			(193)
Amortisation of premiums and discounts	10	848	2,301
Interest payable		24,468	29,344
Interest and investment income		(1,099)	(799)
Pensions interest cost	7	9,387	8,336
Expected return on pension assets	7	(8,055)	(6,292)
<b>SURPLUS FOR THE YEAR ON HRA SERVICES</b>		<b>(5,270)</b>	<b>(3,774)</b>

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

for the year ended 31st March 2007

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.

	2006/07	2005/06
	£'000	£'000
Surplus for the year on the HRA Income and Expenditure Account	(5,270)	(3,774)
Net additional amount required by statute to be credited to the HRA balance for the year	335	(1,387)
Increase in the HRA Balance	<b>(4,935)</b>	<b>(5,161)</b>
Balance on the Statutory HRA Brought Forward	(12,181)	(7,020)
<b>Balance on the Statutory HRA Carried Forward</b>	<b>(17,116)</b>	<b>(12,181)</b>

# NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2006/2007		2005/2006	
	£'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>				
Write down of deferred charges to be financed from capital resources	(454)			
Government Grants Deferred amortisation	1,204			
Gain or loss on sale of HRA fixed assets			193	
Net charges made for retirement benefits in accordance with FRS 17	(5,397)		(5,898)	
Transfers from General Fund (as directed by Secretary of State)	(946)	(5,593)	(1,643)	(7,348)
<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 funded by HRA	2,222		1,900	
Transfer to/from the Major Repairs Reserve	(2,160)		(1,294)	
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	5,866	5,928	5,355	5,961
<b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>		335		(1,387)

## 2. HOUSING STOCK

The type and number of dwellings in the Council's housing stock at 1st April were as follows:

	2006/2007	2005/2006
Low rise flats (1-2 storeys)	368	519
Medium rise flats (3-5 storeys)	8,690	9,946
High rise flats (6 or more storeys)	5,623	6,054
Houses and bungalows	1,022	1,130
<b>TOTAL AT 1st APRIL</b>	<b>15,703</b>	<b>17,649</b>

## 3. FIXED ASSETS

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

	2006/2007 £'000	2005/2006 £'000
Total value at 1st April	1,204,171	1,830,237
Additions, disposals, transfers and revaluations	127,844	(626,066)
Total value at 31st March	<b>1,332,015</b>	<b>1,204,171</b>

The balance sheet values of operational and non-operational assets (excluding community assets and equipment, which are included in the totals above) have been as follows:

	Operational Dwellings £'000	Other land and buildings £'000	Non- Operational £'000	TOTAL £'000
Total value at 1st April 2005	1,761,995	16,806	43,192	1,821,993
Additions, disposals, transfers and revaluations	(643,523)	21,201	3,107	(619,215)
Total value at 31st March 2006	1,118,472	38,007	46,299	1,202,778
Additions, disposals, transfers and revaluations	(30,767)	4,455	31,537	138,507
<b>Total value at 31st March 2007</b>	<b>1,087,705</b>	<b>42,462</b>	<b>77,836</b>	<b>1,208,003</b>

The vacant possession value of dwellings within the Council's HRA was £2,872 million in 2006/2007 (£2,951 million in 2005/2006). This represents the value of the dwellings if they were available to be sold on the open market as vacant properties. The adjustment factor provided measures the difference between market rented and social rented property at a regional level.

## 4. MAJOR REPAIRS RESERVE

	2006/2007 £'000	2005/2006 £'000
<b>Balance at 1st April</b>	163	0
Transfer from Capital Financing Account	16,821	19,123
Transfer to or from HRA		
<i>Depreciation on non-dwellings</i>	(2,160)	(1,457)
<i>Excess of Major Repairs Allowance over dwellings depreciation</i>	0	163
Financing of capital expenditure	(14,779)	(17,666)
<b>BALANCE AT 31st MARCH</b>	<b>45</b>	<b>163</b>

## 5. CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

	Dwellings £'000	Other land & buildings £'000	Other £'000	Total £'000
<b>Expenditure</b>	31,296	1,993	4,450	<b>37,739</b>
<b>Sources of finance</b>				
Borrowing	12,321	1,993	1,481	<b>15,795</b>
Useable capital receipts			1,000	<b>1,000</b>
Revenue contributions	3,222		1,300	<b>4,522</b>
Capital grants	974		669	<b>1,643</b>
Major Repairs Reserve	14,779			<b>14,779</b>
<b>TOTAL CAPITAL FINANCING</b>	<b>31,296</b>	<b>1,993</b>	<b>4,450</b>	<b>37,739</b>

### (ii) Capital Receipts

Capital receipts in 2006/2007 from the disposal of fixed assets within the HRA amounted to £15.39 million (£44.18m in 2005/2006) as follows:

	2006/2007 £'000	2005/2006 £'000
Dwellings	13,816	43,525
Other land and buildings	248	193
Other assets	1,325	466
<b>TOTAL CAPITAL RECEIPTS</b>	<b>15,389</b>	<b>44,184</b>

## 6. DEPRECIATION

The total depreciation charge for the year was £16.8 million (£19.1 million in 2005/2006) made up of £14.8 million (£17.7 million in 2005/2006) in respect of council houses and £2.0 million (£1.4 million in 2005/06) in respect of other housing assets. In the case of council housing, assets have been depreciated in line with the Major Repairs Allowance as this is the amount (based on a 30 year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an acceptable measure of depreciation. Other housing assets have been depreciated using a 40 year life cycle. An analysis of the depreciation charges is set out below.

	2006/07 £'000	2005/06 £'000
<b>Operational Assets</b>		
Council dwellings	14,779	17,666
Other land and buildings	1,306	796
Equipment	732	656
Infrastructure	5	5
<b>Non-Operational Assets</b>		
Investment Properties	0	0
<b>TOTAL DEPRECIATION</b>	<b>16,822</b>	<b>19,123</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 50 of the Core Financial Statements, together with details of the assumptions made in calculating the figures included in this note. The following transactions have been made in the account for the year.

	The Council		LPFA		Total	
	2006/2007 £'000	2005/2006 £'000	2006/2007 £'000	2005/2006 £'000	2006/2007 £'000	2005/2006 £'000
<b>Net Cost of Services</b>						
Current service costs	4,045	3,834	20	20	4,065	3,854
<b>Net Operating Expenditure</b>						
Interest cost	9,300	8,243	87	93	9,387	8,336
Expected return on assets in the scheme	(7,998)	(6,224)	(57)	(68)	(8,055)	(6,292)
<b>Amount to be met from Government grant and local taxpayers</b>						
Movement in Pension Reserve	500	(519)	(31)	(24)	469	(543)
	<b>5,847</b>	<b>5,334</b>	<b>19</b>	<b>21</b>	<b>5,866</b>	<b>5,355</b>
<b>Employer's contribution to scheme</b>	<b>(5,847)</b>	<b>(5,334)</b>	<b>(19)</b>	<b>(21)</b>	<b>(5,866)</b>	<b>(5,355)</b>

## 8. RENT ARREARS

	2006/2007	2005/2006
Gross rent arrears at 31st March (£000's)	4,243	4,767
Arrears as % of rent receivable	6.0	6.3
Provision made for bad debts (£000's)	3,429	3,801

## 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. The £0.95 million transferred during 2006/07 relates to "Supporting People" services provided by the Council.

## 10. AMORTISED PREMIUMS AND DISCOUNTS

This relates to premiums payable on the premature redemption of housing debt, which is charged to the HRA over 10 years. The sum of £0.85 million relating to 2006/07 has been transferred to the General Fund.

**COLLECTION FUND**  
for the year ended 31st March 2007

	Note	2006/2007 £'000	2006/2007 £'000	2005/2006 £'000	2005/2006 £'000
<b>INCOME</b>					
Council Tax (net of benefits)	2	59,194		55,339	
Transfers from General Fund - Council Tax Benefits		24,323	83,517	23,685	79,024
National Non-Domestic Rates	3		240,590		216,901
<b>TOTAL INCOME</b>			<b>324,107</b>		<b>295,925</b>
<b>EXPENDITURE</b>					
Precepts and demands	2				
<i>London Borough of Tower Hamlets</i>		60,212		57,820	
<i>Greater London Authority</i>		21,796	82,008	18,466	76,286
Distribution of prior year surplus on Collection Fund			2,505		2,482
Non domestic rates:					
<i>Payment to National Pool</i>		239,643		215,966	
<i>Cost of collection allowances</i>		947	240,590	935	216,901
Provision for bad debts	4		(335)		1,042
<b>TOTAL EXPENDITURE</b>			<b>324,768</b>		<b>296,711</b>
<b>DECREASE IN FUND BALANCE</b>			<b>(661)</b>		<b>(786)</b>
<b>COLLECTION FUND BALANCE</b>					
Balance at the beginning of the year			3,175		3,961
(Deficit)/Surplus for the year			(661)		(786)
<b>Balance at the end of the year</b>			<b>2,514</b>		<b>3,175</b>



## NOTES TO THE COLLECTION FUND

### 1. GENERAL

The Collection Fund accounts for all transactions in respect of Council Tax and National Non-Domestic Rates (also known as NNDR or Business Rates). Although it is kept separate from the Income and Expenditure Account the Collection Fund balance forms part of the Council's Balance Sheet.

### 2. COUNCIL TAX

Council Tax is a tax payable depending on the nature and degree of occupation of the residential property concerned. It is subject to a system of personal discounts. For the purpose of calculating the individual tax, all domestic properties were valued by the Inland Revenue as at 1st April 1991 and placed in one of eight bands. By law the tax for each Band is set as a fraction of Band D.

Band	Market Value in April 1991	Fraction of Band D
A	Less than £40,000	6/9
B	£40,000 - £52,000	7/9
C	£52,000 - £68,000	8/9
D	£68,000 - £88,000	9/9
E	£88,000 - £120,000	11/9
F	£120,000 - £160,000	13/9
G	£160,000 - £320,000	15/9
H	£320,000 or more	18/9

By multiplying the number of properties in each band (after allowing for discounts, exemptions and non-collection) by the fractions involved the Council calculates the number of "Band D equivalent" properties in the borough (known as the Council Tax Base) and how much a Band D tax of £1 would produce. For 2006-07 this was £0.076 million (£0.073 million for 2005-06) allowing for a non-collection rate of 3.00% (3.00% in 2005-06).

When the 2006-07 Council Tax was set the position was as follows:

Band	No. of Properties	Council Tax Base
A	1,116	722
B	20,332	15,339
C	26,212	22,601
D	13,974	13,555
E	10,310	12,223
F	4,976	6,972
G	2,158	3,489
H	320	622
<b>Total</b>	<b>79,398</b>	<b>75,523</b>

The Council Tax is made up of amounts for the Greater London Authority as well as the Council. The Band D tax and total amount to be raised in the last 2 years was as follows:

	2006/2007		2005/2006		Increase	
	Band D Tax £	Amount to be Raised £'000	Band D Tax £	Amount to be Raised £'000	£	%
Tower Hamlets	797.28	62,117	797.28	59,725	0	0
Greater London Authority	288.61	22,396	254.62	19,044	33.99	13.35
<b>TOTAL</b>	<b>1,085.89</b>	<b>84,513</b>	<b>1,051.90</b>	<b>78,769</b>	<b>33.99</b>	<b>3.23</b>

### **3. NATIONAL NON-DOMESTIC RATES (NNDR)**

Under the arrangements for the National Non-Domestic Rates the Council collects business rates for its area which it pays to the Government. The Government then redistributes the total back to local authorities on the basis of a fixed amount per head of population. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2006-07 was 43.3p in the £ (42.2p in the £ in 2005-06), The total rateable value in the borough as at 31st March 2007 was £694.9 million (£701.1 million at 31st March 2006).

### **4. PROVISION FOR IRRECOVERABLE COUNCIL TAX DEBTS**

Contributions are made from the Collection Fund Income and Expenditure Account to a provision for bad debts. During 2006/2007 the Council Tax bad debt provision was reduced by £0.335 million and £0.988 million of irrecoverable debts were written off.

# PENSION FUND ACCOUNT

for year ended 31st March 2007

## DEALINGS WITH MEMBERS ACCOUNT

	Note	2006/2007	2005/2006
		£'000	£'000
<b>Income</b>			
Contributions receivable			
Employees	3	7,710	7,519
Employers	3	37,555	30,977
		45,265	38,496
Transfer values receivable		4,288	6,443
<b>Total income</b>		<b>49,553</b>	<b>44,939</b>
<b>Expenditure</b>			
Benefits payable	4	28,236	25,653
Transfer values payable		4,056	7,018
Payments to leavers - repayment of contributions		240	9
Administration		891	917
Other expenses		(9)	56
<b>Total expenditure</b>		<b>33,414</b>	<b>33,653</b>
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>16,139</b>	<b>11,286</b>

## RETURN ON INVESTMENTS

		2006/2007	2005/2006
		£'000	£'000
Investment income	12	16,408	17,009
Change in market value: Realised		28,855	34,314
Change in market value: Unrealised		(3,474)	73,531
Investment management expenses		(1,911)	(1,900)

## NET RETURN ON INVESTMENTS

<b>NET RETURN ON INVESTMENTS</b>		<b>39,878</b>	<b>122,954</b>
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## CLOSING NET ASSETS

Net assets brought forward		648,826	514,586
Net increase during the year		56,017	134,240

## CLOSING NET ASSETS OF THE SCHEME

<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>704,843</b>	<b>648,826</b>
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## NET ASSETS STATEMENT

		2006/2007	2005/2006
		£'000	£'000
<b>Investments Assets</b>			
Fixed interest securities - Public Sector		27,630	44,782
Fixed interest securities - Private Sector			9,593
Fixed interest securities - Overseas		62,375	12,488
Index Linked Securities		51,809	73,416
Equities - UK		205,128	205,396
Equities - Overseas		249,836	196,481
Managed and Unitised Funds			
Property		87,632	74,237
Other		83	39
		684,493	616,432
<b>Other Net Assets</b>			
Debtors less Creditors	5/6	(4,166)	9,648
Cash	7	24,515	22,746
<b>TOTAL NET ASSETS</b>		<b>704,842</b>	<b>648,826</b>

## NOTES TO THE PENSION FUND ACCOUNT

1. The Pension Fund is a funded, defined benefits scheme which provides for the payment of benefits to former employees of the Council. Benefits include retirement pensions, widows' pensions, death grants and, in certain circumstances, lump sum payments. The Fund is financed by contributions from employees and the Council, and by interest and dividends from investments.

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management, that is the accountability of management for the resources entrusted to it and the disposition of its assets at the period end. The only items that are required to be excluded by regulations are liabilities to pay pensions and other benefits in the future which are reported on separately in the actuary's statement.

### 2. Accounting Policies

#### (a) Accounts

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with the Statement of Recommended Practice (Financial Reports of Pensions Schemes), but the disclosure requirements are limited to those shown below.

#### (b) Basis of preparation

Except where otherwise stated, the accounts have been prepared on an accruals basis - income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2007.

#### (c) Investments

Investments are shown in the Net Assets Statement at their market value, which has been determined as follows.

- i) Listed securities are shown by reference to mid-market price at the close of business on 31 March 2007
- ii) Unit trust and managed fund investments are stated at the mid point of the latest prices quoted by their respective managers prior to the 31 March 2007.
- iii) Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on the 31 March 2007.
- iv) Freehold property and leasehold property are included on the basis of their open market value.

### 3. Contributions

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. The employers' contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rate used during the financial year ending 31 March 2007 was 14.5%. Contributions shown in the revenue statement may be categorised as follows:-

	2006/2007			2005/2006		
	Council £'000	Bodies £'000	Total £'000	Council £'000	Bodies £'000	Total £'000
From employees						
Ordinary contributions	7,433	277	7,710	7,331	188	7,519
From employers						
Ordinary contributions	17,878	812	18,690	17,577	267	17,844
Additional contributions	18,865	0	18,865	13,133	0	13,133
	36,743	812	37,555	30,710	267	30,977
<b>Total contributions</b>	<b>44,176</b>	<b>1,089</b>	<b>45,265</b>	<b>38,041</b>	<b>455</b>	<b>38,496</b>

#### 4. Benefits, Refunds of Contributions and Transfer Values

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Transfers out/in are those sums paid to, or received from, other pension schemes and related to the period of previous pensionable employment. Transfer values have been brought into the accounts on a cash basis.

	2006/2007			2005/2006		
	Council £'000	Admitted Bodies £'000	Total £'000	Council £'000	Admitted Bodies £'000	Total £'000
Pension payments to retired members	23,497	0	23,497	22,599	0	22,599
Lump sums paid on retirement	4,739	0	4,739	3,054	0	3,054
Death grants	0	0	0	0	0	0
<b>Total benefits payable</b>	<b>28,236</b>	<b>0</b>	<b>28,236</b>	<b>25,653</b>	<b>0</b>	<b>25,653</b>

#### 5. Debtors

	2006/2007 £'000	2005/2006 £'000
Dividends receivable	2,411	2,117
Tax recoverable	166	115
Interest receivable	458	433
Admitted Bodies: Contributions	135	0
Investment sales	620	7,899
<b>Total debtors</b>	<b>3,790</b>	<b>10,564</b>

#### 6. Creditors

	2006/2007 £'000	2005/2006 £'000
Administration	614	689
Benefits payable	20	54
Investment purchases	7,322	173
<b>Total creditors</b>	<b>7,956</b>	<b>916</b>

#### 7. Cash

Cash was held as follows.	2006/2007 £000	2005/2006 £000
GMO	2,735	2,122
INVESTEC	1	1
Aberdeen: Fixed Interest Portfolio	6,206	344
Aberdeen: Private Equity Portfolio	40	0
Schroders: Multi Asset Portfolio	7,582	3,808
Schroders: Property Portfolio	1,635	0
Martin Currie	5	28
London Borough of Tower Hamlets	6,311	16,443
<b>Total cash</b>	<b>24,515</b>	<b>22,746</b>

## 8. Taxation

### UK Income Tax

The fund is an exempt approved fund under the Finance Act 1970 and is therefore not liable to UK income tax on interest and dividends nor to capital gains tax.

### Value Added Tax

By virtue of the Council being the administrating authority, VAT input tax is recoverable on all fund activities.

### Overseas Tax

Taxation agreements exist between Britain and certain EC and other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

## 9. Membership of the Fund

The following table sets out the membership of the Pension Fund at 31st March 2007

	2006/2007	2005/2006
<b>London Borough of Tower Hamlets</b>		
Active Members	5,376	5,430
Pensioners	3,557	3,485
Deferred Pensioners	4,176	3,610
	<b>13,109</b>	<b>12,525</b>
<b>Admitted Bodies</b>		
Active Members	139	137
Pensioners	38	32
Deferred Pensioners	180	178
	<b>357</b>	<b>347</b>

The following bodies have been admitted into the Fund:

Tower Hamlets Community Housing  
Redbridge Community Housing Limited  
East End Homes  
Greenwich Leisure Limited  
Swan Housing  
Bethnal Green and Victoria Park Housing Association  
Toynbee Housing Association

## 11. Investment

<u>Manager</u>	<u>Mandate</u>
GMO	Global Equity
Martin Currie	UK Equity
Schroders	Active Balanced and Property
Investec	Residual Venture Capital Fund
Aberdeen	Fixed Interest Private Equity

The market value of the fund comprises the following.

	2006/2007		2005/2006	
	£ million	%	£ million	%
GMO	178.7	25.6	138.9	21.6
Martin Currie	103.0	14.7	98.7	15.3
Schroders	184.0	26.3	292.2	45.4
Aberdeen	143.4	20.5	95.0	14.8
LBTH Cash	0.0	0.0	16.4	2.9

Purchases and sales in the year were as follows.

	2006/2007	2005/2006
	£'000	£'000
Purchases	741,595	95,323
Sales	(669,447)	(210,483)
<b>Net Sales</b>	<b>72,148</b>	<b>(115,160)</b>

There were no stocklending arrangements operational in the year.

## 12. Investment income

Dividends and interest shown in the revenue statement are broken down as follows:

	2006/2007	2005/2006
	£'000	£'000
Dividends from property managed funds	1,927	0
Interest from fixed interest securities	2,138	4,571
UK equities	7,863	9,936
Foreign equities	4,031	2,255
Interest on cash deposits	371	132
Taxation	78	115
Underwriting commission	0	0
<b>Total</b>	<b>16,408</b>	<b>17,009</b>

## 13. Securities

The value of listed and unlisted securities is as follows.

	2006/2007	2005/2006
	£000	£000
Unlisted	40	40
Listed	708,969	639,138
Working Capital	(4,166)	9,648
	<b>704,843</b>	<b>648,826</b>

## 14. Actuarial Position

The Local Government Pension Scheme Regulations require a triennial revaluation of the Fund to assess the adequacy of the Fund's investments and contributions in relation to its overall and future obligations. The contribution rate required for benefits accruing in the future is assessed by considering the benefits that accrue over the course of the three years to the next valuation. The employers' contribution rate is determined by the Actuary as part of the revaluation exercise.

The statutory triennial revaluation undertaken by the actuary (Hymans Robertson) in 2004 estimated the deficit on the Fund to be approximately £192 million and the funding level to be 73%. This compares to a deficit at the previous revaluation of £68 million and a corresponding funding level of 88%.

The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed contribution rate to recover the deficit for the term of the revaluation is as follows.

£ Million	
2005/2006	9.40
2006/2007	10.70
2007/2008	12.00

In addition the contributions were increased by RPI plus 1.5% with effect from 1st April 2005.

The method of calculating the employers' contribution rate derives the cost of the benefits building up over the year following the valuation date. This method is known as the "Projected Unit Method". It is a method considered appropriate by the Actuary for a Fund open to new members. As the Fund remains open to new members, its age profile is not currently rising significantly. If the age profile began to rise significantly, the projected unit method would calculate an increase in current service cost as scheme members approached retirement. In completing the valuation, the Actuary has adopted a market value method to derive the financial assumptions by considering various average yields and average market values in the 12 months leading to the valuation date. This represents a change from previously adopted traditional techniques where the assumptions adopted have reflected expectations of long term averages. The assumptions used in the calculation and applied during the intervalation period are summarised as follows.

	2004	2001
Investment Returns (Equities)	6.7%	6.8%
Pay Increases	4.4%	4.8%
Price Inflation	2.9%	2.5%

The next statutory revaluation is due in 2007 with the results to be implemented in April 2008.

## 15. Related Party Transactions

No material related party transactions took place in 2006/07.

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

## 16. Contingent Liabilities

There were no contingent liabilities as at 31 March 2007.

## 17. Post Balance Sheet Events

There are no significant post balance sheet events to report.

## 18 Voluntary Contributions

There are no additional voluntary contributions to report.



## 17. Regulations

The Social Services Act 1986, the Financial Services Act, the Pensions Act and the Local Government Pension Scheme Regulations 1995 and 1997 have imposed a number of changes on local authority Pension Funds. In particular:

- a) Contributors now have the right to make additional voluntary contributions to enhance their pension. The Council made such a scheme available to staff through Equitable Life. During 2000/2001, Equitable Life announced itself closed to new business. Speculation concerning Equitable Life's situation has continued throughout the last year. As an interim arrangement, employees have the option to pay current contributions into a Norwich Union Fund.
- b) Permanent full time employees can now opt out of the Local Government Scheme and make their own pension fund arrangements.
- c) Since 1995, all employees (except teachers) are eligible to join the scheme.
- e) The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 - SI 2002 No. 1852, require administering authorities to update and publish a Statement of Investment Principles and Myners Compliance Statement. These documents are available on the Council's website.
- f) The Council is also required to prepare and publish a Communications Strategy, Governance Statement and Funding Strategy Statement all of which are available on the Council's website.



**Chief Financial Officer**  
**28th September 2007**

## **AUDITOR'S REPORT**

The auditor had concluded his examination of the accounts and signed off the accounts on 28th September 2007.

Attached is the independent auditor's report to the members of the London Borough of Tower Hamlets.

# **Independent auditor's report to the Members of London Borough of Tower Hamlets**

## **Opinion on the financial statements**

I have audited the financial statements and Pension Fund financial statements of London Borough of Tower Hamlets for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and Pension Fund financial statements have been prepared under the accounting policies set out within them.

This report is made solely to London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## **Respective responsibilities of the Chief Finance Officer and auditors**

The Chief Finance Officer's responsibilities for preparing the financial statements, including the Pension Fund financial statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements and the Pension Fund financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its Pension Fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Financial statements and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion:

The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended; and

The Pension Fund financial statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the Pension Fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.



Kash Pandya  
District Auditor  
1st Floor Millbank Tower  
Millbank  
London  
SW1P 4HQ

28 September 2007

## GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

### FINANCIAL TERMS

<b>Accounting Period</b>	The period of time covered by the Council's accounts. The Council's financial year is the period from 1st April to the following 31st March.
<b>Accrual</b>	The recognition of income and expenditure as it is earned or incurred viz not as cash received or paid.
<b>Actuary</b>	Independent advisor to the Council on the financial position of the Pension Fund.
<b>Actuarial Valuation</b>	Independent triennial review of the Pension Fund assets, liabilities and reserves, the results of which, including recommended employer's contribution rates, the Actuary reports to the Council.
<b>Amortisation</b>	The writing off of intangible assets or loan balances to revenue service accounts over an appropriate period of time.
<b>Balances</b>	The surplus or deficit on any account at the end of an accounting period. The term is often used specifically to refer to the availability of unallocated revenue reserves.
<b>Budget</b>	A statement defining the Council's policies over a specified period of time in terms of finance.
<b>Capital Charges</b>	Charges made to individual service revenue accounts to reflect the cost of the assets employed. Charges may include both notional interest and depreciation elements (also referred to as asset rentals).
<b>Capital Expenditure</b>	Expenditure incurred on the purchase or improvement of significant assets including land, buildings and equipment, which will be of use or benefit in providing services for more than one financial year.
<b>Capital Financing Charges</b>	The annual cost of capital, including principal repayments, interest charges and leasing costs.
<b>Capital Receipts</b>	Income received from the sale of capital assets.
<b>Contingent Liabilities</b>	Where possible "one-off" future liabilities or losses are identified but the level of uncertainty is such that the establishment of a provision is not appropriate. Such items are disclosed in the form of a note to the accounts.
<b>Council Tax</b>	The main source of local taxation to local authorities. This is levied on households within its area by the billing authority and the proceeds paid into its Collection Fund for distribution to precepting authorities and for use by its own General Fund.
<b>Creditors</b>	Amounts owed by the Council at the end of the accounting period.
<b>Debtors</b>	Amounts owed to the Council at the end of the accounting period.
<b>Earmarked Reserves</b>	Balances set aside to meet specific future, usually non-recurring, commitments.
<b>Fees and Charges</b>	Income receivable as payment for goods or services provided.
<b>Formula Grant</b>	A grant paid by the Government made up of redistributed NDR and RSG.
<b>Intangible Assets</b>	Capitalised expenditure not resulting in a tangible asset. Such amounts are amortised over an appropriate period.

<b>(National) Non-Domestic Rate(s)</b>	A levy on businesses based on the rateable value of the premises they occupy. It is also known as “business rates”, the “uniform business rate” and the “national non-domestic rate”. Local authorities collect the rate as agents for the Government which then redistributes the income to authorities on the basis of population.
<b>Post Balance Sheet Events</b>	Significant events which occur after the end of the accounting period but prior to the date when the accounts are issued.
<b>Precept</b>	The precepting authorities’ council tax. This is collected by billing authorities on behalf of the precepting authorities.
<b>Precepting Authorities</b>	Those authorities which are not billing authorities, i.e. do not collect the council tax and non-domestic rate. The Council bills and collects on behalf of the Greater London Authority.
<b>Private Finance Initiative</b>	Contracts whereby private sector suppliers provide services and/or capital investment in return for unitary payment; subject to agreed performance
<b>Provisions</b>	Amounts set aside to meet probable "one-off" future liabilities or losses but where exact dates and amounts are uncertain.
<b>Revenue Expenditure</b>	This is the routine day to day cost of providing the Council services.. Under the Local Government and Housing Act 1989, all expenditure is regarded as revenue unless it is specifically classified as capital.
<b>Revenue Support Grant</b>	A grant paid by central government as part of "formula grant" to support local authority services in general, as opposed to specific grants which may only be used for a prescribed purpose.
<b>Support Services</b>	Professional, technical and administrative activities, such as Finance, Information Technology and Human Resources, which support the provision of front line services

#### **ABBREVIATIONS**

<b>AMRA</b>	Asset Management Revenue Account
<b>BMW</b>	Biodegradable Municipal Waste
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>DCLG</b>	Department for Communities and Local Government
<b>DEFRA</b>	Department for Environment, Food and Rural Affairs
<b>DfES</b>	Department for Education and Skills
<b>FRS</b>	Financial Reporting Standard
<b>GLA</b>	Greater London Authority
<b>HRA</b>	Housing Revenue Account
<b>LATS</b>	Landfill Allowance Trading Scheme
<b>LEA</b>	Local Education Authority
<b>LGPS</b>	Local Government Pension Scheme
<b>LPFA</b>	London Pensions Fund Authority
<b>MRA</b>	Major Repairs Allowance
<b>MRP</b>	Minimum Revenue Provision
<b>(N)NDR</b>	(National) Non-Domestic Rate(s)
<b>ODPM</b>	Office of the Deputy Prime Minister (now defunct and replaced by DCLG)
<b>PFI</b>	Private Finance Initiative
<b>PWLB</b>	Public Works Loans Board
<b>RSG</b>	Revenue Support Grant
<b>SORP</b>	Statement of Recommended Practice
<b>SRB</b>	Single Regeneration Budget
<b>SSAP</b>	Statement of Standard Accounting Practice
<b>WDA</b>	Waste Disposal Authority