

LONDON BOROUGH OF TOWER HAMLETS

ANNUAL FINANCIAL REPORT 2011-12



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2003 - 2008
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ANNUAL FINANCIAL REPORT 2011-12

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EXPLANATORY FOREWORD

Overview by the Corporate Director of Resources

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2011/12, which reports our financial results for the year.

The accounts have been compiled in accordance with International Financial Reporting Standards, the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, and the Service Reporting Code of Practice. These constitute "proper accounting practice" with which councils must comply by statute. The Council also produce a summary of the accounts, which is less detailed than the full statement. This has been produced following consultation with stakeholders and is available from the Council's website at www.towerhamlets.gov.uk

The general economic climate in the UK, on-going reductions in main stream government grant funding and a continuing upward trend in the demand for key front line services in adult social care, children's services and housing have collectively created a challenging financial environment for the Council. Indeed, the resultant pressures on the Council's budget from inflation, demographic growth and the impact of new legislation required it to achieve budget savings for the year of £30million; a reduction of some 10% compared to 2010/11.

However, through strong financial management the Council's spend is in line with the revenue budget for the year and the level of general reserves increased by £3.0 million to £26.4 million (in line with the Medium Term Financial Plan). The Council's Value for Money assessment continues to be positive, so the overall financial position remains sound.

This solid financial base has helped to underpin the delivery of the Council's key policy objectives and specifically the Mayor's priorities, namely: improving the condition of social housing; increasing the supply of affordable social housing (particularly family sized housing); maintaining the provision of services for young people; delivering programmes of skills development, employment and enterprise activity; maintaining support to vulnerable adults; minimising the impact on resident household budgets and; protecting investment in activity that promotes community safety.

Key achievements in 2011/12 include:

- Delivering more than 2,000 affordable homes
- Improving street and environment cleanliness, including a reduction in litter, detritus, graffiti and fly-posting
- Reducing the number of young people not in education, employment or training
- Raising educational attainment – Tower Hamlets now performs better than the national average at GCSE level
- Supporting independent living – including increasing the number of social care users receiving self-directed support

Many of the key policy objectives have been delivered in conjunction with the Council's main strategic partners; Police, NHS Tower Hamlets, Jobcentre Plus and Tower Hamlets Council for Voluntary Services. This joined up approach to the provision of services for our residents is fundamental to improving the outcomes for service users and is overseen by the Local Strategic Partnership Executive, chaired by the Mayor.

The Council has continued to invest in its infrastructure with over £160 million spent on its capital programme. The main areas of investment were in housing and schools, with £28 million of improvement works through the housing programme and £84 million through the Building Schools for the future programme. However, other major projects included Victoria Park and the High Street 2012 scheme.

Looking forward the Council will continue to face significant financial challenges. The 2012-2015 Medium Term Financial Plan agreed by Full Council in February 2012 includes a £60 million savings programme, and whilst this forms the basis of a balanced budget over the next three years, there remain a number of major financial risks. Chief among these are the potential impact of government welfare reform and changes to the way in which local authority services are funded. Whilst the strength of the Council's balance sheet will enable it to effectively manage those risks in the short term, over the longer term they may require a further, more fundamental review of the way in which local services are delivered.

Introduction to the Statement of Accounts

This is the second year in which the Council's Statement of Accounts has been prepared on an International Financial Reporting (IFRS) basis. The main change in disclosures within the Accounts relate to the reporting of 'heritage' assets. These are assets which have historical or artistic qualities that are held and maintained principally for their contribution to knowledge and culture. The overall value of the Council's heritage assets has been estimated at £5 million and is shown separately on the balance sheet with an accompanying note.

The Council's expenditure and income are defined either as revenue or capital. Revenue is spending on, or income from, the day to day running of services whilst capital expenditure (and its financing) relates to investment in items (assets) that provide a benefit for more than one year; this mainly includes land, buildings, vehicles and equipment.

The Council's net revenue budget requirement is funded by government Formula Grant and Council Tax. This revenue budget is referred to as General Fund income and expenditure and covers all of the Council's main services except the management and maintenance of its social housing stock; this is accounted for separately through the Housing Revenue Account and is primarily funded by rent and service charge income.

The Comprehensive Income and Expenditure Account, Balance Sheet and cash Flow Statement set out on pages 8 to 11 of the Accounts are a consolidation of both the General Fund and the Housing Revenue Account. They also include the two other main accounts; the Collection Fund (detailed on pages 76 to 78) and the surplus or deficit on the Pension Fund Account (detailed on pages 86 to 98). The Collection Fund accounts for Council Tax collected on behalf of both the Council and the Greater London Authority (GLA) as well as Business Rates (also known as National Non-Domestic Rates or NNDR). The Council collects NNDR on behalf of the government, which also determines the level of rate for all businesses.

Tower Hamlet Homes (THH), the Council's Arms Length Management Organisation (or ALMO) run Council housing in the Borough. Although THH operate as a separate organisation with their own independent auditors, their annual accounts are consolidated with those of the Council in the Group Accounts which are set out on pages 79 to 85.

Review of the Year

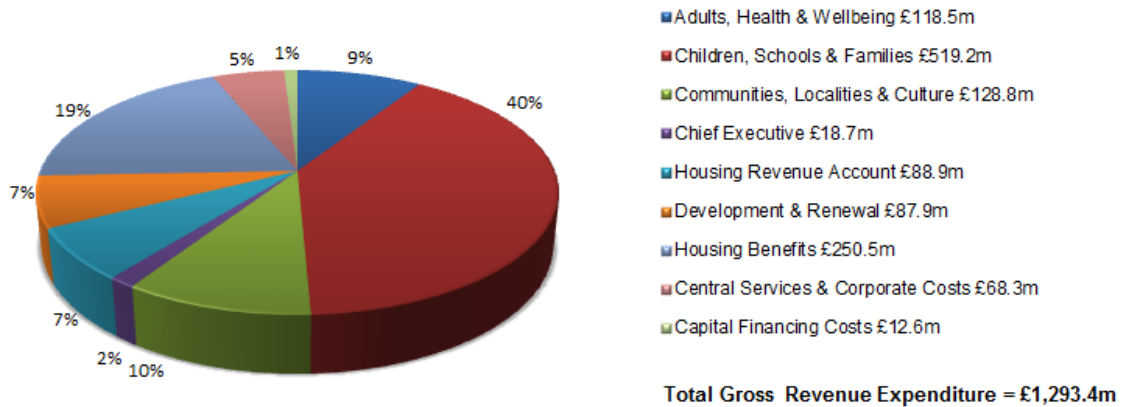
Revenue Income and Expenditure

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

Overall, the Council's spend is in line with the net General Fund budget of £311 million after the planned transfer of £3 million to General Fund Reserves. The HRA account showed an additional surplus of some £1.8 million against budget which has been transferred to the HRA reserves.

The Council's gross expenditure on services, excluding accounting adjustments, was £1.3 billion (£1.35 billion in 2010/11). An analysis by directorate is shown in the following diagram.

Analysis of Gross Revenue Expenditure by Service Area



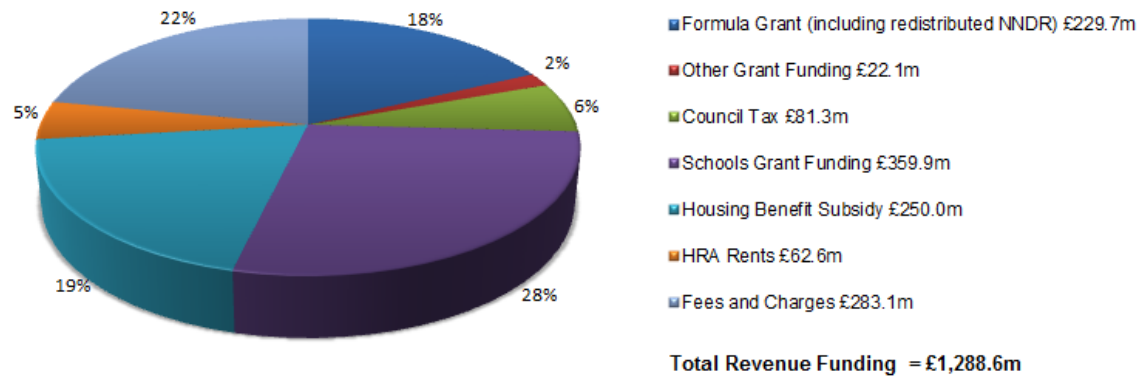
The reduction in government grant funding for the year required the Council to realise savings of some £30 million in its service budgets compared with 2010/11.

Revenue Funding

Government grants and subsidies continue to be the main sources of revenue funding (£0.86 billion). In its 2010 Spending Review the government not only reduced the overall level of grant funding to local authorities but also rationalised the way in which that funding is provided; this involved ‘rolling-up’ a large number of grants for specific services into either the main Formula Grant or a smaller number of Core Grants. The new Core Grants can be used to fund Council services in general rather than being tied to a specific service: this has provided a greater level of financial flexibility.

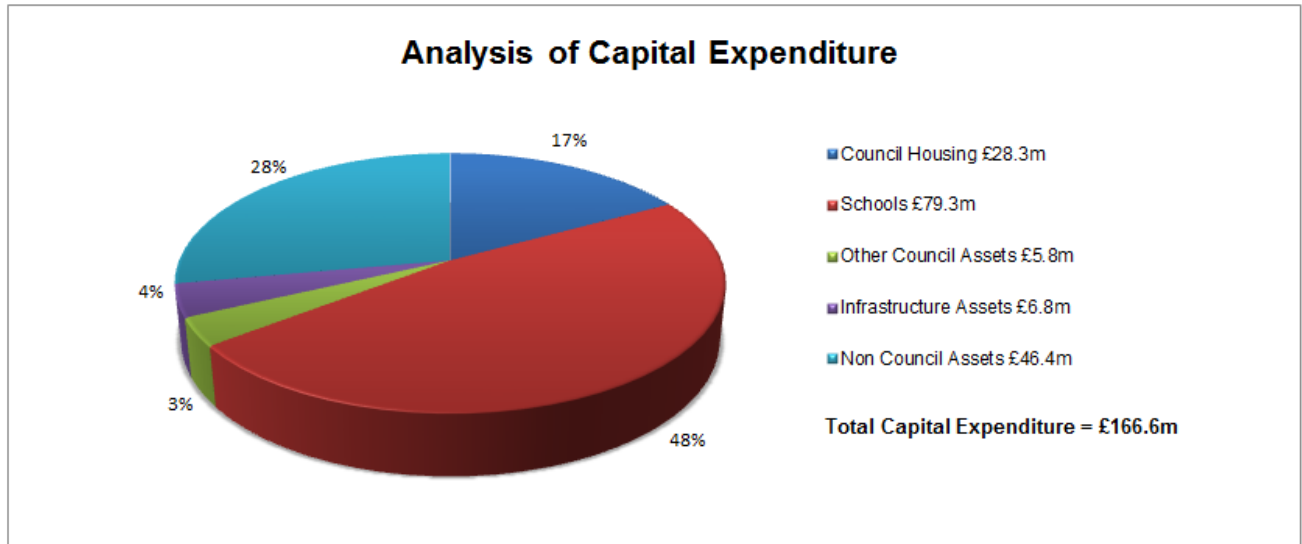
The main specific grant continues to be the Dedicated Schools Grant which can only be used to fund the education services and is largely ‘passported’ directly to the schools. An analysis of all the funding sources is shown in the diagram below.

Analysis of Revenue Funding Sources



Capital Investment

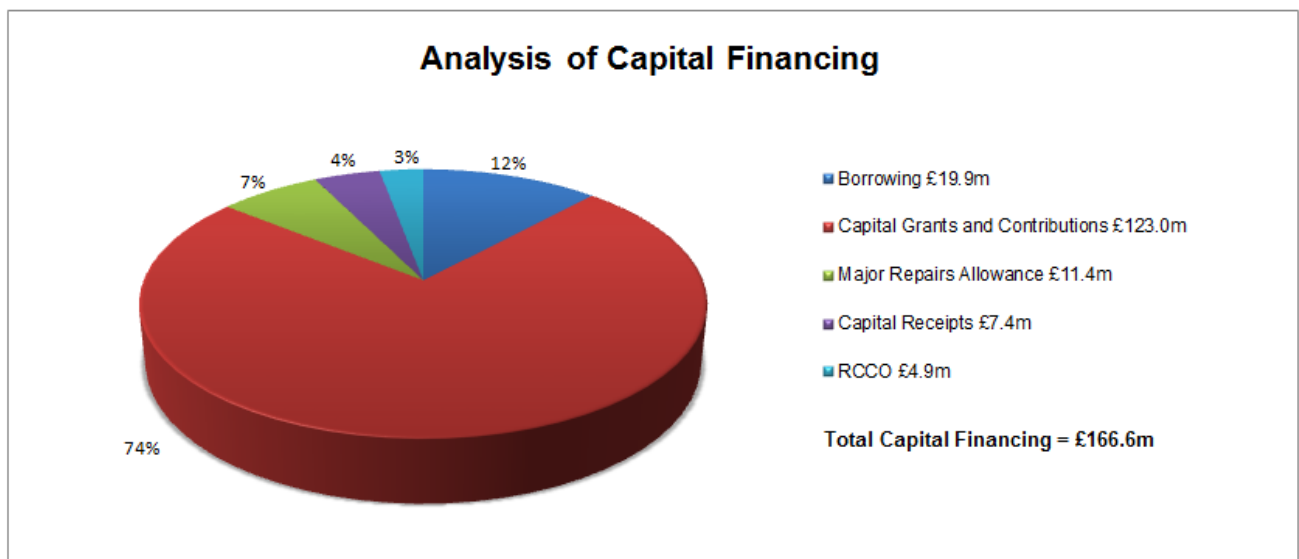
The Council has continued to make considerable capital investment in its capital assets. The following table sets out the broad categories of investment during the year with the main areas of spending being on schools (primarily



through the Building Schools for the Future Programme) and housing where the Council spent £28.3 million through its Housing Capital Programme.

Investment shown as being in 'non-Council assets' includes £26 million of expenditure on schools and children centres not owned by the Council (e.g. faith schools).

The table below shows the sources of funding for the capital programme. In the main this was from capital grants and contributions although there was £19.9 million of additional borrowing.



At the year end the Council had outstanding borrowings of £93 million. This is a reduction of £268 million compared to the 31st March 2011. This reduction reflects the repayment of £236 million of Public Works Loan Board debt by the government at year-end. This debt related to the Council's housing stock and was part of the move to putting the Housing Revenue Account on a 'self-financing' footing from April 2012 onwards.

Pensions

The Council offers retirement pensions to its staff under a statutory scheme and also makes contributions on their behalf. Although the pension benefits are not payable until employees retire, the Council has a commitment to make the payments and must account for them in the year in which the future entitlements are earned. This commitment is compared with the pension fund assets (investments) and the net amount is included in the accounts as the Council's pension net surplus or liability.

At the end of 2011/12 there was a net liability of £422.5 million (£308.7 million 2010/11). Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet the deficit will be addressed by increased contributions to the scheme in future years. These increased contributions have been reflected in the Council's Medium Term Financial Plan.

The increase in the net liability over the year is mainly a factor of the reduction in the actuarial forecast for the long term return on pension fund investments together with the market value of the investments at the year-end, which were adversely affected by the general uncertainty in the world's financial markets.

FURTHER INFORMATION

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

THE ACCOUNTING STATEMENTS

These comprise:

The **Statement of Accounting Policies** on which the figures in the accounts are based.

The **Core Financial Statements**:

The Movement in Reserves Statement, as well as showing reserve movements during the year, it also splits reserves between 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

The **Comprehensive Income and Expenditure Account** which reports the net cost for the year of all the functions for which the Council is responsible and demonstrates how the cost has been financed from general Government grants and income from local taxpayers. It brings together income and expenditure relating to all the Council's functions in three distinct sections, each divided by a sub-total, to give the net deficit or surplus for the year.

The **Balance Sheet** which shows the Council's financial position at the year-end - its balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operational activities together with summarised information on the fixed assets held.

The **Cash Flow Statement** which summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

Notes to the Core Financial Statements

Changes in the accounting treatment under IFRS are explained within the Statements.

The **Housing Revenue Account (HRA)** which reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989, and details the credit and debit items required to be taken into account in determining the surplus or deficit on the HRA for the year. It is accompanied by the **Statement of Movement on the HRA Balance** and appropriate **Notes**.

The **Collection Fund** which shows the transactions of the Council in relation to non-domestic rates and Council Tax and illustrates the way these have been distributed between Tower Hamlets Council and the Greater London Authority. It reflects the statutory requirement for billing authorities such as the Council to maintain a separate account.

The **Group Accounts** which combine the financial activities and position of the Council and its subsidiary Arms Length Management Organisation (ALMO), Tower Hamlets Homes, into amalgamated Core Financial Statements

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

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

MOVEMENT IN RESERVES STATEMENT

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

	NOTES	USABLE RESERVES						UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES £'000	
		GENERAL FUND BALANCE £'000	EARMARKED GENERAL FUND RESERVES* £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000		TOTAL UNUSABLE RESERVES £'000
Balance as at 31 March 2010		27,133	104,054	12,978	1,074	16,310	16,499	178,048	931,108	1,109,156
Movement in reserves during 2010/11										
Surplus or (Deficit) on the Provision of Services		163,715	0	(291,458)	0	0	0	(127,743)	0	(127,743)
Other comprehensive expenditure and income		0	0	0	0	0	0	0	291,725	291,725
Total Comprehensive Expenditure and Income		163,715	0	(291,458)	0	0	0	(127,743)	291,725	163,982
Adjustments between accounting basis and funding basis under regulations		(162,168)	0	291,266	5,272	8,115	3,251	145,736	(145,734)	2
Net Increase or Decrease before Transfers to Earmarked Reserves		1,547	0	(192)	5,272	8,115	3,251	17,993	145,991	163,984
Transfers to or from earmarked reserves	8	(1,042)	1,042	0	0	0	0	0	0	0
Transfers to or from school reserves	8	(4,258)	4,258	0	0	0	0	0	0	0
Increase or (Decrease) in 2010/11		(3,753)	5,300	(192)	5,272	8,115	3,251	17,993	145,991	163,984
Balance as at 31 March 2011 carried forward		23,380	109,354	12,786	6,346	24,425	19,750	196,041	1,077,099	1,273,140
Movement in reserves during 2011/12										
Surplus or (Deficit) on the Provision of Services		(34,864)	0	256,111	0	0	0	221,247	0	221,247
Other comprehensive expenditure and income		0	0	0	0	0	0	0	(102,533)	(102,533)
Total Comprehensive Expenditure and Income		(34,864)	0	256,111	0	0	0	221,247	(102,533)	118,714
Adjustments between accounting basis and funding basis under regulations		52,225	0	(254,319)	1,639	3,183	30,406	(166,866)	166,868	0
Net Increase or Decrease before Transfers to Earmarked Reserves		17,361	0	1,792	1,639	3,183	30,406	54,381	64,335	118,714
Transfers to or from earmarked reserves	8	(11,948)	11,948	0	0	0	0	0	0	0
Transfers to or from school reserves	8	(2,413)	2,413	0	0	0	0	0	0	0
Increase or (Decrease) in Year		3,000	14,361	1,792	1,639	3,183	30,406	54,381	64,335	118,714
Balance as at 31 March 2012		26,380	123,715	14,578	7,985	27,608	50,156	250,422	1,141,432	1,391,854

Deferred Capital Receipts were shown as Usable Reserve in 2010/11 published accounts. As per CIPFA Guidance note it is an Unusable Reserve, therefore it is been disclosed as **HRA Reserves** - The Housing Revenue Account reserve balance of £14.578 million includes an earmarked HRA reserve of £1 million for future housing supply.

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

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

Gross Expenditure Restated £'000	2010/11 Gross Income Restated £'000	Net Expenditure Restated £'000	Note	Gross Expenditure £'000	2011/12 Gross Income £'000	Net Expenditure £'000
Continuing Operations						
30,210	6,790	23,420	Cultural and Related Services	29,790	6,859	22,931
49,313	36,879	12,434	Central Services	47,938	38,760	9,178
522,938	421,065	101,873	Children's and Education Services	529,192	437,468	91,724
49,154	9,293	39,861	Environment and Regulatory Services	41,568	9,471	32,097
30,251	19,449	10,802	Highways and Transport Services	31,709	20,704	11,005
375,395	89,701	285,694	Local Authority Housing (Housing Revenue Account) ¹	66,921	90,718	(23,797)
296,010	272,252	23,758	Other Housing Services	305,846	285,696	20,150
34,535	14,990	19,545	Planning Services	30,045	19,648	10,397
121,561	26,329	95,232	Adult Social Care	116,743	29,626	87,117
13,754	1,118	12,636	Corporate and Democratic Core	14,981	2,897	12,084
7,393	134,032	(126,639)	Non-distributed Costs ³	14,584	250	14,334
1,530,514	1,031,898	498,616	NET COST OF SERVICES	1,229,317	942,097	287,220
		18,202	Other Operating Expenditure			130,450
		46,623	Financing and Investment Income and Expenditure ²			108,193
		(435,698)	Taxation and Non-Specific Grant Income ²			(747,110)
		127,743	(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES			(221,247)
			Other Comprehensive Income and Expenditure			
		(31,761)	Surplus on revaluation of non-current assets			(13,701)
		(259,963)	Actuarial (gains) or losses on pension assets and liabilities			116,236
		(291,724)	OTHER COMPREHENSIVE INCOME AND EXPENDITURE			102,535
(163,981) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				(118,712)		

1. Includes a revaluation loss on Housing stock of £283 million in 2010/11. See Note 5 for further details.

2. Includes effect of CLG debt repayment in March 2012. See Note 5 for further details.

3. Includes 2010/11 £134million gain to the Pension scheme following a change in future pension inflation rates. See Note 5 for further details.

BALANCE SHEET

This statement shows the Council's balances and reserves, its long term indebtedness and the non-current assets and net current assets employed in its operations as at 31st March 2012.

1 April 2010 £'000	31 March 2011 £'000		Notes	31 March 2012 £'000
Long-term Assets				
2,109,420	1,896,553	Property, plant and equipment	<u>12</u>	1,850,505
4,799	4,799	Heritage Assets	<u>43</u>	4,799
1,067	1,008	Long Term Debtors	<u>13</u>	768
2,115,286	1,902,360	Total Long-term assets		1,856,072
Current Assets				
40,818	100,929	Short-term investments	<u>15</u>	131,603
0	0	Assets held for sale	<u>21</u>	945
531	821	Inventories	<u>16</u>	517
88,620	90,431	Short-term debtors	<u>19</u>	74,912
81,700	136,563	Cash and cash equivalents	<u>20</u>	126,726
211,669	328,744	Total Current Assets		334,703
Current liabilities				
15,324	35,485	Short-term borrowing	<u>15</u>	2,266
96,519	130,688	Short-term creditors	<u>22</u>	147,043
1,003	855	Provisions	<u>23</u>	1,594
4,207	4,418	Provisions for accumulated absences	<u>23</u>	3,355
117,053	171,446	Total Current liabilities		154,258
Long Term Liabilities				
10,213	12,014	Provisions	<u>23</u>	13,088
302,475	325,533	Long-term borrowing	<u>15</u>	90,479
689,924	308,691	Liability related to defined benefit pension schemes	<u>41</u>	422,546
50,030	90,474	Capital grants receipts in advance	<u>37</u>	72,255
38,287	41,090	Deferred liabilities	<u>40</u>	40,299
9,817	8,717	Deferred Income - Receipt in Advance		5,996
1,100,746	786,519	Total Long-Term Liabilities		644,663
1,109,156	1,273,139	NET ASSETS		1,391,854
Reserves				
Usable Reserves				
27,134	23,380	General Fund		26,380
12,978	12,786	Housing Revenue Account		14,578
84,942	85,984	Earmarked reserves	<u>8</u>	97,932
19,111	23,370	Schools reserves	<u>8</u>	25,783
16,309	24,424	Capital receipts reserve		27,608
16,500	19,751	Capital grants unapplied		50,156
1,074	6,346	Major repairs reserve		7,985
178,048	196,041	Total Usable Reserves		250,422
Unusable Reserves				
514,696	533,521	Revaluation Reserve	<u>25</u>	497,734
1,105,580	852,406	Capital Adjustment Account		1,068,460
3,902	3,154	Collection Fund Adjustment Account		24
764	885	Financial Instruments Adjustment Account		959
(689,924)	(308,691)	Pensions reserve		(422,546)
(4,208)	(4,418)	Accumulated Absences Account		(3,355)
298	241	Deferred capital receipts		156
931,108	1,077,098	Total Unusable Reserves		1,141,432
1,109,156	1,273,139	TOTAL RESERVES		1,391,854

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

2010/11 £'000		Notes	2011/12 £'000
(127,743)	Net surplus or (deficit) on the provision of services		221,247
272,277	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>26A</u>	205,036
(119,569)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>26A</u>	(163,976)
24,965	Net cash flows from Operating Activities		262,307
(13,002)	Investing Activities	<u>27</u>	(3,577)
42,900	Financing Activities	<u>28</u>	(268,567)
54,863	Net increase or decrease in cash and cash equivalents		(9,837)
81,700	Cash and cash equivalents at the beginning of the reporting period		136,563
136,563	Cash and cash equivalents at the end of the reporting period	<u>20</u>	126,726

NOTE 1. STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31st March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the *Best Value Accounting Code of Practice 2011/12*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of long-term assets and financial instruments.

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council including the group accounts for the year ending 31st March 2012 and to ensure it is compliant with relevant statutory accounting requirements issued by the International Accounting Standards Board (IASB). Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the:

- Materiality concept means that information is included where the information is of such significance as to justify its inclusion.
- Accruals concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received.
- Going concern concept assumes that the Council will continue in operational existence for the foreseeable future
- Primacy of Legislation - local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority. This includes the accounting of fees, charges and rents due from customers; these are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.
- The Council operates a de minimus of £5,000 below which items of income and expenditure are not normally accrued for.

3. Cash and Cash Equivalents

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

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

4. Exceptional Items

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

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

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

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

Changes in Accounting Policy:

Heritage Assets - For 2011/12, the adoption of FRS 30 *Heritage Assets* in the Code is a change of accounting policy. This requires the publication of a Balance Sheet as at the beginning of the earliest comparative period (i.e. a third Balance Sheet) in the 2011/12 financial statements where the restatement for the measurement of heritage assets is material. In addition, the disclosures required by section 4.10.4 of the Code shall be provided for the comparative year in the 2011/12 financial statements.

SERCOP Changes - Cultural, Environmental, Regulatory and Planning Services have been divided into separate categories on the face of the Comprehensive Income and Expenditure Account.

Other changes – other changes adopted in the 2011/12 Code did not require additional disclosure for the 2010/11 or 2011/12 financial statements.

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

5a. The following Accounting Standards have been issued but have not been adopted

Changes to IFRS7 - Financial Instrument disclosures that require information of the transfer of financial assets within the financial statements will be included within the 2012/13 financial statements where appropriate and material.

6. Charges to Revenue for Long-term Assets

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

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible long-term assets attributable to the service

The Council is not required to raise Council Tax to fund depreciation, revaluation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Benefits

a. Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. If material, an accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b. Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy and a reliable estimate can be made of the cost.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

c. Post-Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Local Government Pension Scheme, administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

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

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the

Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The DfE set the teacher's pension contribution rate.

The Local Government Pension Scheme

The Local Government scheme is a defined benefits scheme.

The Council's wholly owned subsidiary, Tower Hamlets Homes Limited (THH), is a Local Government Pension Scheme Employer in accordance with the Local Government Pension Scheme (Amendment) Regulations 2002. The Council has indemnified THH in respect of all liabilities that have arisen or may arise from its pension obligations.

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

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years) as at 31st March 2012.

Assets attributable to the Council are included in the Balance Sheet at their fair value. Quoted or unitised securities are valued at current bid price; unquoted securities on the basis of professional estimate; and property at market value.

The change in the net pension liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost – the increase in liabilities arising from current year decisions the effect of which relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- gains and losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, credited or debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve.
- contributions paid to the pension funds – cash paid as employer's contributions to the pension funds.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension funds and any amounts payable to the funds but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees as calculated under IAS19.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- a. those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such material events
- b. those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect, or a statement that an estimate cannot be reliably made.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue (these will be added as matters arise).

9. Financial Instruments

a. Financial Liabilities

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the

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

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

b. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited / debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

10. Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

11. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (revenue grants) or Capital Grants Receipts in Advance account (capital grants). When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Unapplied revenue grants without repayment conditions are shown as earmarked reserves.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where a repayment of grants or contributions becomes repayable where the grant or contribution has previously been recognised in the Comprehensive Income and Expenditure Statement the repayment is recognised as an expense in the Comprehensive Income and Expenditure Statement.

Government grants and contributions may be received subject to a condition that it is returned to the transferor if a specified future event does or does not occur. A return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Comprehensive Income and Expenditure Statement.

12. Heritage assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change in accounting policy in relation to the treatment of heritage assets held by the Council, which has been adopted by the Council for the financial statements.

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £4.8 million at 31 March 2012. This valuation is based on valuations for art and museum collections where the asset has a material value. The authority holds information on the value of an item of material value within the art collection (one painting), two public statues and civic regalia (value held for insurance purposes).

Where the Council has information on the cost or value of a heritage asset the Council includes that value in its 2011/12 balance sheet. Where this information is not available and the historical cost information cannot be obtained the asset is excluded from the balance sheet.

Operational heritage assets (i.e. those that in addition to being held for their heritage characteristics are also used for other activities or provide other services) are accounted for as operational assets and valued in the same way as other assets of that type.

Heritage assets (other than operational heritage assets) shall normally be included in the balance sheet at their current value where material. The Council has a materiality threshold of £50,000 for considering heritage assets for valuation. Where it is not practical to obtain a valuation at a reasonable cost heritage assets are valued at cost where known. Most heritage assets owned by the council have an historical interest to the Borough, but would not have material market value. Due to the nature of these assets, it is unlikely the Council will look to sell these assets.

Valuations are made by any method that is appropriate, including reference to sale proceeds of similar items by same artist to demonstrate values are clearly under materiality values. There is no requirement for valuations to be carried out or certified by external valuers nor is there any prescribed minimum period between valuations. The Council has four heritage assets that have material values, these values are reviewed periodically, however the real value would only be established upon sale as valuations on assets of this nature are subjective.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a material heritage asset or doubts arise to its authenticity the value of the asset would be reviewed.

13. Intangible Long Term Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Annual software licence fees are charged to capital and amortised in that year

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service

line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

14. Interests in Companies and Other Entities

The Council has a material interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council and which requires group accounts to be prepared. The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. In the Council's own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

15. Inventories and Long Term Contracts

Inventories (stocks) are included in the Balance Sheet at the lower of cost and net realisable value. Where material, the council would select a valuation process appropriate for the asset.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

16. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

17. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

The Authority as a Lessee

The Council has reviewed in detail its leases and has determined that, except for PFI agreements, there are a small number of finance leases with immaterial asset values, so the agreement costs are charged to revenue. For finance leases (including the PFI assets), the accounting policy is as follows;

a. Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible property, plant or equipment asset – the liability is written down as the rent becomes payable), and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

b. Operating Leases

Leases that do not meet the definition of finance leases as described above are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account within the Comprehensive Income and Expenditure Statement on an equalised basis over the term of the lease, to reflect the economic benefits consumed over the life of the lease, irrespective of fluctuations in annual payments.

The Authority as a Lessor

The council has some operating leases as a lessor; the accounting policy is as follows:

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

18. Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.

- Non Distributed Costs – costs not attributable to services such as depreciation and impairment losses chargeable on non-operational properties

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

19. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost.
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value – this is commonly used as a basis for valuing vehicles, plant and equipment.

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

- **infrastructure** – straight-line allocation over 40 years

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

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

Any assets with a value below £0.5 million are not considered material for containing separate components. Separate components will be considered in an asset with a value greater than £0.5 million if the component has a value of greater than 25% of the asset and the remaining life of the asset is materially different from the underlying asset.

Disposals and Non-Current Assets Held for Sale

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

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

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

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

20. Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment long-term assets needed to provide services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The Council is party to two PFI contracts in respect of schools which terminate in 2027 and 2029.

The original recognition of these long-term assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for capital investment. Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

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

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

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

There is also a third PFI contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. As the Council does not pay for this scheme, there is no MRP chargeable. The assets of the CHP scheme are included on the council's balance sheet with a deferred income balance (from 2010/11), both of which are written down over the term of the contract.

21. Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, if the Council were to be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service account.

Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant revenue account if it is virtually certain that reimbursement will be received if the Council settles the obligation.

b. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

c. Contingent Assets

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

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

22. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement of Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the relevant service revenue account in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for long-term assets, financial instruments, retirement and employment benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

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

23. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of long-term assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement of Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

24. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

25. Collection Fund

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). This account receives income on behalf of the Council and its other preceptor, the Greater London Authority (GLA).

Council Tax income for the year is the Council's accrued income for the year and not the amount required to be transferred from the Collection Fund under regulation. The difference between the amount included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included within the Movement of Reserves Statement.

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

The Council's share of net cash collected from Council Tax debtors in the year is included within the Cash Flow Statement. The difference between the major preceptors' share of net cash collected and amounts paid to the precepting authorities is included in the net cash-flows for financing activities.

The amount included in the Council's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of a cost of collection allowance) that has not yet been paid to the Government or has been overpaid to the Government on the Balance Sheet date.

26. Carbon Reduction Commitment Scheme

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current

market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

NOTE 2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in note 1, the Authority has had to make certain judgments about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The Council is accounted for on a going concern basis this is supported by the Council's medium term financial plan which shows a balanced budget over the next three years as well as an appropriate level of reserves having regard to the financial risks facing the Council in terms of future levels of government funding and increasing service demand.
- Assets have been valued at an appropriate level - property is regularly reviewed to identify possible impairment and there is a rolling five-year valuation programme.
- All assets are reflected in the Council's balance sheet – the Council maintains a comprehensive asset register and contracts have been reviewed to identify potential embedded service concessions or embedded leases.
- The Pension Fund deficit can be managed within the constraints of the medium term financial plan - the Council's pension fund investment strategy and funding level is closely monitored in conjunction with the Fund's Advisors and Actuary and appropriate provision is included in the accounts to ensure that pension liabilities can be met over the longer term.
- The level of creditors shown in the accounts properly reflects the level of such liabilities - the Council has an effective purchase ledger system and associated internal control procedures to ensure that all creditors are recognised in the accounts with an appropriate value based on the expected value of goods ordered and received in the old financial year but not paid.

3 RESTATED ACCOUNTING STATEMENTS

Restated Comprehensive Income & Expenditure Account

The Comprehensive Income and Expenditure Account has been restated to show the cost of exit packages against the relevant service line rather than against Non Distributed Costs and Cultural, Environmental, Regulatory and Planning Services have been divided into three separate headings to comply with the latest CIPFA Service Expenditure Analysis. The restatements are as follows:

2010/11 Comprehensive Income and Expenditure Statement				
Continuing Operations				
Cost of Services (Net):				
	2010/11	Exit Packages	Reallocated Cultural, Environmental, Regulatory & Planning Services	Restated 2010/11
	Statements	£'000	£'000	Statements
	£'000	£'000	£'000	£'000
Cultural, Environmental, Regulatory and Planning Services				
Gross expenditure	117,491	0	(117,491)	0
Gross income	(31,365)	0	31,365	0
Net expenditure	86,126	0	(86,126)	0
Children's and Education Services				
Gross expenditure	514,007	2,350	6,581	522,938
Gross income	(418,789)	0	(2,276)	(421,065)
Net expenditure	95,218	2,350	4,305	101,873
Central Service				
Gross expenditure	48,533	640	140	49,313
Gross income	(38,027)	0	1,148	(36,879)
Net expenditure	10,506	640	1,288	12,434
Culture and Related Services				
Gross expenditure	0	858	29,352	30,210
Gross income	0	0	(6,790)	(6,790)
Net expenditure	0	858	22,562	23,420
Environmental and Regulatory Services				
Gross expenditure	0	777	48,377	49,154
Gross income	0	0	(9,293)	(9,293)
Net expenditure	0	777	39,084	39,861
Highways and Transport Services				
Gross expenditure	29,927	293	31	30,251
Gross income	(19,449)	0	0	(19,449)
Net expenditure	10,478	293	31	10,802
Local Area Housing (Housing Revenue Account)				
Gross expenditure	375,395	0	0	375,395
Gross income	(89,701)	0	0	(89,701)
Net expenditure	285,694	0	0	285,694
Other Housing Services				
Gross expenditure	295,572	438	0	296,010
Gross income	(272,252)	0	0	(272,252)
Net expenditure	23,320	438	0	23,758
Planning Services				
Gross expenditure	0	689	33,846	34,535
Gross income	0	0	(14,990)	(14,990)
Net expenditure	0	689	18,856	19,545
Adult Social Care				
Gross expenditure	121,500	897	(836)	121,561
Gross income	(27,165)	0	836	(26,329)
Net expenditure	94,335	897	0	95,232
Corporate and Democratic Core				
Gross expenditure	12,281	1,473	0	13,754
Gross income	(1,118)	0	0	(1,118)
Net expenditure	11,163	1,473	0	12,636
Non Distributed Costs				
Gross expenditure	15,808	(8,415)	0	7,393
Gross income	(134,032)	0	0	(134,032)
Net expenditure	(118,224)	(8,415)	0	(126,639)
Net Cost of Services Sub-Total (unchanged)				
Gross expenditure	1,530,514	0	0	1,530,514
Gross income	(1,031,898)	30	0	(1,031,898)
Net expenditure	498,616	0	0	498,616

3 RESTATED ACCOUNTING STATEMENTS

HERITAGE ASSETS

FRS30 requires that heritage assets are shown on the Council's balance sheet where material. The 1st April 2010 and 31st March 2011 balance sheets have been restated to include these asset values. Refer to note 43 for more information.

Opening 1 April 2010 Balance Sheet

	1 Apr 2010 Balance Sheet	Adjustments Made	Restated 1 Apr 2010 Statements
	£'000	£'000	£'000

Non-Current Assets

Heritage Assets	0	4,799	4,799
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Non-Usable Reserves

Revaluation Reserve	(509,897)	(4,799)	(514,696)
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31st March 2011 Balance Sheet

	2010/11 Statements	Adjustments Made	Restated 2010/11 Statements
	£'000	£'000	£'000

Non-Current Assets

Heritage Assets	0	4,799	4,799
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Non-Usable Reserves

Revaluation Reserve	(528,722)	(4,799)	(533,521)
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Note 37 - Grant Income has been restated to detail material revenue grants not disclosed within the 2010/11 accounting statements.

NOTE 37 - GRANT INCOME 2010/11

	2010/11 Statement	Adjustments Made	Restated 2010/11 Statement
	£'000	£'000	£'000

Credited to Services

Capital Grants funding REFCUS	(19,231)	0	(19,231)
Developers' Contributions (capital) funding REFCUS	(2,064)	0	(2,064)
Developers' Contributions (revenue)	(2,086)	0	(2,086)
Standards Fund	(3,632)	(40,247)	(43,879)
PFI Credits	0	(11,828)	(11,828)
Learning Skills Council Post 16 schools	0	(14,672)	(14,672)
Other revenue grants	(1,725)	(50,126)	(51,851)
Total Credited to Services	(28,738)	(116,872)	(145,610)

Total Grant Income in Comprehensive Income & Expenditure Account	(184,258)	(116,873)	(301,131)
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4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31st March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Property, Plant and Equipment - Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £2 million for every year that useful lives had to be reduced.

Heritage Assets - In valuing material heritage assets, valuations have been obtained from independent valuers where practicable. Where a value has been given between a certain band, then the mid-point valuation is used. However, because of their unique nature the value of heritage assets is difficult to predict. There is a risk that the value of heritage assets is incorrectly stated, but this would only become apparent if the asset is sold. As most heritage items have been given a nil value as the assets have values significantly below the materiality threshold, any risk is that assets' value is understated. Also, as the assets are a record of the Borough's heritage, it is unlikely that they will be sold.

Debtors - The Council has a balance of £46m sundry debtors at 31st March 2012. A bad debt provision equating to 25% exists. If collection levels were to deteriorate, then an increase of the provision by 10% would equate to £1.1m.

Creditors - creditors are raised based on the value of goods received in the old financial year where payment has not been made to the supplier. The value of year-end creditor is based on the expected value of the order to be paid, however there is the possibility that the final amount payable might vary. At 31st March 2012, the value of these creditors was £5.2 million.

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

The assumptions interact in complex ways. During 2011/12, the Authority's actuaries advised that the net pensions liability had increased by £114 million, partly as a result of investment returns and bond yields being lower than expected.

5 Material Items of Income and Expense

Previous Year Items

Due to a change in valuation guidance, £283m of revaluation loss was charged to the Comprehensive Income and Expenditure Account in 2010/11. However this was not a real charge to the General Fund in accordance with statute and as such is reversed out the Capital Adjustment Account. Further details are in Note 3 to the Housing Revenue Account.

Projected pension liabilities reduced in 2010/11 following the Government announcement that the Consumer Price Index rather than the Retail Price Index will be used as the basis for future increases to public sector pensions in payment and deferment. The 2010/11 gain to the pension scheme was estimated at £134 million and shown within Non Distributed Costs within the Comprehensive Income & Expenditure Account for 2010/11. More details are in note 41 to the Accounts.

Current Year Items

Communities & Local Government (CLG) Debt Repayment - In March 2012, the CLG repaid a total of £236.2 million of PWLB loans used to finance housing as part of a nationwide debt re-allocation programme under the new HRA Self-Financing arrangements which come into effect from 1st April 2012. The debt repayment included a £76.3 million debt premium from early repayment.

6 Events After the Balance Sheet Date

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

7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2011/12	USABLE RESERVES							UNUSABLE RESERVES	
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account									
<u>Reversal of items debited or credited to the Comprehensive I&E</u>									
Charges for depreciation and impairment of non current assets	26,995	0	1,758	13,021	0	0	41,774	(41,774)	0
Revaluation losses on PPE (charged to SDPS)	4,300	0	(7,782)	0	0	0	(3,482)	3,482	0
Movements on the market value of investment assets	0	0	0	0	0	0	0	0	0
Amortisation of intangible assets	1,270	0	0	0	0	0	1,270	(1,270)	0
Capital grants and contributions applied	(101,402)	0	(1,827)	0	0	(19,756)	(122,985)	122,985	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	43,017	0	3,353	0	0	0	46,370	(46,370)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	135,729	0	3,542	0	0	0	139,271	(139,271)	0
Capital receipts from Secretary of State used to repay debt in accordance with the HRA Settlement Determination	0	0	(236,199)	0	0	0	(236,199)	236,199	0
<u>Inclusion of items not debited or credited to the Comprehensive Income & Expenditure Statement</u>									
Statutory provision for the financing of capital investment	(8,877)	0	0	0	0	0	(8,877)	8,877	0
Capital expenditure charged against the General Fund and HRA balances	(2,638)	0	(2,224)	0	0	0	(4,862)	4,862	0
Adjustments involving the Capital Receipts Reserve									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(895)	0	(5,487)	0	6,382	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(7,462)	0	(7,462)	7,462	0
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	6	0	(15)	0	9	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	24	0	0	0	(24)	0	0	0	0
Unattached capital receipts	(16)	0	(4,177)	0	4,193	0	0	0	0
Deferred Capital Receipts	0	0	0	0	85	0	85	(85)	0
Adjustment involving the Major Repairs Reserve									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(11,382)	0	0	(11,382)	11,382	0
Adjustments involving the Financial Instruments Adjustment Account									
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	101	0	(175)	0	0	0	(74)	74	0
Adjustment involving the Pensions Reserve									
Reversal of items relating to retirement benefits debited or credited to the CIES	31,546	0	713	0	0	0	32,259	(32,259)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(32,129)	0	(2,510)	0	0	0	(34,639)	34,639	0
Adjustments involving the Collection Fund Adjustment Account									
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	3,130	0	0	0	0	0	3,130	(3,130)	0
Adjustments involving the Unequal Pay Back Pay Adjustment Account									
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0
<u>Other adjustments include</u>									
Adjustments involving the Capital Grants Unapplied Account									
Capital grants and contributions unapplied credited to CIES when receivable	(46,873)	0	(3,289)	0	0	50,162	0	0	0
Adjustment between the Capital Adjustment Account and the Revaluation Reserve									
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0
Transfers from General Fund (as directed by Secretary of State)									
	0	0	0	0	0	0	0	0	0
Adjustments involving the Accumulated Absences Account									
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,063)	0	0	0	0	0	(1,063)	1,063	0
Total Adjustments	52,225	0	(254,319)	1,639	3,183	30,406	(166,866)	166,866	0

ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2010/11	USABLE RESERVES							UNUSABLE RESERVES	
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments involving the Capital Adjustment Account									
<u>Reversal of items debited or credited to the Comprehensive I&E</u>									
Charges for depreciation and impairment of non current assets	23,829	0	1,477	12,913	0	0	38,219	(38,219)	0
Revaluation losses on PPE (charged to SDPS)	1,210	0	293,654	0	0	0	294,864	(294,863)	1
Movements on the market value of investment assets	0	0	0	0	0	0	0	0	0
Amortisation of intangible assets	836	0	0	0	0	0	836	(836)	0
Capital grants and contributions applied	(74,541)	0	(5,989)	0	0	(21,918)	(102,448)	102,448	0
Movement in the donated assets account	0	0	0	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	24,646	0	7,676	0	0	0	32,322	(32,322)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	12,053	0	18,257	0	0	0	30,310	(30,311)	(1)
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(7,373)	0	0	0	0	0	(7,373)	7,373	0
Capital expenditure charged against the General Fund and HRA balances	(6,851)	0	(335)	0	0	0	(7,186)	7,186	0
Adjustments involving the Capital Receipts Reserve									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(3,343)	0	(10,140)	0	13,483	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(5,792)	0	(5,792)	5,792	0
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	11	0	92	0	(103)	0	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	0	0	0	0	0	0	0	0	0
Unattached capital receipts	(214)	0	(236)	0	450	0	0	0	0
Deferred Capital Receipts	0	0	(19)	0	76	0	57	(57)	0
Adjustment involving the Major Repairs Reserve									
Reversal of Major Repairs Allowance credited to the HRA	0	0	0	0	0	0	0	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(7,641)	0	0	(7,641)	7,641	0
Adjustments involving the Financial Instruments Adjustment									
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	101	0	(222)	0	0	0	(121)	121	0
Adjustment involving the Pensions Reserve									
Reversal of items relating to retirement benefits debited or credited to the CIES	(78,795)	0	(6,416)	0	0	0	(85,211)	85,211	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(34,021)	0	(2,038)	0	0	0	(36,059)	36,059	0
Adjustments involving the Collection Fund Adjustment Account									
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	748	0	0	0	0	0	748	(748)	0
Adjustments involving the Unequal Pay Back Pay									
Amount by which amounts charged for Equal Pay claims to the CIES are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0	0	0	0	0
<u>Other adjustments include</u>									
Adjustments involving the Capital Grants Unapplied Account									
Capital grants and contributions unapplied credited to CIES	(20,269)	0	(4,900)	0	0	25,169	0	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	0	0	0	0
Adjustment between the Capital Adjustment Account and the									
Depreciation of non-current asset revaluation gains	0	0	0	0	0	0	0	0	0
Revaluation gains written out on disposal	0	0	0	0	0	0	0	0	0
Transfers from General Fund (as directed by Secretary of	(406)	0	406	0	0	0	0	0	0
Adjustments involving the Accumulated Absences Account									
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	211	0	0	0	0	0	211	(211)	0
Total Adjustments	(162,168)	0	291,267	5,272	8,114	3,251	145,736	(145,736)	0

8 TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2011/12

	BALANCE AT 1 APRIL 2010	TRANSFERS OUT 2010/11	TRANSFE-RS IN 2010/11	BALANCE AT 31 MARCH 2011	TRANSFERS OUT 2011/12	TRANSFERS IN 2011/12	BALANCE AT 31 MARCH
GENERAL FUND							
General Fund Reserve	27,134	(3,754)	0	23,380	0	3,000	26,380
EARMARKED RESERVES							
Corporate							
1 Improvement & Efficiency	11,296	(5,444)	1,181	7,033	(66)	4,529	11,496
2 Severance	4,000	0	0	4,000	0	0	4,000
3 Finance Systems	2,724	0	0	2,724	0	0	2,724
4 ICT Refresh	1,417	(62)	0	1,355	0	0	1,355
5 Olympics	1,493	(700)	1,644	2,437	(558)	0	1,879
6 Education Grant Reduction	0	0	4,000	4,000	0	0	4,000
7 Employment and other Corporate Initiatives	3,594	(1,401)	1,563	3,756	(1,295)	3,775	6,236
8 Other	6,050	(3,739)	1,110	3,421	(1,480)	0	1,941
Service Specific							
9 Homelessness	2,451	(220)	284	2,515	(390)	799	2,924
10 Parking Control	1,828	0	610	2,438	0	158	2,596
11 PFI (Building School for Future)	0	0	1,345	1,345	(1,345)	0	0
12 Development & Renewal Other	1,127	(382)	367	1,112	(173)	1,865	2,804
13 Communities, Localities & Culture	540	(227)	139	452	0	215	667
14 Children, Schools & Families	4,115	(3,393)	233	955	(840)	388	503
15 Adults, Health & Wellbeing	4,396	(2,968)	165	1,593	(114)	4,055	5,534
16 Chief Executives & Resources	193	(193)	0	0	0	102	102
Revenue Reserves - Other							
17 Insurance	24,734	(1,964)	2,050	24,820	(733)	0	24,087
18 Schools Balances	19,111	0	4,259	23,370	(4,756)	7,169	25,783
19 CSF - Early Intervention	1,633	0	3,632	5,265	(1,204)	123	4,184
20 Housing Revenue Account (HRA)	12,978	(192)	0	12,786	0	792	13,578
21 Housing Revenue Account - Future Housing Supply	0	0	0	0	0	1,000	1,000
Capital Reserves							
22 Capital Programme (General Fund)	13,353	(1,290)	4,700	16,763	(151)	4,288	20,900
Earmarked Reserve Total	117,033	(22,175)	27,282	122,140	(13,105)	29,258	138,293
Total Usable Reserve Total	144,167	(25,929)	27,282	145,520	(13,105)	32,258	164,673

Corporate Reserves

- 1 Reserve created to support the delivery of the Council's savings programme.
- 2 Reserve for potential severance / redundancy payments.
- 3 & 4 Reserve to support the planned investment in a new finance system.
- 5 Reserve created from grant income to support initiatives related to the Olympics programme.
- 6 Reserve to mitigate the impact of reductions to education improvement grant funding.
- 7 Reserve for employment, business support and corporate initiatives.
- 8 Other reserves for community based initiatives.

Service Specific Reserves

- 9 A reserve to mitigate the impact of the increased cost of dealing with homelessness.
- 10 Reserve to finance highways and transport related improvements.
- 11 Reserve to fund the Building Schools for the Future (BSF) programme.
- 12-16 Reserves held for service specific initiatives.

Revenue Reserves - Other

- 17 The Council is self insured for most liability and property risks below £1 million. The level of the reserve is reviewed annually and where appropriate an amount transferred to the Insurance Provision.
- 18 Reserves held by schools under the scheme of delegation.
- 19 Reserve created from grant for early intervention schemes.
- 20 The reserve balance on the ring-fenced Housing Revenue Account to be used for the provision of social housing in the Borough.
- 21 An earmarked HRA reserve to fund future housing projects.

Capital Reserves

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

9 Other Operating Expenditure

2010/11 £'000	Note	2011/12 £'000
Levies		
257	- Lee Valley Regional Park Authority	263
168	- Environment Agency	175
1,297	- London Pensions Fund Authority	1,300
1,722	Total Levies	1,738
0	Payments to Housing Capital Receipts Pool	24
16,930	Net (gain)/loss on disposal of non-current assets	132,881
(450)	Unattached capital receipts	(4,193)
18,202	Total	130,450

10 Financing and Investment Income and Expenditure

2010/11 £'000		2011/12 £'000
28,505	Interest payable and similar charges	26,926
0	HRA Settlement Determination (premia)	76,280
19,913	Pensions interest cost and expected return on pensions assets	8,004
(1,697)	Interest receivable and similar income	(2,838)
(98)	Surplus or deficit of trading operations	(179)
46,623	Total	108,193

11 Taxation and Non Specific Grant Income

2010/11 £'000		2011/12 £'000
(77,417)	Council Tax income	(78,161)
(202,761)	Non domestic rates	(175,443)
(71,496)	Non-ringfenced Government grants	(64,780)
(84,024)	Capital grants and contributions	(116,247)
0	HRA Settlement Determination (including premia)	(312,479)
(435,698)	Total	(747,110)

12 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2011/12	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRA-STRUCTURE ASSETS	COMMUNITY ASSETS	SURPLUS ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2011	789,321	1,182,639	20,917	126,064	49,602	11,664	616	2,180,823	295,002
Additions	28,262	81,186	1,395	6,825	520	0	769	118,957	19,785
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(12,913)	9,679	0	0	0	(140)	0	(3,374)	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	8,316	(4,834)	0	0	0	0	0	3,482	0
Derecognition - Disposals	(568)	(141,327)	(32)	0	0	(1,570)	0	(143,497)	0
Derecognition - Other	0	(6,510)	0	(281)	0	0	0	(6,791)	0
Assets Reclassified (to)/from Held for Sale	0	0	0	0	0	(945)	0	(945)	0
Other Reclassification of Assets	0	(1,430)	0	0	0	1,430	0	0	0
At 31 March 2012	812,418	1,119,403	22,280	132,608	50,122	10,439	1,385	2,148,655	314,787
Accumulated Depreciation and Impairment									
At 1 April 2011	151,412	90,733	12,692	28,978	0	455	0	284,270	18,595
Depreciation charge	13,021	23,406	2,175	3,188	0	183	0	41,973	6,014
Depreciation written out to the Revaluation Reserve	(12,913)	(4,097)	0	0	0	(65)	0	(17,075)	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
Derecognition - Disposals	0	(10,402)	(26)	0	0	(138)	0	(10,566)	0
Derecognition - Other	0	(397)	0	(55)	0	0	0	(452)	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassification of Assets	0	(111)	0	0	0	111	0	0	0
At 31 March 2012	151,520	99,132	14,841	32,111	0	546	0	298,150	24,609
Net Book Value									
At 31 March 2012	660,898	1,020,271	7,439	100,497	50,122	9,893	1,385	1,850,505	290,178
At 31 March 2011	637,909	1,091,906	8,225	97,086	49,602	11,209	616	1,896,553	276,407

12 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPARATIVE MOVEMENTS IN 2010/11	COUNCIL DWELLINGS	OTHER LAND AND BUILDINGS	VEHICLES, PLANT, FURNITURE & EQUIPMENT	INFRASTRUCTURE ASSETS	COMMUNITY ASSETS	SURPLUS ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2010	1,071,840	1,112,540	14,147	117,188	48,410	4,270	0	2,368,395	282,267
Additions	29,714	72,277	2,506	8,876	1,612	0	616	115,601	7,822
Donations	0	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(12,586)	29,897	0	0	0	500	0	17,811	(64)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(283,172)	(11,690)	0	0	0	0	0	(294,862)	0
Derecognition - Disposals	(16,805)	(2,745)	0	0	0	(2,356)	0	(21,906)	0
Derecognition - Other ³	0	(8,639)	(134)	0	(420)	0	0	(9,193)	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other reclassification of assets	330	(9,580)	0	0	0	9,250	0	0	0
Other Movements in Cost or Valuation ¹	0	579	4,398	0	0	0	0	4,977	4,977
At 31 March 2011	789,321	1,182,639	20,917	126,064	49,602	11,664	616	2,180,823	295,002
Accumulated Depreciation and Impairment									
At 1 April 2010	151,056	72,210	9,691	26,018	0	0	0	258,975	11,346
Depreciation charge	12,913	20,743	1,717	2,960	0	83	0	38,416	5,847
Depreciation written out to the Revaluation Reserve	(12,587)	(1,364)	0	0	0	0	0	(13,951)	(214)
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0	0
Derecognition - Disposals	0	(198)	0	0	0	(141)	0	(339)	0
Derecognition - Other ³	0	(329)	(118)	0	0	0	0	(447)	0
Reclassification of Assets	30	(543)	0	0	0	513	0	0	0
Other movements in Depreciation and Impairment ¹	0	214	1,402	0	0	0	0	1,616	1,616
At 31 March 2011	151,412	90,733	12,692	28,978	0	455	0	284,270	18,595
Net Book Value									
At 31st March 2011	637,909	1,091,906	8,225	97,086	49,602	11,209	616	1,896,553	276,407
At 1st April 2010	920,784	1,040,330	4,456	91,170	48,410	4,270	0	2,109,420	270,921

12 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation

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

- Council Dwellings – Major Repairs Allowance used as proxy for depreciation
- Other Land and Buildings – As advised by qualified valuer
- Vehicles, Plant & Equipment - 5 years on a straight line basis
- Infrastructure assets - 40 years

Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £46.119 million at 31st March 2012 (£16.988 million at 31st March 2011).

	Committed sum £m	Costs to 31/3/2012 £m	2012/13 onwards £m	Contract End Date
Culloden School Expansion	5.296	3.094	2.202	31/10/2012
Victoria Park Landscaping	7.081	5.738	1.343	31/12/2012
Ocean Estate Refurbishment	41.845	14.833	27.012	31/03/2014
Building Schools for the Future ICT	23.466	7.904	15.562	31/01/2015
TOTAL	77.688	31.569	46.119	

Revaluations

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

In 2011/12, the housing stock was valued by Hilbery Chaplin Chartered Surveyors and the other assets were valued by Drivers Jonas Deloitte. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2010'.

ANALYSIS OF ROLLING REVALUATION PROGRAMME	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRASTRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000
Valued at historic cost	0	0	7,439	100,497	50,122	0	1,385	159,443
Valued at fair value in:								
2011/12	660,898	53,053	0	0	0	0	0	713,951
2010/11	0	48,868	0	0	0	912	0	49,780
2009/10	0	97,120	0	0	0	1,102	0	98,222
2008/09	0	820,811	0	0	0	7,879	0	828,690
2007/08	0	419	0	0	0	0	0	419
Value at 31 March 2012	660,898	1,020,271	7,439	100,497	50,122	9,893	1,385	1,850,505

13 LONG TERM DEBTORS

	1st April 2010 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2011 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2012 £'000
Mortgages on Right to Buy properties	331	0	(79)	252	0	(71)	181
Sundry Loans	736	187	(167)	756	101	(270)	587
	1,067	187	(246)	1,008	101	(341)	768

14 INTANGIBLE ASSETS

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licenses, not internally generated software.

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

	Balance at 1/4/2011 £'000	Expenditure 2011/12 £'000	Revenue Charge 2011/12 £'000	Balance at 31/3/2012 £'000
Software licences	0	1,270	(1,270)	0

15 FINANCIAL INSTRUMENT NOTES

Local authorities are required to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy / LASAAC Joint Committee. This requires the disclosure of financial instruments at amortised cost and fair value.

Amortised Cost

These accounting standards have meant that most financial instruments (whether borrowing or investment) have to be valued on an amortised cost basis using the effective interest rate (EIR) method.

Fair Value

In these disclosure notes, financial instruments are also required to be shown at fair value. Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

Compliance

The Council has:

- 1 Adopted the CIPFA's Treasury Management in the Public Services: Code of Practice.
- 2 Set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code

Types of Financial Instruments

Accounting regulations require the financial instruments (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the balance sheet are made up of the following categories.

Financial Instrument Categories	Long-Term		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2011	2012	2011	2012	2011	2012
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Liabilities						
Borrowings at amortised cost	325,533	90,479	34,803	1,475	360,336	91,954
Deferred Liabilities (PFI)	41,090	40,299	682	791	41,772	41,090
Creditors - Financial Liabilities carried at contract amount	0	0	68,271	70,591	68,271	70,591
Total Liabilities	366,623	130,778	103,756	72,857	470,379	203,635
Financial Assets						
Loans and receivables	0	0	100,929	131,603	100,929	131,603
Debtors - financial assets carried at contract amounts	0	0	18,142	11,264	18,142	11,264
Cash held at bank and cash equivalents	0	0	136,563	126,726	136,563	126,726
Total Financial Assets	0	0	255,634	269,593	255,634	269,593

NOTES

1. Market loans (LOBOs) of £77.5 million have been included in long term borrowing but £64.5 million of these have a call date in the next 12 months.
2. Cash equivalents includes £78.270 million of short-term deposits with banks and building societies excluded from loans and receivables (£103.123 million at 31st March 2011).
3. The above long term figures are based on paragraph B9, Module F of the 2011/12 code of practice guidance notes which states an instrument will be held for its full term unless the authority has a specified intention to repay/call in early or reliable experience of similar instruments being derecognised before the full term.
4. The Authority had £236.2 million (plus premium charges of £76.3 million) of PWLB loans paid off by the Government as part of the process of switching HRA financing from a Subsidy based system to Self Financing. This explains the significant reduction in the Authority's debt portfolio.
5. In addition to the above financial liabilities, the Council has contingent liabilities for warranties provided to landlords. Details are outlined in note 45 to the accounts. The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations.

FINANCIAL INSTRUMENTS (continued)

Gains and Losses on Financial Instruments

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

	2010/11		2011/12	
	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables	Financial Liabilities measured at amortised cost	Financial Assets Loans and receivables
	£'000	£'000	£'000	£'000
Interest expense	28,505	0	26,926	0
Interest income	0	1,697	0	2,838
TOTAL INTEREST AND INVESTMENT INCOME	28,505	1,697	26,926	2,838

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

Methods and Assumptions in valuation technique

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation since any motivation other than securing a fair price should be ignored. The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31st March, using bid prices where applicable.

The calculations are made with the following assumptions:

- The PWLB liabilities have been calculated by reference to the "Premature Redemption" set of rates in force on the 31st March 2012.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- Fair values for all instruments in the portfolio have been calculated, but only those which are materially different from the carrying value are disclosed.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are as follows:

Fair Value of Liabilities Carried at Amortised Cost	31 March 2011	31 March 2011	31 March 2012	31 March 2012
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Public Works Loans Board	278,358	341,419	14,129	17,166
Lender's option, borrower's option loans	77,614	84,153	77,825	77,895
Short term	4,364	4,364	0	0
Deferred liabilities - Private Finance Initiatives	41,771	41,771	41,090	41,090
Creditors - Financial Liabilities carried at contract amount	68,271	68,271	70,591	70,591
Financial Liabilities	470,378	539,978	203,635	206,742

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

Fair Value of Assets Carried at Amortised Cost	31 March 2011	31 March 2011	31 March 2012	31 March 2012
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Fixed term deposits with banks and building societies	100,577	100,682	131,473	132,296
Equity Shares (not quoted in an active market)	352	352	130	130
Debtors - financial assets carried at contract amounts	18,142	18,142	11,264	11,264
Cash held at Bank	33,440	33,440	48,456	48,456
Cash equivalents (deposits with banks and other financial institutions)	103,123	103,134	78,270	78,270
Financial Assets	255,634	255,750	269,593	270,416

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

Cash equivalents are highly liquid deposits that are convertible to cash at short-notice.

15 FINANCIAL INSTRUMENTS (continued)

Nature and extent of risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. Risk management is carried out by a central treasury team under policies approved by the Council in the annual treasury management strategy report. The Council has fully adopted and implemented CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk. The treasury management team have also fully implemented the Government's national investment guidance.

1. Credit Risk

Credit risk is the possibility that other parties may not pay amounts due to the Council. This risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. The Council invests primarily on the basis of prudence and then the level of returns. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution or those underwritten by the Government. The Council has a policy of limiting deposits with institutions to a maximum of £10 million - £45 million.

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

	Amounts at 31 March 2011 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2011 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	116,547	0%	0%	0%
Money Market Funds	20,027	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	40,358	0%	0%	0%
3 - 6 months	35,117	0%	0%	0%
6 - 12 months	10,040	0%	0%	0%
Over 12 months	15,403	0%	0%	0%
TOTAL	237,492	0%	0%	0%

	Amounts at 31 March 2012 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2012 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	71,056	0%	0%	0%
Money Market Funds	55,670	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	10,006	0%	0%	0%
3 - 6 months	15,064	0%	0%	0%
6 - 12 months	60,790	0%	0%	0%
Over 12 months	45,743	0%	0%	0%
TOTAL	258,329	0%	0%	0%

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers, such that £2.379 million of the £45.951 million balance (2010/11 - £1.82 million of the £61.018 million) is past its due date for payment, but not impaired. The past due amount can be analysed by age as follows:

15 FINANCIAL INSTRUMENTS (continued)

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

Credit Risk	31 March	31 March
	2011	2012
	£'000	£'000
Three to six months	942	713
Six months to one year	355	545
More than one year	523	1,121

TOTAL	1,820	2,379
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The Council has access to a facility to borrow from the Public Works Loans Board. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 20% of loans are due to mature within any financial year through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

2. Liquidity Risk

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

Loans outstanding	31 March	31 March
	2011	2012
	£'000	£'000
Public Works Loans Board	278,358	14,129
Market debt	77,614	77,825
Temporary Borrowing	4,364	0
PFI	41,771	41,090
TOTAL	402,107	133,044

Less than 1 year	35,370	2,266
Between 1 and 2 years	76,871	4,846
Between 2 and 5 years	60,789	13,340
Between 5 and 10 years	114,229	28,680
More than 10 years	114,848	83,912
TOTAL	402,107	133,044

In the more than 10 years category, there are £77.5 million of Lender's Option, Borrower's Option (LOBO) market loans, of which £64.5 million have call dates in the next 12 months, with the remaining £13 million having the first call date within 5 years. The Council uses money market funds to provide liquidity.

3. Market Risk

Interest rate risk

The Council is exposed to interest rate risk in two different ways - the uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the authority is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Comprehensive Income and Expenditure Account.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Comprehensive Income and Expenditure Account.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value in the Balance Sheet, which would also be reflected in the Movement in Reserves Statement.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk. The policy is to keep variable rate borrowings to a minimum. The Council does not currently have any variable rate loans, although £77.5 million of market loans LOBOs have call dates that fall within financial years 2012/13 and 2014/15. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

15 FINANCIAL INSTRUMENTS (continued)

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

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

According to this assessment, at 31st March 2012, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2010/11 £'000	2011/12 £'000
Increase in interest payable on variable rate borrowings	617	955
Increase in interest receivable on variable rate investments	(1,018)	(697)
Impact on Income and Expenditure Account	(401)	258

Fair Value Movements	2010/11 £'000	2011/12 £'000
Decrease in fair value of fixed rate investments	682	1,700
Decrease in fair value of fixed rate borrowing liabilities	42,757	136
Impact on Income and Expenditure Account	43,439	1,836

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

Equity Shares (not quoted on an active market)

	2010/11 £'000	2011/12 £'000
London Mutual Insurance Limited	346	123
The Tower Hamlets Local Education Partnership	7	7
Total	353	130

16 INVENTORIES

	Consumable Stores		Client Services Work in Progress		Total	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
Balance outstanding at start of year	13	17	518	804	531	821
Purchases	19	24	286	1,503	305	1,527
Recognised as an expense in the year	(15)	(22)	0	(1,809)	(15)	(1,831)
Balance outstanding at year-end	17	19	804	498	821	517

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

17 CONSTRUCTION CONTRACTS

The Authority does not have any construction contracts (work in progress) where the construction work is undertaken for the Authority's customers.

18 IMPAIRMENT LOSSES

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in note 12 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances. An impairment review was carried out by qualified valuers at 31st March 2012 and concluded that there was no significant impairment to report.

19 DEBTORS

	31 March 2011 £'000	31 March 2012 £'000
Central government bodies	24,439	23,614
Other local authorities	307	307
Other entities and individuals	61,018	46,311
Payments in advance	4,667	4,681
Total	90,431	74,912

20 CASH AND CASH EQUIVALENTS

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

	31 March 2011 £'000	31 March 2012 £'000
Cash held by the Authority	33,440	48,456
Short-term deposits with banks and building societies	103,123	78,270
Total Cash and Cash Equivalents	136,563	126,726

21 ASSETS HELD FOR SALE

As at the 31st March 2012, the Council has one property which is classified as an Asset Held for Sale.

	Current		Non Current	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
Value at 1st April	0	0	0	0
Assets newly classified as held for sale:				
Property, Plant and Equipment	0	945	0	0
Value at 31st March	0	945	0	0

22 CREDITORS

	31 March 2011 £'000	31 March 2012 £'000
Central government bodies	43,911	52,904
Other entities and individuals	77,847	83,675
Receipts in advance	8,930	10,464
Total	130,688	147,043

23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 1 April 2010 £'000	Amounts used in 2010/11 £'000	Contributions in 2010/11 £'000	Balance at 31 March 2011 £'000	Amounts used in 2011/12 £'000	Contributions in 2011/12 £'000	Balance at 31 March 2012 £'000
(a) Single Status	291	0	0	291	(117)	0	174
(b) Liability to DEFRA for BMW landfill usage	651	(638)	0	13	(13)	0	0
(c) Adoption Fees	61	(16)	0	45	(45)	0	0
(d) Redundancy provisions	0	0	506	506	(362)	0	144
(e) Employee benefits provision	4,207	(4,207)	4,418	4,418	(4,418)	3,355	3,355
(f) Carbon Reduction provision	0	0	0	0	0	315	315
(g) Youth and community contracts	0	0	0	0	0	102	102
(h) Inquest provision	0	0	0	0	0	859	859
TOTAL	5,210	(4,861)	4,924	5,273	(4,955)	4,631	4,949

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

LONG-TERM PROVISIONS	Balance at 1 April 2010 £'000	Amounts used in 2010/11 £'000	Contributions in 2010/11 £'000	Balance at 31 March 2011 £'000	Amounts used in 2011/12 £'000	Contributions in 2011/12 £'000	Balance at 31 March 2012 £'000
(h) Inquest provision	0	0	0	0	0	241	241
(i) Primary Care Trust nursing charges	88	(88)	0	0	0	0	0
(j) Metropolitan Police	176	(176)	0	0	0	0	0
(k) Employment Tribunal	150	(150)	0	0	0	0	0
(l) Insurance Fund	6,498	0	1,964	8,462	0	3,422	11,884
(m) Repayment of deposits	518	(137)	0	381	(212)	0	169
(n) Repayment of European funding	394	0	0	394	0	0	394
(o) Pension liability - part time staff	400	0	0	400	0	0	400
(p) Barkantine PFI	1,989	0	388	2,377	(2,377)	0	0
TOTAL	10,213	(551)	2,352	12,014	(2,589)	3,663	13,088

18,037

- (a) For additional costs resulting from the single status agreement which changed employees' conditions of service.
- (b) The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of Biodegradable Municipal Waste (BMW). The Landfill Allowance Trading Scheme allocates tradable landfill allowances to each WDA up to a defined upper limit.
- (c) Provision for the final payment to other authorities should particular children placed with potential adopters resident in other boroughs ultimately be legally adopted - this provision was applied in 2011/12.
- (d) Provision for redundancy settlements agreed for 2011/12.
- (e) Provision required under IFRS that represents the value of staff leave rolled over to the following financial year. This provision does not reduce the Council's usable reserves.
- (f) Provision created to cover the council's liability towards the Government's carbon reduction energy efficiency scheme as at 31st March.
- (g) Provision for youth and community contracts bonus payments to be settled.
- (h) Provision for inquest contribution.
- (i) A provision applied to pay nursing cost invoices to THPCT in 2010/11.
- (j) Provision applied to repay Home Office grant during 2010/11.
- (k) To provide for payment following an unfair dismissal by the Council. The provision was applied during 2010/11.
Originally a provision for the disputed payment for a former borough resident's nursing care. It was determined that the Council is not responsible for the assessed contribution, therefore the provision is no longer required.
- (l) To cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property. Amounts are transferred to the provision from the insurance reserve on an annual basis if a reliable estimate can be made of the likely settlement amount. The nature of insurance claims means it is not possible to accurately forecast when settlement of claims will take place. The Council is active in risk management, identifying areas of particular risk and taking management steps with a view to reducing possible future claims and losses. There are no material risks which are not covered by either direct insurance or self insurance via the provision.
- (m) The provision is used to hold deposits received from contractors with approval for erecting temporary structures. On completion of the work, the deposits will be refunded to the contractors, less deductions for any liabilities incurred. The refund of deposits will depend on the successful completion of contracts.
- (n) There are a number of European funded schemes where there is a probability that grant will need to be repaid. The potential for repayment will expire in 2017, ten years after the grant has been received.
- (o) To reflect the potential liability for 40 ex-employees, based on the additional pension contribution costs that the Council would have incurred if these staff had been allowed to join the pension fund. The risk and timing of any settlement would depend on claims being raised.
- (p) Following discussions with the CLG, a provision for the potential repayment of PFI credits is no longer required.

24 USABLE RESERVES

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

25 UNUSABLE RESERVES

31 March 2011 £'000		31 March 2012 £'000
533,521	Revaluation Reserve	497,734
852,406	Capital Adjustment Account	1,068,460
885	Financial Instruments Adjustment Account	959
(308,691)	Pensions Reserve	(422,546)
3,154	Collection Fund Adjustment Account	24
(4,418)	Accumulating Compensated Absences Adjustment Account	(3,355)
241	Deferred Capital Receipts	156
1,077,098	Total Unusable Reserves	1,141,432

Revaluation Reserve

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

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

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

2010/11 £'000		2011/12 £'000
514,696	Balance at 1 April	533,521
32,762	Upward revaluation of assets	15,728
	Downward revaluation of assets and impairment losses not charged to the	
(1,001)	Surplus/Deficit on the Provision of Services	(2,027)
	Surplus or deficit on revaluation of non-current assets not posted to the	
31,761	Surplus or Deficit on the Provision of Services	13,701
(8,856)	Difference between fair value depreciation and historical cost depreciation	(9,099)
(4,080)	Accumulated gains on assets sold or scrapped	(40,390)
(12,936)	Amount written off to the Capital Adjustment Account	(49,489)
533,521	Balance at 31 March	497,733

25 UNUSABLE RESERVES

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

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

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

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

2010/11 £'000		2011/12 £'000
1,105,580	Balance at 1 April	852,406
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(38,219)	Charges for depreciation and impairment of non current assets	(41,774)
(294,863)	Revaluation losses (and reversals) on Property, Plant and Equipment	3,482
(836)	Amortisation of intangible assets	(1,270)
(32,322)	Revenue expenditure funded from capital under statute	(46,370)
(30,311)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(139,271)
(396,551)		(225,202)
12,937	Adjusting amounts written out of the Revaluation Reserve	49,489
(383,614)	Net written out amount of the cost of non current assets consumed in the year	(175,713)
	Capital financing applied in the year:	
5,792	Use of the Capital Receipts Reserve to finance new capital expenditure	7,462
7,641	Use of the Major Repairs Reserve to finance new capital expenditure	11,382
102,448	Application of grants to capital financing from the Capital Grants Unapplied Account	122,985
7,373	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	8,877
7,186	Capital expenditure charged against the General Fund and HRA balances	4,862
130,440		155,567
0	Capital receipts from Secretary of State used to repay debt in accordance with the HRA Settlement Determination	236,199
852,406	Balance at 31 March	1,068,459

25 UNUSABLE RESERVES (continued)

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2012 will be charged to the General Fund over the next 13 years.

2010/11 £'000		2011/12 £'000
764	Balance at 1 April	885
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in	
121	accordance with statutory requirements	74
885	Balance at 31 March	959

Pensions Reserve

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

2010/11 £'000		2011/12 £'000
(689,923)	Balance at 1 April	(308,690)
259,963	Actuarial gains or losses on pensions assets and liabilities	(116,236)
	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure	
85,211	Statement	(32,259)
	Employer's pensions contributions and direct payments to pensioners payable in the	
36,059	year	34,639
(308,690)	Balance at 31 March	(422,546)

25 UNUSABLE RESERVES

Collection Fund Adjustment Account

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

2010/11 £'000		2011/12 £'000
3,902	Balance at 1 April	3,154
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated	
(748)	for the year in accordance with statutory requirements	(3,130)
3,154	Balance at 31 March	24

Accumulating Compensated Absences Adjustment Account

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

2010/11 £'000		2011/12 £'000
(4,207)	Balance at 1 April	(4,418)
4,207	Settlement or cancellation of accrual made at the end of the preceding year	4,418
(4,418)	Amounts accrued at the end of the current year	(3,355)
	Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory	
(211)	requirements	1,063
(4,418)	Balance at 31 March	(3,355)

Deferred Capital Receipts

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2010/11 £'000		2011/12 £'000
298	Balance at 1 April	241
(57)	Transfer to the Capital Receipts Reserve upon receipt of cash	(85)
241	Balance at 31 March	156

Deferred Capital Receipts were shown as Usable Reserve in 2010/11 published accounts. As per CIPFA Guidance note it is an unusable reserve, therefore it is been disclosed as unusable reserve in 2011/12 accounts.

26a NOTE A TO THE CASH FLOW STATEMENT

2010/11 £'000		2011/12 £'000
(127,743)	Net Surplus or (Deficit) on the Provision of Services	221,247
	<u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u>	
38,022	Depreciation	41,772
293,779	Impairment and downward valuations	(3,481)
836	Amortisation	1,270
120	Adjustments for effective interest rates	175
241	Increase/Decrease in Interest Creditors	(1,895)
29,932	Increase/Decrease in Creditors	16,734
(111)	Increase/Decrease in Interest and Dividend Debtors	(920)
(1,157)	Increase/Decrease in Debtors	13,436
(290)	Increase/Decrease in Inventories	304
(121,270)	Pension Liability	(2,380)
1,653	Contributions to/(from) Provisions	1,812
211	Provision for Equal Pay	(1,062)
30,311	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	139,271
272,277		205,036
	<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>	
(105,700)	Capital Grants credited to surplus or deficit on the provision of services	(153,391)
(13,869)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(10,585)
(119,569)		(163,976)
24,965	Net cash flows from operating activities	262,307

26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2010/11 £'000		2011/12 £'000
1,586	Interest received	1,918
(28,144)	Interest paid	(28,544)
(26,558)		(26,626)

27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2010/11 £'000		2011/12 £'000
(110,899)	Purchase of property, plant and equipment, investment property and intangible assets	(119,534)
(60,111)	Purchase of short-term and long-term investments	(30,452)
(188)	Other payments for investing activities	(118)
13,457	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,561
0	Proceeds from short-term and long-term investments	0
144,739	Other receipts from investing activities	140,966
(13,002)	Net cash flows from investing activities	(3,577)

28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2010/11 £'000		2011/12 £'000
51,000	Cash receipts of short- and long-term borrowing	0
282	Billing Authorities - Council Tax and NNDR adjustments	497
(369)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(682)
(8,013)	Repayments of short- and long-term borrowing	(268,382)
42,900	Net cash flows from financing activities	(268,567)

29 TRADING OPERATIONS

The following services are reported as trading activities in 2011/12:

	2010/11			2011/12			
	Expenditure	Income	Surplus/ (Deficit)	Expenditure	Income	Surplus/ (Deficit)	Balance 31/03/2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Street Trading	2,258	2,356	98	2,183	2,352	169	(75)
TOTAL TRADING ACCOUNTS	2,258	2,356	98	2,183	2,352	169	(75)

30 AGENCY SERVICES

The Council has an agency agreement with the Thames Water Authority whereby the Council is responsible for collecting unmetered water charges from council tenants. For this service the council receives a commission based on the total TWA bill chargeable for the year. In 2011/12 this commission amounted to £726,792 (£686,261 in 2010/11).

31 POOLED BUDGETS

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

- (a) Integrated Community Equipment Service (ICES)
- (b) Services for Adults with Learning Difficulties (LDSA)
- (c) Occupational Therapy Service (OTS)
- (d) Integrated Services for Disabled Children in the Children's Trust Pathfinder (DCTP) - up to 2010/11.

The purpose of these arrangements is to work collaboratively with health providers in the Borough, to deliver efficient, joined up health and social care services to residents.

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

2011/12	ICES £'000	LDSA £'000	OTS £'000
Income			
The Council	929	1,221	1,805
Barts and the London Trust health services	697	1,704	1,805
	1,626	2,925	3,610
Expenditure	1,794	2,985	3,460
Surplus/(Deficit) for the year	(168)	(60)	150

2010/11	ICES £'000	LDSA £'000	OTS £'000	DCTP* £'000
Income				
The Council	1,162	1,221	1,806	5,024
Barts and the London Trust health services	16	0	0	0
Tower Hamlets Primary Care Trust	702	1,704	1,805	0
	1,880	2,925	3,611	5,024
Expenditure	1,880	2,913	3,338	5,024
Surplus/Deficit for the year	0	12	273	0

* The DCTP agreement for 2010/11 was not formally agreed with the PCT. The Council's contribution to this activity is shown above. There was no agreement in place for 2011/12.

32 MEMBERS' ALLOWANCES

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

	2010/11 £'000	2011/12 £'000
Allowances	889	938
Total	889	938

33 OFFICERS' REMUNERATION

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

2010/11	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr K A Collins - Chief Executive	186,336	192	0	29,055	0	215,583
Corporate Directors						
Children, Schools and Families	124,912	0	0	19,250	0	144,162
Communities, Localities and Culture	141,487	0	0	21,869	0	163,356
Resources	139,766	0	0	21,597	0	161,363
Adults Health and Wellbeing	124,913	208	0	19,250	0	144,371
Development and Renewal	135,758	0	0	20,964	0	156,722
Assistant Chief Executive (Legal)	123,937	0	0	19,096	0	143,033
	977,109	400	0	151,081	0	1,128,590

2011/12	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr K A Collins - Chief Executive*	121,536	0	0	17,687	0	139,223
Mr A Dalvi - Chief Executive (Interim)	90,033	0	0	13,982	0	104,015
Total Chief Executive	211,569	0	0	31,669	0	243,238
Corporate Directors						
Children, Schools and Families	130,261	0	0	20,095		150,356
Communities, Localities and Culture+	140,182	0	0	22,659	6,166	169,007
Resources	141,003	0	0	21,792	0	162,795
Adults Health and Wellbeing**	126,335	0	0	10,017	0	136,352
Development and Renewal	128,978	0	0	19,886	0	148,864
Assistant Chief Executive (Legal)	126,129	0	0	19,135	0	145,264
	1,004,457	0	0	145,253	6,166	1,155,876

* Postholder left 31st October 2011.

** Postholder left 2nd October 2011. Interim postholder appointed (cost in 2011/12 of £61,380)

+ Postholder receives additional payment of £6,166 as Interim Assistant Chief Executive

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

Remuneration band (£)	2010/11					2011/12				
	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff	Teaching Staff	Includes Teaching Redundancies	Other Staff	Includes Other Staff Redundancies	Total Staff
50,000 - 54,999	226	(2)	85	(29)	311	211	(4)	84	(9)	295
55,000 - 59,999	124	0	81	(16)	205	112	(2)	80	(9)	192
60,000 - 64,999	58	(1)	52	(19)	110	43	0	40	(10)	83
65,000 - 69,999	44	(1)	51	(26)	95	34	0	21	(4)	55
70,000 - 74,999	23	(1)	38	(17)	61	32	0	27	(7)	59
75,000 - 79,999	16	(3)	24	(20)	40	12	0	7	(3)	19
80,000 - 84,999	8	0	17	(10)	25	8	0	8	(4)	16
85,000 - 89,999	11	(1)	13	(6)	24	6	0	12	(5)	18
90,000 - 94,999	3	(1)	14	(7)	17	7	(2)	9	(3)	16
95,000 - 99,999	2	(2)	7	(4)	9	0	0	2	(1)	2
100,000 - 104,999	6	(4)	10	(6)	16	1	0	3	0	4
105,000 - 109,999	2	(1)	2	(2)	4	3	0	1	(1)	4
110,000 - 114,999	2	0	4	(3)	6	1	0	2	0	3
115,000 - 119,999	4	(1)	1	(1)	5	1	0	0	0	1
120,000 - 124,999	2	0	2	(1)	4	0	0	0	0	0
125,000 - 129,999	0	0	2	(2)	2	3	0	0	0	3
130,000 - 134,999	1	0	0	0	1	0	0	1	(1)	1
135,000 - 139,999	0	0	1	(1)	1	0	0	0	0	0
140,000 - 144,999	0	0	1	(1)	1	1	0	0	0	1
145,000 - 149,999	0	0	0	0	0	0	0	0	0	0
150,000 - 154,999	0	0	0	0	0	0	0	0	0	0
155,000 - 159,999	0	0	1	(1)	1	0	0	0	0	0
160,000 - 164,999	0	0	0	0	0	0	0	0	0	0
165,000 - 169,999	0	0	0	0	0	0	0	0	0	0
170,000 - 174,999	0	0	0	0	0	0	0	0	0	0
175,000 - 179,999	0	0	0	0	0	0	0	0	0	0
180,000 - 184,999	0	0	1	(1)	1	0	0	1	(1)	1
185,000 - 189,999	0	0	0	0	0	0	0	0	0	0
190,000 - 194,999	0	0	0	0	0	0	0	0	0	0
195,000 - 199,999	0	0	0	0	0	0	0	0	0	0
200,000 - 204,999	0	0	0	0	0	0	0	0	0	0
205,000 - 209,999	0	0	0	0	0	0	0	0	0	0
	532	(18)	407	(173)	939	475	(8)	298	(58)	773

35 EXTERNAL AUDIT COSTS

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

	2010/11 £'000	2011/12 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	480	462
Fees payable to appointed external auditor in respect of statutory inspections	0	0
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	113	96
Fees payable in respect of other services provided by external auditors during the year	0	12
Total	593	570

The fees for other services related to the National Fraud Initiative and other fraud prevention advisory services.

36 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families - the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately. In addition schools receive Post 16 funding from the Young People's Learning Agency (YPLA) and Pupil Premium income.

Details of the deployment of DSG receivable for 2010/11 are as follows:

Notes	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A Final DSG for 2010/11	17,190	229,067	246,257
B Brought forward from 2009/10	4,885	0	4,885
C Carry forward to 2011/12 agreed in advance	0	0	0
D Agreed budgeted distribution in 2010/11	22,075	229,067	251,142
E Actual central expenditure	(20,967)	0	(20,967)
F Actual ISB deployed to schools	0	(229,067)	(229,067)
G Council contribution for 2010/11	0	0	0
H Carry forward to 2011/12	1,108	0	1,108

- A DSG figure as issued by the Department for Children Schools and Families (DCSF) on 25 June 2010.
 B Figure brought forward from 2009/10 as agreed with the Department.
 Any amount which the authority decided after consultation with the schools forum to carry forward to 2011/12 rather than distribute in 2010/11.
 C distribute in 2010/11.
 D Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.
 E Actual amount of central expenditure items in 2010/11.
 F Amount of ISB actually distributed to schools.
 G Any contribution from the local authority in 2010/11 which substituted for DSG in funding the Schools Budget.
 H Carry forward to 2011/12.

Details of the deployment of DSG receivable for 2011/12 are as follows:

Notes	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A Initial DSG for 2011/12	27,013	268,140	295,153
B Brought forward from 2010/11	1,108	0	1,108
C Carry forward to 2012/13 agreed in advance	0	0	0
D Agreed initial budgeted distribution in 2011/12	28,121	268,140	296,261
E In-year adjustments	(2,372)	2,372	0
F Final budget distribution for 2011/12	25,749	270,512	296,261
G Actual central expenditure	(19,834)	0	(19,834)
H Actual ISB deployed to schools	0	(270,512)	(270,512)
I Council contribution for 2011/12	0	0	0
J Carry forward to 2012/13	5,915	0	5,915

- A DSG figure as issued by DCSF in June 2011 plus exceptional circumstances grant notified in January 2011.
 B Figure brought forward from 2010/11.
 C The amount which the Council decided after consultation with the schools forum to carry forward to 2012/13 rather than distribute in 2011/12.
 D Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
 E Changes to initial distribution in 2011/12.
 F Final distribution of DSG 2011/12.
 G Actual amount of central expenditure items in 2011/12.
 H Amount of ISB distributed to schools.
 I Contribution from the Council in 2011/12 which substituted for DSG in funding the Schools Budget.
 J Difference between budgeted distributions and actuals plus carry forward agreed in advance.

37 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

	2010/11 Restated*	2011/12
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Non-Ringfenced Government Grants		
Revenue Support Grant	(29,443)	(54,230)
Area Based Grant	(42,053)	0
Council Tax Freeze Grant	0	(1,968)
Local Service Support Grant	0	(4,295)
New Homes Bonus	0	(4,287)
Total Non-Ringfenced Government Grants	(71,496)	(64,780)
Capital Grants and Contributions		
Non-conditional grants:		
Schools-funded Capital Programme	(4,898)	(4,089)
Transport for London Funding	(4,654)	(3,713)
Contributions from schools towards BSF	(2,948)	(9,135)
Public Realm Improvements	(2,179)	(108)
Major Works Contributions (cash received)	(1,750)	(3,191)
Capital Maintenance Grant	0	(4,108)
Basic Needs/New Pupil Places	0	(13,847)
Social Housing Energy Efficiency Grant	(1,690)	0
Modernisation Grant	(1,577)	0
Regional Housing Pot	(1,063)	(801)
Other Non-Conditional Grants Received	(1,268)	(8,816)
Conditional grants:		
Building Schools for the Future	(45,913)	(56,420)
New Deal For Communities	(4,957)	0
Primary Capital Programme	(3,392)	(1,663)
Surestart Grant	(1,846)	(139)
Building Britain's Future Grant	0	(1,378)
Other Conditional Grants Applied	(2,943)	(1,618)
Developers' Contributions	(2,946)	(7,221)
Total Capital Grants and Contributions	(84,024)	(116,247)
Credited to Services		
Capital Grants funding REFCUS	(19,231)	(31,651)
Developers' Contributions (capital) funding REFCUS	(2,064)	(5,493)
Developers' Contributions (revenue)	(2,086)	(1,825)
Standards Fund	(43,879)	(2,332)
PFI Credits	(11,828)	(10,104)
Learning Skills Council Post 16 schools	(14,672)	(15,124)
Early Intervention Grant	0	(20,734)
Other revenue grants	(51,851)	(19,640)
Total Credited to Services	(145,611)	(106,903)
Total Grant Income in Comprehensive Income & Expenditure Account	(301,131)	(287,930)

In the 2010/11 published accounts the following revenue grants credited to services were not disclosed in Grant Income Note 36 of 2010/11: Standards fund £40.2m, PFI Credits £11.8m, Learning and Skills Council Post 16 Schools £14.7m and other Revenue Grant £50.1m. Total Revenue Grant credited to services was £145.6m

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

	31 March 2011	31 March 2012
	£'000	£'000
Capital Grants Receipts in Advance		
Developers' Contributions	31,396	33,680
Building Schools for the Future	27,387	20,074
Major Works Invoices	9,349	9,313
National Affordable Housing Programme	7,900	7,998
Housing Targeted Funding	6,554	0
Primary Capital Programme	3,028	0
High Street 2012	1,596	0
Other capital grants and contributions	3,264	1,190
Total	90,474	72,255

38 RELATED PARTIES

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

Central Government

Central government has effective control over the general operations of the Authority– it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 44 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2011 are within the creditors note.

38 RELATED PARTIES (continued)

Partnerships

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

Pension Fund

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

Subsidiary

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

Membership of and relationship with other organisations

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

Organisations	Councillor	Relationship With Organisation	Payments by the Council over £10k 2010/11 £'000	Payments by the Council over £10k 2011/12 £'000	Amounts due to Organisations over £10k at 31st March 2012 £'000
Al-Isharah At Rich Mix	R M A Saunders	Council Representative			
Bethnal Green Museum of Childhood	D Jones	Council Representative			
Bethnal Green Technology College	K Ahmed	School Governor (in 2010/11 only)	15		
Bishop Challoner Catholic Collegiate School	A Asad	Member	46	78	
Bromley By Bow Centre	R MA Saunders	Council Representative	1,005	456	31
	H Uddin	Employee			
Chisenhale Gallery	J J Peck	Independent Board Member (in 2010/11 only)	31		
Citizens Advice Bureau	C Gibbs	Person in household board member in a private capacity	288	247	
	A Whitelock	Trustee			
Collective of Bangladeshi School Governors	M Mukit	Executive Committee Member (in 2010/11 only)	27		
	S Islam	Member (in 2010/11 only)			
Collingwood Tenants And Residents Assoc	R MA Saunders	Husband - Chris Weavers, is a Member of both			
Cultural Industries Development Agency	D Jones	Council Representative	30		
Eastside Books Ltd	D Jones	Director of bookshop that supplies books to LBTH schools			
East End Homes	H Uddin	Board Member	763	925	20
	M Uz-Zaman	Board Member			
Greater London Authority	Z E Davis	Previously an Employee of this Org until Nov 2011			
Greater London Enterprise Board	C Gibbs	Council Representative (in 2010/11 only)	17		
Greenwich & Docklands Festivals	J J Peck	Council Representative		30	
Half Moon Young Peoples Theatre	R MA Saunders	Board Member		48	
Ian Mikardo High School	R MA Saunders	Husband - Chris Weavers, is the Head General		65	
Island Football Club	M Miah	Chair of Island FC which is a project of Island Neighbourhood		22	
Island Homes Housing Association	M Miah	Resident Board Member - receives a monthly allowance			
Island Neighbourhood Project	M Miah	Community Development Worker - Employee			
Isle of Dogs Community Foundation	D J Edgar	Council Representative	826	807	
	T J Archer	Trustee			
Jagonari	L Pavitt	Council Representative		47	
Kingsley Hall Community Centre	Rania Khan	Trustee			
Kobi Nazrul Centre	Z Rahman	Board Member - Voluntary (in 2010/11 only)	15		
Leaside Regeneration Ltd	D J Edgar	Council Representative		15	
Moat Homes Ltd	C Harper-Penman	Director of Communications and Public Affairs			
Ocean Regeneration Trust	R U Ahmed	Cabinet Member		100	
Oxford House In Bethnal Green	S Islam	Board Member		33	
Poplar Harca	K U Ahmed	Board Member	2,264	1,884	86
	K Uddin	Services Board			
Princes Trust	A T Jackson	Council Representative (in 2010/11 only)	55		
Rich Mix Cultural Foundation	R MA Saunders	Council Representative	45		
Solander Gardens Community & Education	H Miah	Secretary			
Spitalfields Housing Association Ltd	M Mukit	Board Member			
Sports Network Council	M Mukit	Executive Committee Member (in 2010/11 only)	23		
T H Primary Care Trust	D Jones	Appointed as a non-executive member by NHS Appointments (2010/	1,479		
The London Thames Gateway	K Uddin	Council Representative		62	
The Moat School	C Harper-Penman	Director of Communications and Public Affairs		32	
Tower Hamlets Community Housing	H U Abbas	Council Representative	243	238	27
	S Islam	Council Representative			
	C Gibbs	Council Representative		52	
	T J Archer	Finance and Development Committee Member			
Tower Hamlets Community Transport Ltd	A Asad	Council Representative		56	
Tower Hamlets Council Of Mosques	A Ullah	Executive Committee Member	109	63	
Tower Hamlets Homes	A Choudhury	Council Representative	12,127	11,303	
	K Ahmed	Council Representative			
	Rania Khan	Council Representative			
	M Francis	Council Representative			
Tower Hamlets Law Centre	L Rahman (Mayor)	Member	247		
Tower Hamlets Sports Council	A M O Ahmed	Council Representative			
	Z E Davis	Council Representative			
	L Pavitt	Council Representative			
	D Snowdon	Council Representative			
Visit London	D Jones	Was Seconded from London Councils (in 2010/11 only)	28		
Wapping Bangladesh Association	S Haque	Council Representative (in 2010/11 only)	28		
Women's Environmental Net Work	S Aktar	Trustee - Board Member (in 2010/11 only)	17		

39 LEASES

Authority as Lessee

Finance Leases

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

Future payments on account of these leases were reported within the operating lease information.

Operating Leases

Council leased in few properties, vehicles and equipment.

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

Leased In Assets

	Land & Buildings Restated 31 March 2011 £'000	Vehicles Plant & Equipment 31 March 2011 £'000	Land & Buildings 31 March 2012 £'000	Vehicles Plant & Equipment 31 March 2012 £'000
Adults Health and Wellbeing				
Not later than one year	148	0	164	0
Later than one year and not later than five years	590	0	654	0
Later than five years	2,239	0	2,319	0
Children Schools and Families				
Not later than one year	292	470	223	740
Later than one year and not later than five years	848	470	643	592
Later than five years	982	0	682	0
Communities Localities and Culture				
Not later than one year	0	346	0	611
Later than one year and not later than five years	0	789	0	1,941
Later than five years	0	105	0	1,300
Development and Renewal				
Not later than one year	6,110	178	6,384	177
Later than one year and not later than five years	22,363	0	7,504	0
Later than five years	9,120	0	1,592	0
Total				
Not later than one year	6,550	994	6,771	1,528
Later than one year and not later than five years	23,801	1,259	8,801	2,533
Later than five years	12,341	105	4,593	1,300
	42,692	2,358	20,165	5,361

39 LEASES (continued)

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

	Land & Buildings 31 March 2011 £'000	Vehicles Plant & Equipment 31 March 2011 £'000	Land & Buildings 31 March 2012 £'000	Vehicles Plant & Equipment 31 March 2012 £'000
Adults Social Care				
Minimum Lease Payments	148	0	164	0
Highways & Transport				
Minimum Lease Payments	0	628	0	755
Children's and Education Services				
Minimum Lease Payments	312	677	223	895
Development and Renewal				
Minimum Lease Payments	6,120	442	6,384	314
Total				
Minimum Lease Payments	6,580	1,747	6,771	1,964

Authority as Lessor

Finance Leases

As a Lessor the Council has no material finance lease to report .

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- for economic development purposes to provide suitable affordable accommodation for local businesses

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

	31 March 2011 £'000	31 March 2012 £'000
Not later than one year	(1,684)	(3,029)
Later than one year and not later than five years	(5,808)	(10,796)
Later than five years	(10,823)	(19,692)
	(18,315)	(33,517)

40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

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

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

Movement on PFI Assets	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
Asset value at 31 March 2011	46,778	226,320	3,308	276,406
Depreciation	(995)	(4,815)	(203)	(6,014)
Revaluations	0	0	0	0
Enhancements	1,462	18,323	0	19,785
Asset value at 31 March 2012	47,245	239,828	3,105	290,178

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liabilities at 31 March 2011	7,269	31,340	3,163	41,772
Repayments	(146)	(338)	(198)	(682)
Liabilities at 31 March 2012	7,123	31,002	2,965	41,090
Consisting of:				
Long term liability	6,935	30,597	2,767	40,299
Short-term liability	188	405	198	791
Liability value at 31 March 2012	7,123	31,002	2,965	41,090

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
Liability				
Within 1 year	188	405	198	791
Within 2 - 5 years	1,008	2,196	791	3,995
Within 6 - 10 years	1,693	6,967	988	9,649
Within 11 - 15 years	2,812	18,815	988	22,616
Within 16 - 19 years	1,421	2,619	0	4,040
	7,123	31,002	2,965	41,090
Interest				
Within 1 year	799	4,878	0	5,677
Within 2 - 5 years	2,958	18,794	0	21,752
Within 6 - 10 years	2,947	20,664	0	23,611
Within 11 - 15 years	1,808	11,898	0	13,706
Within 16 - 19 years	243	412	0	655
	8,755	56,646	0	65,401
Service Charges				
Within 1 year	673	1,133	0	1,806
Within 2 - 5 years	2,694	14,318	0	17,012
Within 6 - 10 years	3,367	13,431	0	16,798
Within 11 - 15 years	3,367	13,701	0	17,068
Within 16 - 19 years	1,347	1,104	0	2,451
	11,448	43,687	0	55,135

41 PENSIONS SCHEMES - DEFINED BENEFIT

Participation in pensions schemes

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

The Council participates in three pensions schemes:

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

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

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

Transactions Relating to Retirement Benefits

The cost of LGPS retirement benefits is recognised in the Net Cost of Services when the benefits are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year. The real cost of retirement benefits is therefore reversed out in the Movement in Reserves Statement for the General Fund Balance. The following transactions have been made in the Comprehensive Income and Expenditure Account and Movement in Reserves Statement during the year:

	The Council		LPFA		Total	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
	£'000	£'000	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Account						
Net Cost of Services						
Current service costs	28,439	22,035	469	340	28,908	22,375
Past service costs* (net gain)	(130,009)	0	(4,579)	0	(134,588)	0
Impact of settlements and curtailments	556	1,880	0	0	556	1,880
Net Operating Expenditure						0
Interest cost	70,887	57,171	3,117	2,906	74,004	60,077
Expected return on assets in the scheme	(51,711)	(49,684)	(2,380)	(2,389)	(54,091)	(52,073)
Net Charge to the Comprehensive Income and Expenditure Account	(81,838)	31,402	(3,373)	857	(85,211)	32,259
Movement in Reserves Statement - General Fund Balance						
Reversal of net charges made for retirement benefits in accordance with IAS 19	81,838	(31,402)	3,373	(857)	85,211	(32,259)
Actual amount charged against the General Fund Balance for pensions in the year	35,119	33,729	940	910	36,059	34,639

In 2011/12 the Council paid £14.527 million into the Teachers Pension Scheme, representing 14.1% of pensionable pay. The figures for 2010/11 were £14.754 million and 14.1% respectively. In addition, the Council is responsible for all pension payments and annual increases in respect of added years it has awarded. In 2011/12 this amounted to £0.115 million (£0.105 million in 2010/11).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Account, actuarial gains of £116.236 million (£259.963 million in 2010/11) were included in the Actuarial gains or losses on pension assets and liabilities within other comprehensive Income and expenditure on the face of the Comprehensive Income and Expenditure Account. The cumulative amount of actuarial losses recognised is £330.613 million.

* The 2010/11 expected return on assets in the scheme included a gain of £134.754 million relating to the change in Government pension increase policy from Retail Price Index to Consumer Price Index.

41 PENSION SCHEME (continued)

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of scheme liabilities (LGPS):

	The Council		LPFA		Total	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
1st April	(1,457,968)	(1,042,983)	(67,502)	(54,168)	(1,525,470)	(1,097,151)
In-year adjustment to exclude/(incorporate) THH defici	69,476	(52,255)	0	0	69,476	(52,255)
Current service cost	(28,439)	(22,035)	(469)	(340)	(28,908)	(22,375)
Interest cost	(70,887)	(57,171)	(3,117)	(2,906)	(74,004)	(60,077)
Contributions	(8,825)	(8,094)	(115)	(102)	(8,940)	(8,196)
Actuarial gains / (losses)	288,717	(69,499)	9,227	(4,854)	297,944	(74,353)
Benefits paid	35,490	39,133	3,229	3,125	38,719	42,258
Past service costs	130,009	0	4,579	0	134,588	0
Losses on curtailments	(556)	(1,880)	0	0	(556)	(1,880)
31st March	(1,042,983)	(1,214,784)	(54,168)	(59,245)	(1,097,151)	(1,274,029)

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

	The Council		LPFA		Total	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
1st April	796,161	740,326	39,386	48,135	835,547	788,461
In-year adjustment to (exclude)/incorporate THH defici	(50,245)	50,967	0	0	(50,245)	50,967
Expected rate of return	51,711	49,684	2,380	2,389	54,091	52,073
Actuarial (losses) / gains	(65,755)	(40,590)	8,543	(6)	(57,212)	(40,596)
Contributions						
Members	8,825	8,094	115	102	8,940	8,196
Employer	35,119	33,729	940	910	36,059	34,639
Benefits paid	(35,490)	(39,133)	(3,229)	(3,125)	(38,719)	(42,258)
31st March	740,326	803,077	48,135	48,405	788,461	851,482

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

Scheme history

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Present value of liabilities:					
The Council	(837,851)	(815,900)	(1,457,968)	(1,042,983)	(1,214,784)
LPFA	(48,839)	(47,051)	(67,502)	(54,168)	(59,245)
Fair value of assets					
The Council	661,906	555,794	796,161	740,326	803,077
LPFA	41,758	36,592	39,386	48,135	48,405
Deficit in the scheme					
The Council	(175,945)	(260,106)	(661,807)	(302,657)	(411,707)
LPFA	(7,081)	(10,459)	(28,116)	(6,033)	(10,840)
Total deficit in the schemes	(183,026)	(270,565)	(689,923)	(308,690)	(422,547)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. Whilst the total deficit in the schemes of £422.5 million has a significant impact on the net worth of the Council as recorded in the balance sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy - the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the schemes' actuary.

The contributions expected to be made by the Council in the year to 31st March 2013 are £33.437 million to the Council's scheme and £1.524 million to the LPFA scheme (per actuary's reports).

41 PENSION SCHEME (continued)

Basis for estimating assets and liabilities

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

	The Council		LPFA	
	2010/11	2011/12	2010/11	2011/12
Long-term expected rate of return on assets in the scheme:				
Equity investments	7.5%	6.2%	7.2%	6.3%
Target return portfolio			5.0%	4.5%
Property	5.5%	4.4%		
Bonds	4.9%	3.3%		
Cashflow matching			4.4%	3.3%
Cash	4.6%	3.5%	3.0%	3.0%
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	21.8 years	21.8 years	19.8 years	19.9 years
Women	23.9 years	23.9 years	23.1 years	23.2 years
Longevity at 65 for future pensioners:				
Men	23.3 years	23.3 years	21.9 years	22 years
Women	26.5 years	26.5 years	25.0 years	25.1 years
Rate of inflation	2.8%	2.5%	3.5%	3.3%
Rate of increase in salaries	5.1%	4.8%	4.5%	4.2%
Rate of increase in pensions	2.8%	2.5%	2.7%	2.5%
Rate for discounting scheme liabilities	5.5%	4.8%	5.5%	4.6%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%*		

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

Major categories of assets as a proportion of total assets

The major categories of assets are as follows.

	The Council		LPFA	
	2010/11	2011/12	2010/11	2011/12
Equities	67%	62%	12%	13%
Bonds	18%	16%	0%	0%
Property	11%	11%	0%	0%
Cash	4%	11%	-1%	2%
Cashflow matching	0%	0%	35%	32%
Target return portfolio	0%	0%	54%	53%

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2011/12 can be analysed into the following categories: measured as a percentage of assets or liabilities at 31st March 2012:

	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
The Council					
Experience gains and (losses) on assets	-14.34	-30.12	19.57	-8.88	-5.40
Experience gains and (losses) on liabilities	-4.38	0.00	0.00	-16.98	5.98
London Pensions Fund Authority					
Experience gains and (losses) on assets	6.17	-15.90	6.79	17.75	-0.01
Experience gains and (losses) on liabilities	-4.24	0.27	-0.78	-1.58	8.19

42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made to directorates for revaluation losses and revenue expenditure funded from capital under statute (REFCUS) whilst they are charged to services in the Comprehensive Income and Expenditure Statement;
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;
- the gross expenditure and income associated with trading activities are reported for directorates whilst only the net position is included in the Comprehensive Income and Expenditure Statement

The income and expenditure of the Authority's directorates recorded in the report to Cabinet on 20th June 2012 is as follows:

DIRECTORATE I&E 2011/12	Adults Health and Wellbeing £'000	Chief Executive's £'000	Children, Schools and Families £'000	Communities, Localities and Culture £'000	Development and Renewal £'000	Resources £'000	Corp & Others £'000	Housing Revenue Account £'000	TOTAL £'000
Fees, charges and other service income	(10,865)	(7,319)	(77,534)	(53,211)	(63,083)	(38,434)	1,264	(79,137)	(328,319)
Government grants	(4,950)	0	(352,008)	(4,629)	(1,863)	(284,395)	(1,264)	(11,552)	(660,661)
TOTAL INCOME	(15,815)	(7,319)	(429,542)	(57,840)	(64,946)	(322,829)	0	(90,689)	(988,980)
Employee expenses	27,680	8,468	336,060	33,416	22,142	48,573	(10,385)	2,225	468,179
Other service expenses	86,191	5,010	159,541	76,096	60,431	231,223	9,112	53,030	680,634
Support service recharges	4,580	5,218	23,557	19,330	5,374	57,080	0	34,644	149,783
TOTAL EXPENDITURE	118,451	18,696	519,158	128,842	87,947	336,876	(1,273)	89,899	1,298,596
NET EXPENDITURE	102,636	11,377	89,616	71,002	23,001	14,047	(1,273)	(790)	309,616

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

	£'000
Net expenditure in the Directorate Analysis	309,616
Net expenditure of services and support services not included in the Analysis	8,758
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(6,572)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(24,582)
COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT	287,220

42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the deficit on the Provision of Services included in the Income and Expenditure Statement

SUBJECTIVE ANALYSIS 2011/12	Directorate	Services &	Amounts not	Amounts not	Cost of	Corporate	TOTAL
	analysis	support	reported to	included in	services	amounts	
	£'000	in analysis	Management	I&E	£'000	£'000	£'000
		£'000	for Decision	£'000			
			Making				
			£'000				
Fees, charges and other service income	(328,319)	90,014	(42,149)	282	(280,172)		(280,172)
Interest and investment income	0	0	0	0	0	(2,838)	(2,838)
Unattached capital receipts	0	0	0	0	0	(4,193)	(4,193)
Government grants and contributions - service specific	(660,661)	0	(1,264)	0	(661,925)	0	(661,925)
Income from Council tax	0	0	0	0	0	(78,161)	(78,161)
Government grants and contributions - non-service specific	0	0	0	0	0	(64,780)	(64,780)
Distribution from non-domestic rates pool	0	0	0	0	0	(175,443)	(175,443)
Capital Grants and Contributions	0	0	0	0	0	(116,247)	(116,247)
HRA Settlement Determination (including premia)	0	0	0	0	0	(312,479)	(312,479)
(Surplus)/Deficit on Trading Activities	0	0	0	0	0	(179)	(179)
TOTAL INCOME	(988,980)	90,014	(43,413)	282	(942,097)	(754,320)	(1,696,417)
Employee expenses	468,179	0	(1,085)	0	467,094	0	467,094
Other service expenses	680,634	1,754	41,408	(24,864)	698,932	0	698,932
Support service recharges	149,783	(83,010)	0	0	66,773	0	66,773
Depreciation, amortisation and impairment	0	0	(3,482)	0	(3,482)	0	(3,482)
Interest payments	0	0	0	0	0	26,926	26,926
Precepts and levies	0	0	0	0	0	1,738	1,738
Payments to Housing Capital Receipts Pool	0	0	0	0	0	24	24
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	132,881	132,881
Pensions interest costs and expected return on pensions assets	0	0	0	0	0	8,004	8,004
HRA Settlement Determination (including premia)	0	0	0	0	0	76,280	76,280
(Surplus)/Deficit on Trading Activities	0	0	0	0	0	0	0
TOTAL EXPENDITURE	1,298,596	(81,256)	36,841	(24,864)	1,229,317	245,853	1,475,170
SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	309,616	8,758	(6,572)	(24,582)	287,220	(508,467)	(221,247)

42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made to directorates for revaluation losses and revenue expenditure funded from capital under statute (REFCUS) whilst they are charged to services in the Comprehensive Income and Expenditure Statement;
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of
- the gross expenditure and income associated with trading activities are reported for directorates whilst only the net position is included in the

The income and expenditure of the Authority's directorates recorded in the report to Cabinet on 6th July 2011 is as follows:

DIRECTORATE I&E 2010/11 COMPARATIVE FIGURES	Adults Health and Wellbeing £'000	Chief Executive's £'000	Children, Schools and Families £'000	Communities, Localities and Culture £'000	Development and Renewal £'000	Resources £'000	Corp & Others £'000	Housing Revenue Account £'000	TOTAL £'000
Fees, charges and other service income	(17,638)	(10,591)	(98,580)	(52,964)	(62,402)	(78,949)	136,468	(85,074)	(269,730)
Government grants	(2,154)	92	(350,941)	(6,037)	(2,241)	(267,797)	(2,517)	(14,535)	(646,130)
TOTAL INCOME	(19,792)	(10,499)	(449,521)	(59,001)	(64,643)	(346,747)	133,951	(99,608)	(915,861)
Employee expenses	30,814	10,794	343,811	39,491	25,406	34,145	21,795	1,954	508,209
Other service expenses	89,745	12,128	181,221	77,990	53,749	275,234	(141,524)	60,569	609,113
Support service recharges	4,258	5,708	24,860	20,402	5,262	53,366	(77)	38,420	152,200
TOTAL EXPENDITURE	124,817	28,629	549,893	137,884	84,417	362,745	(119,805)	100,943	1,269,523
NET EXPENDITURE	105,025	18,130	100,372	78,883	19,774	15,999	14,145	1,334	353,662

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

	£'000
Net expenditure in the Directorate Analysis	353,662
Net expenditure of services and support services not included in the Analysis	293,088
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(151,389)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	3,255
COST OF SERVICES IN INCOME AND EXPENDITURE STATEMENT	498,616

42 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the deficit on the Provision of Services included in the Income and Expenditure Statement

SUBJECTIVE ANALYSIS 2010/11 COMPARATIVE FIGURES	Directorate analysis £'000	Services & support services not in analysis £'000	Amounts not reported to Management for Decision Making £'000	Amounts not included in I&E £'000	Cost of services £'000	Corporate amounts £'000	TOTAL £'000
Fees, charges and other service income	(269,730)	44,381	(157,901)	0	(383,250)	0	(383,250)
Interest and investment income	0	0	0	0	0	(1,697)	(1,697)
Unattached capital receipts	0	0	0	0	0	(450)	(450)
Government grants and contributions - service specific	(646,130)	(2,517)	0	0	(648,647)	0	(648,647)
Income from Council tax	0	0	0	0	0	(77,417)	(77,417)
Government grants and contributions - non-service specific	0	0	0	0	0	(71,496)	(71,496)
Distribution from non-domestic rates pool	0	0	0	0	0	(202,761)	(202,761)
Capital Grants and Contributions						(84,024)	(84,024)
TOTAL INCOME	(915,861)	41,864	(157,901)	0	(1,031,898)	(437,845)	(1,469,743)
Employee expenses	508,209	(4,482)	0	0	503,727	0	503,727
Other service expenses	609,113	32,322	6,512	3,255	651,202	0	651,202
Support service recharges	152,200	(71,480)	0	0	80,720	0	80,720
Depreciation, amortisation and impairment	0	294,864	0	0	294,864	0	294,864
Interest payments	0	0	0	0	0	28,505	28,505
Precepts and levies	0	0	0	0	0	1,722	1,722
Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	0
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	16,930	16,930
Pensions interest costs and expected return on pensions assets	0	0	0	0	0	19,913	19,913
(surplus)/Deficit on Trading Activities	0	0	0	0	0	(98)	(98)
TOTAL EXPENDITURE	1,269,523	251,224	6,512	3,255	1,530,514	66,972	1,597,486
SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES	353,662	293,088	(151,389)	3,255	498,616	(370,873)	127,743

43 HERITAGE ASSETS

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

The Council has held these heritage assets for a number of years pre-dating 2010 and does not hold these assets for financial gain, so it is unlikely that they will be sold. These assets are held at an estimate of current value on the balance sheet, except for the local history collection which is not included on the balance sheet as valuations are not available due to the unique nature of the assets. The council has a materiality threshold of £50,000 per asset. There are only four heritage assets above this threshold - civic regalia, two sculptures and one painting. The council has held these assets for a number of years. It was not practicable or cost effective to obtain valuations prior to 2010.

It is assumed that these material heritage assets have an indefinite lifespan, therefore depreciation is not charged on these assets. If evidence was received that required the value of the heritage assets to be impaired, this reduction would be charged to the revaluation reserve. The Council does not have any heritage assets buildings.

	Balance at 1/4/2010 £'000	2010/11 Acquisitions £'000	2010/11 Disposals £'000	Balance at 31/3/2011 £'000	2011/12 Acquisitions £'000	2011/12 Disposal £'000	Balance at 31/3/2012 £'000
Value of Heritage Assets held by Council							
(a) - Works of art	4,410	0	0	4,410	0	0	4,410
(b) - Civic Regalia	389	0	0	389	0	0	389
(c) - Local History Library and Archive Collections	0	0	0	0	0	0	0
TOTAL HERITAGE ASSETS	4,799	0	0	4,799	0	0	4,799

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

There are 101 works of art across the borough, these are sculptures, statues, murals, memorials and other works. The majority of these reflect the history of the borough and are not deemed to be saleable assets. It was not cost effective to obtain formal valuations for these immaterial items, however public data is available of sale proceeds of similar works by the same artists - none of these values are considered material. The estimated value of these assets has not changed since 2010.

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

(b) These comprise the Mayor's chain and other civic regalia. These have been recently valued by the auctioneers Bonhams.

(c) Tower Hamlets Local History Library & Archives holds an extensive and unique collection of books, pamphlets, maps, photographs, press cuttings and ephemera, deeds, archives, audio-visual material, oral histories and sound recordings, digital records, and a range of other sources, all of which reflect and provide evidence of the history of the borough.

It was not considered appropriate or practicable to place a value on these items due to their unique nature. It is highly unlikely that any of these assets would ever be sold as the council has a legal obligation to maintain its archives.

These collections are preserved and made publicly available at the library on Bancroft Road and increasingly through the web and a range of exhibitions and outreach projects. The library & archives continues to proactively collect resources which illustrate and provide evidence of the activities and experiences of residents, organisations and businesses active in the borough, including the local authority. A formal acquisitions policy is in preparation and will be published in 2012.

44 TRUST FUNDS

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

	Balance at 1/4/2010 £'000	2010/11 Expenditure £'000	2010/11 Income £'000	Balance at 31/3/2011 £'000	2011/12 Expenditure £'000	2011/12 Income £'000	Balance at 31/3/2012 £'000
(a) Welfare Savings	748	335	378	791	409	527	909
(b) King Bequest Fund	14	14	0	0	0	0	0
(c) Social Services Trust Funds - sundry other	159	126	86	119	442	2,652	2,329
(d) Tower Hamlets Further Education Trust	697	98	15	614	104	104	614
(e) Globe Town Picture Fund	160	0	0	160	0	0	160
(f) Sundry Other	15	0	1	16	0	75	91
TOTAL TRUST FUNDS	1,793	573	480	1,700	955	3,358	4,103

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

- (d) This was established by the Council in conjunction with Canary Wharf Limited with the objective of "the advancement of education and training for the residents of the London Borough of Tower Hamlets". The Council is the sole Trustee and the Trust is registered with the Charities
- (e) This Fund was established with the proceeds of the sale of a painting by the Council.
- (f) Sundry Other includes funds representing a number of miscellaneous deposits.

45 CONTINGENT LIABILITIES

Housing Transfers to Registered Social Landlords

Between March 1998 and March 2012 the Council transferred tenanted and leasehold properties to other landlords - 7,457 to Poplar Housing and Regeneration Community Association; 2,392 to Tower Hamlets Community Housing; 970 to Swan Housing Association; 3,537 to Eastend Homes; 2,079 to Toynbee Island Homes; 238 to Bethnal Green and Victoria Park Housing Association and 106 to Spitalfields Housing Association. The Council has given warranties to provide the funders of those landlords with a level of comfort in relation to their loans, which represents a potential liability to the Council. The amount of the potential liability cannot be determined with any certainty at present.

46 CONTINGENT ASSETS

The Council has no material contingent assets.

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

The Housing Revenue Account (HRA) deals with the provision and maintenance of council housing by the Council acting as Landlord. It also shows income from rents and Government grant. There is a statutory requirement to keep this account separate from other Council activities (including other housing activities).

	Note	2010/11 £'000	2011/12 £'000
EXPENDITURE			
Repairs and maintenance		21,488	19,306
Supervision and management		34,728	34,188
Rents, rates, taxes and other charges		2,535	2,840
Depreciation of non-current assets	6		
On dwellings		12,913	13,020
On other assets		1,477	1,758
Revaluation losses (and reversals)		293,654	(7,782)
Debt management costs		225	238
Movement in the allowance for bad debts		699	0
Sums directed by the Secretary of State that are expenditure in accordance with the Code		7,676	3,353
TOTAL EXPENDITURE		375,395	66,921
INCOME			
Gross rental income			
Dwelling rents		55,850	59,357
Non dwelling rents		3,406	3,222
Charges for services and facilities		16,201	16,336
Contributions towards expenditure		115	115
HRA subsidy receivable	11	14,129	11,552
Movement in the allowance for bad debts		0	136
TOTAL INCOME		89,701	90,718
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT		285,694	(23,797)
HRA services share of Corporate and Democratic Core		175	157
NET COST OF HRA SERVICES		285,869	(23,640)
HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account			
Gain or loss on sale of HRA non-current assets		8,209	(1,960)
Unattached capital receipts		(237)	(4,177)
Interest payable and similar charges	12	15,017	14,371
Interest and investment income		(96)	(103)
Pensions interest cost and expected return on pension assets	7	1,138	713
Past Service Costs	7	(7,555)	0
Capital grants and contributions receivable		(10,889)	(5,116)
PWLB Debt Redemption as per HRA Settlement Determination		0	(312,479)
Amortisation of premia and discounts due to HRA settlement	10	0	76,280
DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES		291,456	(256,111)

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

The Housing Revenue Account (HRA) Income and Expenditure Account discloses the income received and expenditure incurred in providing council dwellings to tenants for the year. However, the Council is required to raise council rents based on the balance on the Statutory Housing Revenue Account.

This reconciliation statement summarises the differences between the outturn on the HRA Income and Expenditure Account and the balance on the Statutory HRA.

	Note	2010/11		2011/12	
		£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward			(12,978)		(12,788)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		291,456		(256,111)	
Net additional amount required by statute to be credited to the HRA balance for the year		(291,266)		254,321	
Decrease (Increase) in the HRA Balance			190		(1,790)
Transfers to or (from) reserves			0		1,000
Balance on the Statutory HRA Carried Forward			(12,788)		(13,578)

NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

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

	2010/11		2011/12	
	£'000	£'000	£'000	£'000
Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year				
Revenue expenditure funded from capital under statute	(7,676)		(3,353)	
Capital grants and contributions	10,889		5,116	
PWLB Debt Redemption as per HRA Settlement Determination	0		312,479	
Amortisation of premia and discounts due to HRA settlement	0		(76,280)	
Gain or loss on sale of HRA non-current assets	(8,209)		1,960	
Unattached capital receipts	237		4,177	
Revaluation losses on non-current assets	(293,654)		7,782	
Transfer to / from the Major Repairs Reserve	(1,477)		(1,758)	
Difference between amounts charged to the Income & Expenditure Account for premiums and discounts and the charge for the year determined in accordance with statute	222		175	
Net charges made for retirement benefits in accordance with IAS19	8,454		1,797	
Transfers from General Fund (as directed by Secretary of State)	(406)	(291,620)	0	252,095
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year				
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	0		0	
Capital expenditure financed from revenue	335		2,224	
Other adjustments (transfer to capital receipts reserve)	19	354	2	2,226
Net additional amount required by statute to be credited to the HRA Balance for the year		(291,266)	254,321	

2 HOUSING STOCK

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

	2011	2012
Low-rise flats (1-2 storeys)	264	265
Medium-rise flats (3-5 storeys)	7,355	7,351
High-rise flats (6 or more storeys)	4,102	4,110
Houses and bungalows	788	792
TOTAL AT 31st MARCH	12,509	12,518

3 NON-CURRENT ASSETS

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

	2010/11 £'000	2011/12 £'000
Dwellings	637,909	660,898
Other Land and Buildings	57,970	56,751
Surplus Assets Not Held for Sale	1,195	912
TOTAL	697,074	718,561

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	TOTAL £'000
Total value at 1 st April 2010	920,784	65,812	0	986,596
Additions, disposals, transfers and revaluations	(282,875)	(7,842)	1,195	(289,522)
Total value at 31 st March 2011	637,909	57,970	1,195	697,074
Additions, disposals, transfers and revaluations	22,989	(1,219)	(283)	21,487
TOTAL VALUE AT 31st MARCH 2012	660,898	56,751	912	718,561

The vacant possession value of dwellings within the Council's HRA was £2,587 million in 2011/12 (£2,488 million in 2010/11). The difference between the vacant possession value and the balance sheet value shows the economic cost to the Government of providing council housing at less than open market rents.

4 MAJOR REPAIRS RESERVE

	2010/11 £'000	2011/12 £'000
Balance at 1st April	1,074	6,346
Transfer from Capital Adjustment Account - depreciation	14,390	14,778
Transfer to HRA - depreciation on non-dwellings	(1,477)	(1,757)
Financing of capital expenditure	(7,641)	(11,382)
Balance at 31st March	6,346	7,985

5 CAPITAL TRANSACTIONS

(i) Capital expenditure and financing

	2010/11			2011/12		
	Dwellings £'000	Other £'000	Total £'000	Dwellings £'000	Other £'000	Total £'000
Expenditure	29,551	7,676	37,227	28,262	3,353	31,615
Sources of finance						
Borrowing	8,718	7,676	16,394	12,500	0	12,500
Capital Receipts	2,609	0	2,609	1,986	0	1,986
Capital Grants and Contributions	10,248	0	10,248	2,965	0	2,965
Major Repairs Reserve	7,641	0	7,641	8,029	3,353	11,382
Direct Revenue Financing	335	0	335	2,782	0	2,782
TOTAL CAPITAL FINANCING	29,551	7,676	37,227	28,262	3,353	31,615

(ii) Capital Receipts

Capital receipts (gross) in 2011/12 from the disposal of non-current assets within the HRA amounted to £5.487 million (£10.141 million in 2010/11) as follows:

	2010/11 £'000	2011/12 £'000
Dwellings	9,334	2,508
Other land and buildings	807	2,979
TOTAL CAPITAL RECEIPTS	10,141	5,487

6 DEPRECIATION

The total depreciation charge for the year was £14.778 million (£14.389 million in 2010/11), made up of £13.020 million (£12.913 million in 2010/11) in respect of council houses and £1.758 million (£1.477 million in 2010/11) in respect of other housing assets. In the case of council housing, assets have been depreciated by an amount equivalent to the Major Repairs Allowance, as this is the amount (based on a 30-year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an appropriate measure of depreciation. An analysis of the depreciation charges is set out below.

	2010/11 £'000	2011/12 £'000
Dwellings	12,913	13,020
Other Land and Buildings	1,477	1,758
TOTAL DEPRECIATION	14,390	14,778

7 PENSION COSTS

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

Income and Expenditure Account	The Council		LPFA		Total	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
Net Cost of Services						
Current service costs	19	1	4	8	23	9
Net Operating Expenditure						
Interest cost	4,096	4,218	28	71	4,124	4,289
Settlements / Curtailments	0	139	0	0	0	139
Expected return on assets in the scheme	(2,988)	(3,665)	(22)	(59)	(3,010)	(3,724)
Past Service Costs	7,513	0	42	0	7,555	0
Net Charge to the Income and Expenditure Account	8,640	693	52	20	8,692	713
Statement of Movement in the HRA Balance						
Reversal of net charges made for retirement benefits in accordance with IAS19	(8,640)	(693)	(52)	(20)	(8,692)	(713)
Employer's contribution to scheme	1,897	2,447	3	7	1,900	2,454

8 RENT ARREARS

	2010/11 £'000	2011/12 £'000
Gross rent arrears at 31 st March	2,450	2,926
Arrears as % of rent receivable	4.0	4.9
Provision made for bad debts	1,361	2,114

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

Authorities are allowed to transfer sums to the HRA from another revenue account on the basis of directions issued by the Government. No sums were transferred during 2011/12. £0.4 million was transferred during 2010/11 relates to "Supporting People" services provided by the Council.

10 AMORTISED PREMIUMS AND DISCOUNTS

In March 2012, the CLG repaid a total of £236.2 million of PWLB loans used to finance housing as part of a nationwide debt re-allocation programme under the new HRA Self-Financing arrangements which come into effect from 1st April 2012. The debt repayment included a £76.3 million debt premium from early repayment.

11 HOUSING REVENUE ACCOUNT SUBSIDY ENTITLEMENT

	2010/11 £'000	2011/12 £'000
Management & Maintenance Allowances	36,151	35,828
Major Repairs Allowance	12,913	13,020
Charges for capital	21,655	20,493
Other Allowances	17	18
Guide Line Rent Income	(55,799)	(57,774)
Interest on Receipts	(23)	(14)
Prior Year Adjustment	(785)	(19)
TOTAL HOUSING REVENUE ACCOUNT SUBSIDY	14,129	11,552

12 ITEM 8 INTEREST ADJUSTMENT

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

COLLECTION FUND

	Note	2010/2011 £'000	2010/2011 £'000	2011/2012 £'000	2011/2012 £'000
INCOME					
Council Tax (net of benefits)	2	74,605		77,140	
Transfers from General Fund - Council Tax Benefits		<u>30,331</u>	104,936	<u>30,635</u>	107,775
Distribution of prior year deficit on Collection Fund			0		0
National Non-Domestic Rates	3		260,880		259,953
Business Rate Supplement			12,582		12,006
TOTAL INCOME			<u>378,398</u>		<u>379,734</u>
EXPENDITURE					
Precepts and demands					
London Borough of Tower Hamlets		74,687		78,738	
Greater London Authority		<u>26,131</u>	100,818	<u>27,548</u>	106,286
Distribution of prior year surplus on Collection Fund			4,695		3,441
National Non-Domestic Rates					
Payment to National Pool		259,920		259,007	
Cost of collection allowance		<u>960</u>	260,880	<u>946</u>	259,953
Business Rate Supplement	4				
Payment to Greater London Authority		12,515		11,973	
Cost of collection allowance		<u>67</u>	12,582	<u>33</u>	12,006
Increase in provision for bad debts	5		433		2,268
TOTAL EXPENDITURE			<u>379,408</u>		<u>383,954</u>
INCREASE/(DECREASE) IN FUND BALANCE			(1,010)		(4,220)
COLLECTION FUND BALANCE					
Balance at the beginning of the year			5,263		4,253
(Deficit)/Surplus for the year			(1,010)		(4,220)
BALANCE AT END OF YEAR	1		4,253		33

NOTES TO THE COLLECTION FUND

1. GENERAL

The Collection Fund accounts for all transactions in respect of Council Tax and National Non-Domestic Rates (also known as NNDR or Business Rates) and Community Charge (prior to 1st April 1993). Although the account is kept separate from the Income and Expenditure Account, the Collection Fund balance is included in the Council's Balance Sheet.

The surplus on the Fund (£32,371) is attributable to the Council (£23,980) and the Greater London Authority (£8,391). The latter amount is carried as a creditor in the Council's Balance Sheet.

2. COUNCIL TAX

Council Tax is a tax payable depending on the nature and degree of occupation of the residential property concerned. It is subject to a system of personal discounts. For the purpose of calculating the individual tax, all domestic properties were valued by

Band	Market Value in April 1991	Fraction of Band D
A	Up to £40,000	6/9
B	Over £40,001 and up to £52,000	7/9
C	Over £52,001 and up to £68,000	8/9
D	Over £68,001 and up to £88,000	9/9
E	Over £88,001 and up to £120,000	11/9
F	Over £120,001 and up to £160,000	13/9
G	Over £160,001 and up to £320,000	15/9
H	Over £320,001	18/9

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.

When the 2011/12 Council Tax was set the position was as follows:

Band	2010/11 No. of Properties	2010/11 Council Tax Base	2011/12 No. of Properties	2011/12 Council Tax Base
A	1,650	740	1,803	750
B	25,300	15,956	25,054	15,937
C	33,800	25,386	34,478	26,410
D	19,800	16,235	21,319	18,210
E	15,400	15,252	15,692	16,269
F	7,600	8,636	7,406	9,104
G	3,200	4,087	3,143	4,240
H	425	659	462	748
Total	107,175	86,951	109,357	91,668

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:

	2010/11		2011/12		Increase £	%
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000		
Tower Hamlets	885.52	74,687	885.52	78,738	0	0.00
Greater London Authority	309.82	26,131	309.82	27,548	0	0.00
TOTAL	1,195.34	100,818	1,195.34	106,286	0	0.00

3. NATIONAL NON-DOMESTIC RATES (NNDR)

Under the arrangements for National Non-Domestic Rates the Council collects business rates for its area which it pays to the Government. The Government then redistributes the total NNDR back to local authorities on the basis of a fixed amount per head of population. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2011/12 was 43.4p in the £ (41.4p in the £ in 2010/11). The total rateable value in the borough as at 31 March 2012 was £812.1 million (£817.1 million at 31 March 2011). A periodic revaluation of business properties took place in April 2010.

4. CROSSRAIL BUSINESS RATE SUPPLEMENT

proposed policies for the BRS in the 2011/12 financial year are set out below.

The Crossrail BRS will be used to finance £3.5 billion worth of borrowing by the GLA and the repayment of this sum after the end of the Crossrail construction works. £800m of this was borrowed by the GLA in 2010/11 with a further £700m scheduled to be drawn down in 2011/12. A further £600 million will be applied to fund the Crossrail construction and financing costs. The GLA has already paid over £1 billion towards the project using revenues financed by the BRS. The GLA expects the Crossrail BRS will run for a period of between 24 and 31 years until its borrowing is repaid.

The Crossrail BRS multiplier for 2011/12 was 2p per pound of rateable value. Reliefs for the Crossrail BRS applied on the same basis and at the same percentage rate as for the National Non Domestic Rates (NNDR) bills although no transitional relief was provided for the BRS.

www.london.gov.uk/crossrail-brs

From 2010-11 onwards, the total amount, less certain reliefs and other deductions, is paid to the Greater London Authority on whose behalf it is collected. Under these arrangements, the amounts included in these accounts are analysed as follows:

2010/11 £'000		2011/12 £'000
13,674	Non Domestic Rates Due	13,446
	Less Allowances and Other Adjustments	
687	Mandatory & Discretionary Relief	656
759	Provision for Bad Debts	784
67	Cost of Collection	33
15,187	Collectable from Business Rate Supplement Payers	11,973

5. PROVISION FOR IRRECOVERABLE COUNCIL TAX DEBTS

Contributions are made to or from the Collection Fund Income and Expenditure Account to a provision for bad debts. For 2011/12 the Council Tax bad debt provision was increased by £2.268 million (increased by £0.433 million in 2010/11) and £1.884 million of irrecoverable debts were written off (£1.081 million in 2010/11).

GROUP ACCOUNTS

INTRODUCTION

Where a Council has a material interest in a separate entity, the entity's assets and liabilities may need to be incorporated within the council's group accounts as a subsidiary (controlling interest) or an associate (significant influence). As the Council controls Tower Hamlets Homes it is a subsidiary, therefore the subsidiary's assets and liabilities are incorporated within the council's group accounts.

The Council's Arms Length Management Organisation (ALMO), Tower Hamlets Homes Limited ("THH"), was incorporated on 16 May 2007 and commenced trading on 7 July 2008. It is a wholly owned subsidiary of the Council responsible for the management, maintenance and modernisation of the Council's housing stock. The stock remains in the ownership of the Council and rents are collected by THH on behalf of the Council.

THH is a private company limited by guarantee with no share capital. The composition of the board of the company and the associated voting rights are as follows.

	Number	Rights
Council nominees	4	4
Housing tenants and leasehold	3	3
Independent	3	3
Total	10	10

It should be noted that, although Board members have voting rights at Board meetings, the Council is the sole member of the company and therefore has 100% of the voting rights at the company's Annual General Meeting.

The Council undertakes, in the event of the company's being wound up, to contribute such amounts as may be required for the payment of the debts and liabilities of the company, provided this does not exceed £1. After the satisfaction of all the debts and liabilities, the remaining assets would revert to the Council. THH is an admitted body to the Council's local government pension fund. The full pension obligation and related deficit together with current and past services costs for THH employees passed to the company when it began trading. Should THH cease trading then the full pension obligation and related deficit or surplus would pass back to the Council as an integral part of the general business transfer.

The Council has determined that Group Accounts, showing the consolidated financial activities and financial position of the Council as a "single entity" and THH, need to be prepared since the 2008/09 financial year. The consolidation has been carried out in accordance with the acquisition basis of accounting - the service was externalised at fair value and did not result in an adjustment for goodwill. The income and expenditure of THH for the year are included in the Group Income and Expenditure Account and its assets and liabilities at 31 March 2012 in the Group Balance Sheet.

A copy of THH's accounts is available from the company's registered office at:

Tower Hamlets Homes Limited
Jack Dash House, 2 Lawn Close, London E14 9YQ

or from Companies House, Cardiff

The accounts are subject to approval and adoption at the Annual General Meeting; and the formal issuing of the audit report

THH's appointed auditors are:

KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

GROUP MOVEMENT IN RESERVES STATEMENT

	NOTES	USABLE RESERVES							UNUSABLE RESERVES		
		GENERAL FUND BALANCE £'000	EARMARKED GENERAL FUND RESERVES* £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	INCOME EXPENDITURE RESERVE £'000	TOTAL USABLE RESERVES £'000	TOTAL UNUSABLE RESERVES £'000	TOTAL AUTHORITY RESERVES £'000
Balance as at 31 March 2010		27,133	104,054	12,978	1,074	16,310	16,499	456	178,504	931,108	1,109,612
<u>Movement in reserves during 2010/11</u>											
Surplus or (Deficit) on the Provision of Services		163,715	0	(291,458)	0	0	0	4,342	(123,401)	0	(123,401)
Other comprehensive expenditure and income		0	0	0	0	0	0	0	0	298,477	298,477
Total Comprehensive Expenditure and Income		163,715	0	(291,458)	0	0	0	4,342	(123,401)	298,477	175,076
Adjustments between accounting basis and funding basis under regulations		(162,168)	0	291,266	5,272	8,115	3,251	(4,307)	141,429	(145,734)	(4,305)
Net Increase or Decrease before Transfers to Earmarked Reserves		1,547	0	(192)	5,272	8,115	3,251	35	18,028	152,743	170,771
Transfers to or from earmarked reserves	7	(1,042)	1,042	0	0	0	0	0	0	0	0
Transfers to or from school reserves		(4,258)	4,258	0	0	0	0	0	0	0	0
Increase or (Decrease) in Year		(3,753)	5,300	(192)	5,272	8,115	3,251	35	18,028	152,743	170,771
Balance as at 31 March 2011 carried forward		23,380	109,354	12,786	6,346	24,425	19,750	491	196,532	1,083,851	1,280,383
<u>Movement in reserves during 2011/12</u>											
Surplus or (Deficit) on the Provision of Services		(34,864)	0	256,111	0	0	0	2,221	223,468	0	223,468
Other comprehensive expenditure and income		0	0	0	0	0	0	0	0	(109,593)	(109,593)
Total Comprehensive Expenditure and Income		(34,864)	0	256,111	0	0	0	2,221	223,468	(109,593)	113,875
Adjustments between accounting basis and funding basis under regulations		52,225	0	(254,319)	1,639	3,183	30,406	(309)	(167,175)	167,177	0
Net Increase or Decrease before Transfers to Earmarked Reserves		17,361	0	1,792	1,639	3,183	30,406	1,912	56,293	57,584	113,875
Transfers to or from earmarked reserves	7	(11,948)	11,948	0	0	0	0	0	0	0	0
Transfers to or from school reserves		(2,413)	2,413	0	0	0	0	0	0	0	0
Increase or (Decrease) in Year		3,000	14,361	1,792	1,639	3,183	30,406	1,912	56,293	57,584	113,875
80											
Balance as at 31 March 2012		26,380	123,715	14,578	7,985	27,608	50,156	2,403	252,825	1,141,433	1,394,258

GROUP COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

Gross Expenditure	2010/11		Note	2011/12		
	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
Continuing Operations						
30,210	6,790	23,420	Cultural and Related Services	29,790	6,859	22,931
49,313	36,879	12,434	Central Services	47,938	38,760	9,178
522,938	421,065	101,873	Children's and Education Services	529,192	437,468	91,724
49,154	9,293	39,861	Environment and Regulatory Services	41,568	9,471	32,097
30,251	19,449	10,802	Highways and Transport Services	31,709	20,704	11,005
376,031	89,701	286,330	Local Authority Housing (Housing Revenue Account)	65,064	90,718	(25,654)
296,010	272,252	23,758	Other Housing Services	305,846	285,696	20,150
34,535	14,990	19,545	Planning Services	30,045	19,648	10,397
121,561	26,329	95,232	Adult Social Care	116,743	29,626	87,117
13,754	1,118	12,636	Corporate and Democratic Core	14,981	2,897	12,084
7,393	139,132	(131,739)	Non-distributed Costs	15,227	250	14,977
1,531,150	1,036,998	494,152	NET COST OF SERVICES	1,228,103	942,097	286,006
		18,202	Other Operating Expenditure			130,450
		46,740	Financing and Investment Income and Expenditure			107,173
		(435,698)	Taxation and Non-Specific Grant Income			(747,110)
		5	Corporation Tax			13
		123,401	(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES			(223,468)
			Other Comprehensive Income and Expenditure			
		(31,761)	Surplus on revaluation of non-current assets			(13,701)
		(262,407)	Actuarial (gains) or losses on pension assets and liabilities			123,296
		(294,168)	OTHER COMPREHENSIVE INCOME AND EXPENDITURE			109,595
(170,767) TOTAL COMPREHENSIVE INCOME AND EXPENDITURE						(113,873)

GROUP BALANCE SHEET

This statement shows the Group's balances and reserves and its long term indebtedness, and the non-current assets and net current assets employed in its operations as at 31st March 2011.

1 April 2010 £'000	31 March 2011 £'000	Notes	31 March 2012 £'000
Long-term Assets			
2,109,675	1,896,850	Property, plant and equipment	1,850,716
4,799	4,799	Heritage Assets	4,799
1,067	1,008	Long Term Debtors	768
2,115,541	1,902,657	Total Long-term assets	1,856,283
Current Assets			
40,818	100,929	Short-term investments	131,603
0	0	Assets held for sale	945
531	821	Inventories	517
88,663	89,925	Short-term debtors	74,624
82,723	139,371	Cash and cash equivalents	131,408
212,735	331,046	Total Current Assets	339,097
Current liabilities			
15,324	35,485	Short-term borrowing	2,266
97,384	132,797	Short-term creditors	149,245
1,003	855	Provisions	1,594
4,207	4,418	Provisions for accumulated absences	3,355
117,918	173,555	Total Current liabilities	156,460
Long Term Liabilities			
10,213	12,014	Provisions	13,088
302,475	325,533	Long-term borrowing	90,479
689,924	301,939	Liability related to defined benefit pension schemes	422,546
50,030	90,474	Capital grants receipts in advance	72,255
38,287	41,090	Deferred liabilities	40,299
9,817	8,717	Deferred Income - Receipt in Advance	5,996
1,100,746	779,767	Total Long-Term Liabilities	644,663
1,109,612	1,280,381	NET ASSETS	1,394,257
Reserves			
Usable Reserves			
27,134	23,380	General Fund	26,380
12,978	12,786	Housing Revenue Account	14,578
84,942	85,984	Earmarked reserves	97,932
19,111	23,370	Schools reserves	25,783
16,309	24,424	Capital receipts reserve	27,608
16,500	19,751	Capital grants unapplied	50,156
1,074	6,346	Major repairs reserve	7,985
456	490	Income & Expenditure Reserve	2,403
178,504	196,531	Total Usable Reserves	252,825
Unusable Reserves			
514,696	533,521	Revaluation Reserve	497,734
1,105,580	852,406	Capital Adjustment Account	1,068,460
0	0	Collection Fund	0
3,902	3,154	Collection Fund Adjustment Account	24
764	885	Financial Instruments Adjustment Account	959
(689,924)	(301,939)	Pensions reserve	(422,546)
(4,208)	(4,418)	Accumulated Absences Account	(3,355)
298	241	Deferred capital receipts	156
931,108	1,083,850	Total Unusable Reserves	1,141,432
1,109,612	1,280,381	TOTAL RESERVES	1,394,257

GROUP CASH FLOW STATEMENT

2010/11		Notes	2011/12
£'000			£'000
(123,401)	Net surplus or (deficit) on the provision of services		223,468
269,859	Adjustments to net surplus or deficit on the provision of services for non cash movements	1	204,696
(119,569)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1	(163,976)
26,889	Net cash flows from Operating Activities		264,188
(13,141)	Investing Activities	3	(3,584)
42,900	Financing Activities	4	(268,567)
56,648	Net increase or decrease in cash and cash equivalents		(7,963)
82,723	Cash and cash equivalents at the beginning of the reporting period		139,371
139,371	Cash and cash equivalents at the end of the reporting period		131,408

NOTES TO THE GROUP ACCOUNTS

1 NOTE A TO THE CASH FLOW STATEMENT

2010/11 £'000		2011/12 £'000	2011/12 £'000
(123,401)	Net Surplus or (Deficit) on the Provision of Services		223,468
	<u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u>		
38,119	Depreciation	41,865	
293,778	Impairment and downward valuations	(3,481)	
836	Amortisation	1,270	
120	Adjustments for effective interest rates	175	
241	Increase/Decrease in Interest Creditors	(1,895)	
31,176	Increase/Decrease in Creditors	16,827	
(111)	Increase/Decrease in Interest and Dividend Debtors	(920)	
(607)	Increase/Decrease in Debtors	13,218	
(290)	Increase/Decrease in Inventories	304	
(125,578)	Pension Liability	(2,688)	
1,653	Contributions to/(from) Provisions	1,812	
211	Provision for Equal Pay	(1,062)	
30,311	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	139,271	
269,859			204,696
	<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>		
(105,700)	Capital Grants credited to surplus or deficit on the provision of services	(153,391)	
(13,869)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(10,585)	
(119,569)			(163,976)
26,889	Net cash flows from operating activities		264,188

2 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2010/11 £'000		2011/12 £'000	2011/12 £'000
1,605	Interest received		1,981
(28,144)	Interest paid		(28,544)
(26,539)			(26,563)

3 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2010/11 £'000		2011/12 £'000	2011/12 £'000
(111,038)	Purchase of property, plant and equipment, investment property and intangible assets		(119,541)
(60,111)	Purchase of short-term and long-term investments		(30,452)
(188)	Other payments for investing activities		(118)
13,457	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		5,561
144,739	Other receipts from investing activities		140,966
(13,141)	Net cash flows from investing activities		(3,584)

4 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2010/11 £'000		2011/12 £'000	2011/12 £'000
51,000	Cash receipts of short- and long-term borrowing		497
282	Billing Authorities - Council Tax and NNDR adjustments		0
(369)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		(682)
(8,013)	Repayments of short- and long-term borrowing		(268,382)
42,900	Net cash flows from financing activities		(268,567)

5 INCOME AND EXPENDITURE ACCOUNT

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

	2010/11 £'000	2011/12 £'000
Operating (profit) / loss	(2,632)	(1,214)
Interest payable	0	0
Interest receivable	(24)	0
Pensions interest cost	(1,691)	(1,020)
Corporation tax	5	13
Total	(4,342)	(2,221)

6 BALANCE SHEET

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

	The Council		THH		TOTAL	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
Non-current assets - equipment	8,225	7,439	297	211	8,522	7,650
Inventories	821	517	0	0	821	517
Short-term debtors	90,431	74,912	(506)	(288)	89,925	74,624
Cash and cash equivalents	98,963	126,726	2,808	4,682	101,771	131,408
Short-term creditors	130,688	147,043	2,109	2,202	132,797	149,245
Pensions liability	308,691	422,546	(6,752)	0	301,939	422,546
Pensions reserve	(308,691)	(422,546)	6,752	0	(301,939)	(422,546)
Income and Expenditure Reserve	0	0	490	2,403	490	2,403

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2010/11 £'000	2011/12 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	39,659	37,325
From members	3	10,266	9,180
Transfers in			
Transfers in from other pension funds		7,704	5,507
Benefits			
Pensions	4	(29,407)	(32,129)
Lump sum benefits	4	(11,406)	(9,699)
Payments to and on account of leavers			
Refunds of contributions		(2)	(2)
State scheme premiums		(2)	(2)
Transfers out to other pension funds		(5,167)	(5,475)
Administrative expenses	13	(1,003)	(1,002)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		10,642	3,703
RETURN ON INVESTMENTS			
		2010/11 £'000	2011/12 £'000
Investment income	11	10,562	13,016
Change in market value of investments			
Realised		70,468	(204)
Unrealised	10	(29,888)	844
Investment management expenses	16	(2,118)	(2,174)
NET RETURN ON INVESTMENTS		49,024	11,482
Net increase in the Fund during the year		59,666	15,185
Add: Opening net assets of the scheme		752,501	812,167
CLOSING NET ASSETS OF THE SCHEME		812,167	827,352
NET ASSETS STATEMENT AS AT 31ST MARCH			
		2011 £'000	2012 £'000
Investments Assets			
Equities		180,091	177,932
Pooled Investment Vehicles			
Unit Trusts		452,951	460,149
Property		86,158	92,048
Other		79,839	82,772
Derivative Contracts			
Forward Foreign Exchange Contracts		292	510
		799,331	813,411
Cash deposits	6	9,362	7,187
Other investment balances	5	1,096	1,270
Investments Liabilities			
Forward Foreign Exchange Contracts	10	(699)	(285)
Other investment balances	5	0	(443)
Current Assets	5	4,385	7,679
Current Liabilities	5	(1,308)	(1,467)
TOTAL NET ASSETS		812,167	827,352

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

The Council is the administering authority for the Pension Fund and has executive responsibility for it. The Council delegates its responsibility for administering the Fund to the Pensions Committee which is responsible for considering all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and other statutes relating to investment issues. The Committee meets quarterly to determine investment policy objectives, appoint investment managers, monitor investment performance and make representations to the Government on any proposed changes to the Local Government Pension Scheme. The Committee is required to obtain proper advice on the investment strategy of the Fund for which it has established an Investment Panel which includes professional investment advisors. The Panel meets quarterly to determine the general investment strategy, monitor the performance of the Fund and individual managers and consider technical reports on investment issues. The Fund employs six specialist investment managers with mandates corresponding to the principal asset classes.

The day to day administration of the Fund and the operation of the management arrangements and administration of the investment portfolio is delegated to the Corporate Director of Resources.

The Fund is operated as a funded, defined benefits scheme which provides for the payment of benefits to former employees of the London Borough of Tower Hamlets and those of bodies admitted to the Fund. These individuals are referred to as "members". The benefits include not only retirement pensions, but also widows' pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividend receipts and gains on the Fund's investments.

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management - that is the accountability of management for the resources entrusted to it - and the disposition of its assets at the period end.

2. ACCOUNTING POLICIES

(a) Accounts

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with Chapter 2 ("Recommended Accounting Practice") of the Statement of Recommended Practice (Financial Reports of Pensions Schemes) 2007 and the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Fund is administered in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009.

(b) Basis of preparation

Except where otherwise stated, the accounts have been prepared on an accruals basis, that is income and expenditure are recognised as earned or incurred, not as received or paid.

(c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2012. The actuarial present value of promised retirement benefits, valued on an IAS19 basis is disclosed in note 12 of the Accounts.

(d) Investments

Investments are shown in the Net Assets Statement at market value on the following bases.

- (i) Listed securities are shown by reference to bid price at the close of business on 31st March 2012.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2012.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2012.
- (iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.
- (v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2012. Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.
- (vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent unrealised gains or losses on forward contracts.

(vii) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

(e) Management Expenses

Fund managers' fees are paid in accordance with the terms of each individual management agreement. The fees are based mainly on a percentage of the value of funds under their management and increase or reduce as the value of the investments change.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 7.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2012 range from 15.8% to 44.1% of pensionable pay. The Council paid an agreed additional monetary contribution of £14m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2010/11 £'000	2011/12 £'000
Members normal contributions		
Council	9,246	8,254
Admitted bodies	257	241
Scheduled body	763	685
Total members	10,266	9,180
Employers		
Normal contributions		
Council	20,754	18,755
Admitted bodies	867	956
Scheduled bodies	1,845	1,714
Deficit funding contributions		
Council	13,624	14,000
Other contributions		
Council	2,569	1,900
Total employers	39,659	37,325
Total contributions	49,925	46,505

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2011/12 employees made contributions of £51,533.43 into the AVC Scheme operated by Aviva (Norwich Union) and £8,560.40 to Equitable Life. The contributions are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831) but are deducted from salaries and remitted directly to the provider.

4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

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

	2010/11				2011/12			
	Council	Admitted Bodies	Scheduled Bodies	Total	Council	Admitted Bodies	Scheduled Bodies	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pensions	(28,428)	(688)	(291)	(29,407)	(30,734)	(810)	(585)	(32,129)
Lump sum retirement benefits	(9,909)	(483)	(264)	(10,656)	(7,143)	(384)	(1,157)	(8,684)
Lump sum death benefits	(750)	0	0	(750)	(1,015)	0	0	(1,015)
Total Pensions and Benefits	(39,087)	(1,171)	(555)	(40,813)	(38,892)	(1,194)	(1,742)	(41,828)
Transfer Values Received	7,704	0	0	7,704	5,507	0	0	5,507
Transfer Values Paid	(5,167)	0	0	(5,167)	(5,475)	0	0	(5,475)
Total	(36,550)	(1,171)	(555)	(38,276)	(38,860)	(1,194)	(1,742)	(41,796)

5. DEBTORS AND CREDITORS

Unless otherwise stated, all transactions are accounted for on an accruals basis. The following amounts were debtors or creditors of the Pension Fund as at 31st March.

	2010/11 £'000	2011/12 £'000
Debtors		
Other Investment Balances		
Dividends receivable	656	841
Tax recoverable	440	429
	<u>1,096</u>	<u>1,270</u>
Current Assets		
Contributions due from admitted bodies	22	31
London Borough of Tower Hamlets Pension Fund	4,363	69
	<u>4,385</u>	<u>100</u>
Total Debtors	5,481	1,370
Creditors		
Other Investment Balances		
Investment purchases	0	443
Current Liabilities		
Unpaid benefits	922	1,097
Administrative expenses	386	370
	<u>1,308</u>	<u>1,467</u>
Total Creditors	1,308	1,910
Net Debtors	4,173	(540)

6. CASH

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

	2010/11 £'000	2011/12 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	3,413	2,893
Ruffer	1	0
Schroders: Multi Asset Portfolio	8	12
Schroders: Property Portfolio	5,930	4,272
London Borough of Tower Hamlets Pension Fund	0	7,579
TOTAL CASH	9,362	14,766

7. TAXATION

UK Income Tax

Investment income is subject to UK tax which the Fund cannot recover under current tax legislation, except for tax deducted at source from Property unit trusts.

Value Added Tax

By virtue of Tower Hamlets Council being the Administering Authority, VAT input tax is recoverable on all Fund activities.

Overseas Tax

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

8. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP is published as part of the Local Government Pensions Scheme Annual Report which is due to be submitted to the Council's Pensions Committee on 15th November 2012.

9. MEMBERSHIP OF THE FUND

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

	2011	2012
London Borough of Tower Hamlets		
Active Members	5,219	4,780
Pensioners	3,779	3,892
Deferred Pensioners	5,338	5,756
Dependants	931	936
	15,267	15,364
Admitted & Scheduled Bodies		
Active Members	467	472
Pensioners	135	172
Deferred Pensioners	263	304
Dependants	2	4
	867	952

The following bodies have been admitted into the Fund:

Admitted Bodies

Capita
 Circle Anglia Ltd.
 East End Homes
 Ecovert FM Ltd.
 Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)
 Greenwich Leisure Limited
 Look Ahead Housing and Care
 One Housing Group (formerly Island Homes)
 Redbridge Community Housing Ltd.
 Swan Housing Association
 Tower Hamlets Community Housing

Scheduled Bodies

Bethnal Green Academy
 Canary Wharf College
 Sir William Burrough School
 St. Pauls Way Community School
 Tower Hamlets Homes Limited

10. INVESTMENTS

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

Manager

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

Mandate

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

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

	2011		2012	
	£ million	%	£ million	%
Baillie Gifford Life Ltd - Diversified Growth	40.2	5.0	41.7	5.1
Baillie Gifford Life Ltd - Equities	135.0	16.7	137.0	16.7
GMO UK Ltd.	204.7	25.3	200.0	24.4
Investec Asset Management	97.8	12.1	95.5	11.6
Legal & General Investment Management	201.6	24.9	212.0	25.8
Ruffer LLP	39.6	4.9	41.0	5.0
Schroders Asset Management Property Fund	90.2	11.1	93.8	11.4

10. INVESTMENTS (continued)

The movement in the opening and closing value of investments during the year, together with related direct transaction costs, were as follows:

	Market Value as at 1 Apr 2011	Purchases	Sales	Change in Market Value	Market Value as at 31 Mar 2012	Transaction Costs
	£'000	£'000	£'000	£'000	£'000	£'000
Baillie Gifford Life Ltd - Diversified Growth	40,195	52	0	1,494	41,741	0
Baillie Gifford Life Ltd - Equities	135,023	0	0	1,975	136,998	0
GMO UK Ltd.	200,365	90,536	(79,827)	(15,000)	196,074	46
Investec Asset Management	97,834	0	0	(2,310)	95,524	0
Legal & General Investment Management	201,551	0	0	10,474	212,025	0
Ruffer LLP	39,644	1	0	1,387	41,032	0
Schroders Asset Management Property	84,020	10,960	(8,072)	2,824	89,732	0
Martin Currie Investment Management	(1)	0	0	1	0	0
Aberdeen No.2	2	0	0	(2)	0	0
Auriel Capital Management	(1)	0	0	1	0	0
	798,632	101,549	(87,899)	844	813,126	46

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2011	Purchases	Sales	Change in Market Value	Market Value as at 31 Mar 2012
	£'000	£'000	£'000	£'000	£'000
UK Investment Assets					
Quoted	488,414	11,013	(8,072)	15,845	507,200
Unquoted	2	0	0	(2)	0
Overseas Investment Assets					
Quoted	310,623	90,821	(80,337)	(15,406)	305,701
Unquoted	(407)	(285)	510	407	225
	798,632	101,549	(87,899)	844	813,126

Derivative Contracts

The fund managers GMO UK Ltd is permitted to use forward foreign exchange contracts to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of the assets held or to adjust the foreign currency exposure of the portfolio. The only derivative contracts held at 31st March 2012 were forward foreign exchange contracts.

Forward Foreign Exchange Contracts are over-the-counter contracts whereby two parties agree to exchange currencies on a specified future date at an agreed rate of exchange. They are used to manage economic exposure to markets.

The amounts included in the accounts represent the unrealised gains or losses arising from the closing out of the contract at the reporting date. The market value of the contracts is represented by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

The Forward Foreign Exchange Contracts are stated at fair value which is determined by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

The global equity manager GMO is instructed to use forward foreign exchange contracts to minimise currency risk exposure. Net exposure to forward foreign exchange is restricted to 10% of the portfolio.

Forward Foreign Exchange Contracts

	Sterling value of obligation on purchase or sale date	Sterling value of equal and opposite obligation at 31 March 2012	Gains/(losses) on Contract
	£'000	£'000	£'000
Currency contracted to purchase	(28,734)	28,449	(285)
Currency contracted to sell	31,020	(30,510)	510
Net Position	2,286	(2,061)	225

Contract	Manager	Expiration	Gains/(Losses) on Contract £'000
Australian Dollar Foreign Currency	GMO UK Ltd	April 2012	(22)
Canadian Dollar Foreign Currency	GMO UK Ltd	April 2012	2
Euro Foreign Currency	GMO UK Ltd	April 2012	17
Hong Kong Dollar Foreign Currency	GMO UK Ltd	April 2012	(60)
Japanese Yen Foreign Currency	GMO UK Ltd	April 2012	325
Norwegian Krone Foreign Currency	GMO UK Ltd	April 2012	3
Singapore Dollar Foreign Currency	GMO UK Ltd	April 2012	(56)
Swedish Krona Foreign Currency	GMO UK Ltd	April 2012	(14)
Swiss Franc Foreign Currency	GMO UK Ltd	April 2012	(2)
US Dollar Forward Currency	GMO UK Ltd	April 2012	32
Unrealised Gain			225

Unrealised gains were made on foreign exchange contracts in the year amounting to £0.225 million.

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2010/11 £'000	2011/12 £'000
Income from fixed interest securities	37	0
Income from index linked securities	340	0
Dividends from UK equities	1,609	0
Dividends from overseas equities	5,660	9,164
Net rents from properties	2,769	2,906
Interest on cash deposits	(59)	(88)
Foreign tax	199	151
Underwriting costs, etc.	7	883
TOTAL	10,562	13,016

12 ACTUARIAL POSITION

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

The 2010 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £305 million and the funding level to be 71%. This compares to a deficit at the previous revaluation in 2007 of £205 million and a corresponding funding level of 78%.

The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed contributions to recover the deficit for the term of the revaluation is as set out below :-

	£m
2011/12	14.00
2012/13	15.25
2013/14	16.50

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2010 determined that this would require a contribution (additional to the future contribution rate) of 12.9% of members' pensionable pay equivalent to £14.0 million per annum.

The Council, as Administering Authority, prepares a Funding Strategy Statement (FSS) in respect of the Fund in collaboration with the Fund's Actuary and after consultation with the employers and investment advisors. The Actuary is required to have regard to this statement when carrying out the valuation. The FSS includes the Fund's funding policy, the objectives of which are:

- to ensure the long-term solvency of the Fund
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment
- not to restrain unnecessarily the investment strategy of the Fund so that the Council can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

The basis of valuing the Fund's assets (see note 2) is compatible with the basis of placing a value on members' benefits as both are related to market conditions at the valuation date.

12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2011/12 was 15.8%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2013 and the recommendations implemented from 1st April 2014.

Although the funding shortfall is significant, it should be noted that current legislation provides that the level of members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the Council's responsibility to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised. It should also be recognised that the Council is a long-term investor both because a high proportion of pension benefits do not become payable until far in the future and the Council has a relatively secure long-term income stream.

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with IAS26 took place at 31st March 2010. The main actuarial assumptions used in revaluation and applied during the intervalation period were as follows:

Financial Assumptions	Nominal	Real
Price inflation (CPI)	3.3%	
Pay increases	5.3%	2.0% Real rates are nominal rates
"Gilt based" discount rate	4.5%	1.2% adjusted for inflation
Funding basis discount rate	5.9%	2.6%

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	21.0	23.8
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	22.9	25.7

Actuarial Value of Promised Retirement Benefits

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

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1,268 million (£1,122 million in 2010/11).

13. ADMINISTRATIVE EXPENSES

	2010/11 £'000	2011/12 £'000
Investment Advice	170	115
Performance Measurement	15	16
Administration	883	847
Audit Fees	35	35
Other Fees	(100)	(11)
	1,003	1,002

14. RISK MANAGEMENT

Nature and extent of risks arising from financial instruments

Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The Fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers. Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

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

Liquidity risk

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

The Fund currently operates two bank accounts. One is held by the Fund's custodian (State Street Bank) and holds cash relating to the investment activities and the other is the LBTH Pension Fund bank account and this is used to hold cash relating to member activities.

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets.

Market risk

This is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises; interest rate risk, currency risk and other price risk. The Fund mitigates these risks as follows:

Interest rate risk

Cash deposits held in the Pension Fund bank account are invested in accordance with the Council's approved Treasury Management Strategy.

The Fund holds a percentage of its portfolio in fixed interest securities to mitigate this risk should interest rates fall.

The Fund's direct exposure to interest rate movements as at 31st March 2011 and 31st March 2012 is set out below.

Interest Rate Risk	As At 31st March	As At 31st March
	2011	2012
Asset Type	£'000	£'000
Cash and cash equivalents	9,362	7,187
Cash balances	4,385	7,679
Fixed interest securities	135,739	141,436
Total	149,486	156,302

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2012	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		£'000	£'000
Cash and cash equivalents	7,187	72	(72)
Cash balances	7,679	77	(77)
Fixed interest securities	141,436	1,414	(1,414)
Total change in net assets available	156,302	1,563	(1,563)

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2011	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		£'000	£'000
Cash and cash equivalents	9,362	94	(94)
Cash balances	4,385	44	(44)
Fixed interest securities	135,739	1,357	(1,357)
Total change in net assets available	149,486	1,495	(1,495)

14. RISK MANAGEMENT (continued)

Currency risk

The Fund invests in financial instruments denominated in currencies other than Sterling and as a result is exposed to exchange rate risk. To alleviate this risk the Fund allows investment managers to use derivative contracts, in accordance with the contract conditions:

The following table summarises the Fund's currency exposure as at 31 March 2012 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2011 £'000	As At 31st March 2012 £'000
Overseas quoted securities	177,487	174,622
Overseas unit trusts	8,511	7,966
Cash	3,230	2,725
Total overseas assets	189,228	185,313

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2012 £'000	Change in year in net assets available	
		+9.9% £'000	-9.9% £'000
Overseas quoted securities	174,622	191,910	157,334
Overseas unit trusts	7,966	8,755	7,177
Cash	2,725	2,995	2,455
Total change in net assets available	185,313	203,659	166,967

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2011 £'000	Change in year in net assets available	
		+9.9% £'000	-9.9% £'000
Overseas quoted securities	177,487	195,058	159,916
Overseas unit trusts	8,511	9,354	7,668
Cash	3,230	3,550	2,910
Total change in net assets available	189,228	207,962	170,494

The percentage change in the year of 9.9% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

Other Price risk

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

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

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

Other price risk - sensitivity analysis

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2011/12 reporting period.

Price Risk - sensitivity analysis	Potential Market Movements (+/-)
Asset Type	
UK equities	15.6%
Global equity	15.6%
Total fixed interest	4.2%
Alternatives	13.9%
Cash	0.0%
Pooled Property Investments	7.0%

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

Asset Type	Value as at 31 March 2012 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	7,187	0.0%	7,187	7,187
Investment portfolio assets				
UK equities	166,113	15.6%	192,027	140,199
Global equity	332,848	15.6%	384,772	280,924
Total fixed interest	141,436	4.2%	147,376	135,496
Alternatives	82,773	13.9%	94,278	71,268
Pooled Property Investments	89,732	7.0%	96,013	83,451
Net derivative assets	224	0.0%	224	224
Investment income due	1,270	0.0%	1,270	1,270
Amounts receivable for sales				
Amounts payable for purchases	(443)	0.0%	(443)	(443)
Total assets available to pay benefits	821,140		922,705	719,575

14. RISK MANAGEMENT (continued)

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

Asset Type	Value as at 31 March 2011 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	9,362	0.0%	9,362	9,362
Investment portfolio assets				
UK equities	163,646	15.6%	189,175	138,117
Global equity	335,794	15.6%	388,178	283,410
Total fixed interest	135,739	4.2%	141,440	130,038
Alternatives	79,839	13.9%	90,937	68,741
Pooled Property Investments	84,020	7.0%	89,901	78,139
Net derivative assets	(407)	0.0%	(407)	(407)
Investment income due	1,096	0.0%	1,096	1,096
Amounts receivable for sales				
Amounts payable for purchases				
Total assets available to pay benefits	809,089		909,682	708,496

Refinancing risk

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

15. FINANCIAL INSTRUMENTS DISCLOSURES

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

	Long-term		Current	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
Financial Assets				
Loans and receivables	0	0	1,118	1,301
Available for sale financial assets	799,039	812,902	0	0
Financial assets at fair value through profit or loss	0	0	14,017	15,344
Total Financial Assets	799,039	812,902	15,135	16,645
Financial Liabilities				
Payables	0	0	(1,308)	(1,910)
Financial liabilities at fair value through profit or loss	0	0	(699)	(285)
Total Financial Liabilities	0	0	(2,007)	(2,195)

Fair Value Hierarchy

IFRS7 requires the Fund to classify fair value instruments using a three-level hierarchy. The three levels are summarised as follows:

Level 1 - inputs that reflect quoted prices for identical assets or liabilities in active markets

Level 2 - inputs other than quoted prices for identical assets or liabilities in active markets

Level 3 - inputs that are not based on observable data

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2012.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	177,932	0	0	177,932
Pooled Funds				
Unit Trusts	460,149	0	0	460,149
Property Unit Trust	92,048	0	0	92,048
Other	82,772	0	0	82,772
Derivative Contracts				
Forward Foreign Exchange Contracts	0	225	0	225
Cash and bank Deposits	14,835	0	0	14,835
Current Assets	1,301	0	0	1,301
Current Liabilities	(1,910)	0	0	(1,910)
	827,127	225	0	827,352

During the year ended 31st March 2012 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2011 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	180,091	0	0	180,091
Pooled Funds				
Unit Trusts	452,951	0	0	452,951
Property Unit Trust	86,158	0	0	86,158
Other	79,839	0	0	79,839
Derivative Contracts				
Forward Foreign Exchange Contracts	0	(407)	0	(407)
Cash and bank Deposits	13,725	0	0	13,725
Current Assets	1,118	0	0	1,118
Current Liabilities	(1,308)	0	0	(1,308)
	812,574	(407)	0	812,167

16. INVESTMENT MANAGEMENT EXPENSES

	2010/11 £'000	2011/12 £'000
Payments to Managers	2,118	2,174

Where a fund manager deducts the investment management fee from the net asset value of the Fund this is shown in the Fund Account as an investment management expense and is reflected in the balance sheet as a reduced closing net asset value.

17. RELATED PARTY TRANSACTIONS

The London Borough of Tower Hamlets Pension Fund is administered by The London Borough of Tower Hamlets.

In accordance with IAS24 'Related Party Disclosure', material transactions with related parties not disclosed elsewhere in the financial statements are detailed below.

The Council incurred costs of £850k (£868k 2010/11) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £15.3m (£14.0m 2010/11) to the Fund in respect of back funding. All monies owing to and from the Fund were paid in the year.

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

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31st March 2012, the Fund held an average investment of £5.9m (£3.9m 31st March 2011), earning interest of £94k, (£49k 2010/11).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £2.3m (£2.6m 2010/11) from this company.

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

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

Fund Administration Expenses	2010/11 £'000	2011/12 £'000
Payroll / HR Support	790	772
Corporate Finance	78	78
	868	850

Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. Members of the Pension Fund Committee who have involvement with other organisations are listed in the table below.

Orgnisation	Councillor	Relationship with the Organisation	Pension Contribution received from the Organisation 2010/11 £'000	Pension Contribution received from the Organisation 2011/12 £'000
Smithy Street Primary School	Aminur Khan	Governor and spouse are governors	15	20

18. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st March 2012.

19. CONTINGENT ASSETS

Admitted body employers in the Fund hold insurance bonds to guard against the possibility of not being able to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

20. POST BALANCE SHEET EVENTS

There are no significant post balance sheet events to report.

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

Opinion on the financial statements

I have audited the financial statements of the London Borough of Tower Hamlets for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework applied to their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director of Resources and the auditor

As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Tower Hamlets as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or

- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director of Resources and auditor

As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities, the Corporate Director of resources is responsible for the preparation of the Authority and Group's Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission. I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, the London Borough of Tower Hamlets put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate as I am still to complete the work necessary to issue my assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Jon Hayes District Auditor

1st Floor Millbank Tower, Millbank, London, SW1P 4HQ
September 2012

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director of Resources.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To consider and approve the Statement of Accounts.

The Statement of Accounts for 2011/12 was considered and approved by the Council's Audit Committee on 25th September 2012.



Chair of Committee

The responsibilities of the Corporate Director of Resources

The Corporate Director of Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice").

In preparing this Statement of Accounts, the Corporate Director of Resources has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice.

The Corporate Director of Resources has also:

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

I certify that the Statement of Accounts 2011/12 presents fairly the financial position of the Council at 31st March 2012 and its income and expenditure for the year.



Chris Naylor ACA IPFA MACantab
Corporate Director of Resources
28th June 2012 – recertified 25th September 2012

Annual Governance Statement 2011/12

Tower Hamlets LBC (Tower Hamlets) is required by law to prepare a statement that details the Council's framework for making decisions and controlling its resources. The statement includes the Council's governance arrangements as well as control issues. This statement should enable stakeholders to have an assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2011 as amended.

1. Scope of Responsibility

Tower Hamlets is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Tower Hamlets is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Risk management is a principal element of corporate governance, to this end a risk management strategy was adopted in March 2002 and is regularly reviewed and endorsed by the Mayor in Cabinet and the Chief Executive.

Tower Hamlets' has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. A copy of the code is on our website at www.towerhamlets.gov.uk or can be obtained from the Council's monitoring officer. This statement explains how Tower Hamlets currently complies with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2011 in relation to the publication of the Annual Governance Statement. The Council's Standards Committee received an update in July 2011 of the Council's current local governance arrangements and the report recommended areas of improvement as part of the continuous improvement processes of the Council's governance arrangements. A further review is underway.

2. The Purpose of the Governance Framework

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

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achievement of Tower Hamlets' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage any such risks efficiently, effectively and economically.

Tower Hamlets' governance framework exists through its systems, processes, culture and values. These are regularly reviewed. The governance framework has been in place throughout the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

Independent Members of the Standards Committee review the Council's performance in adhering to the core principles of good governance, which form Tower Hamlets Code of Corporate Governance. Following abolition of the Standards Board for England, local arrangements have been put in place including a code of conduct for elected members with a report being presented to the Full Council on 16 May 2012. The new regime will operate from 1 July 2012.

3. The Governance Framework

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

3.1 Vision and Priorities

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

The Council (and Tower Hamlets Partnership) has refreshed the borough's Community Plan through to 2020. This has four new Community Plan themes to make Tower Hamlets:

- **A Great Place to Live** - Tower Hamlets will be a place where people live in quality affordable housing, located in clean and safe neighbourhoods served by well connected and easy to access services and community facilities;
- **A Prosperous Community** - Tower Hamlets will be a place where everyone, regardless of their background and circumstances, has the aspiration and opportunity to achieve their full potential;
- **A Safe and Cohesive Community** - Tower Hamlets will be a safer place where people feel safe, get on better together and difference is not seen as a threat but a core strength of the borough; and
- **A Healthy and Supportive Community** - Tower Hamlets will be a place where people are supported to live healthier, more independent lives and the risk of harm and neglect to vulnerable children and adults is reduced.

Running through this vision is the core theme of "One Tower Hamlets" with a focus and drive around reducing inequality, strengthening community cohesion and working in partnership. The Council's strategic plan flows from the Community Plan themes and for 2011/12, 18 priorities were identified, (<http://moderngov.towerhamlets.gov.uk/mgConvert2PDF.aspx?ID=21287>). Within these broad themes, there are five strong priorities for the Council in the next 2-3 years which the Mayor has made the centre-piece of his aspirations for the borough – these are:

- Increasing the availability of affordable family sized housing and reducing overcrowding;
- Improving attainment at age 16 and above and increasing activities out of school for young people;
- Further reducing crime and anti-social behaviour;
- Tackling worklessness; and
- Further improving cleanliness and the public realm.

Underpinning the Community Plan Themes and corporate priorities are the core values, which all officers are expected to adhere to, to build a more effective organisation. The Council's values are:

- Achieving results
- Engaging with others
- Valuing diversity
- Learning effectively

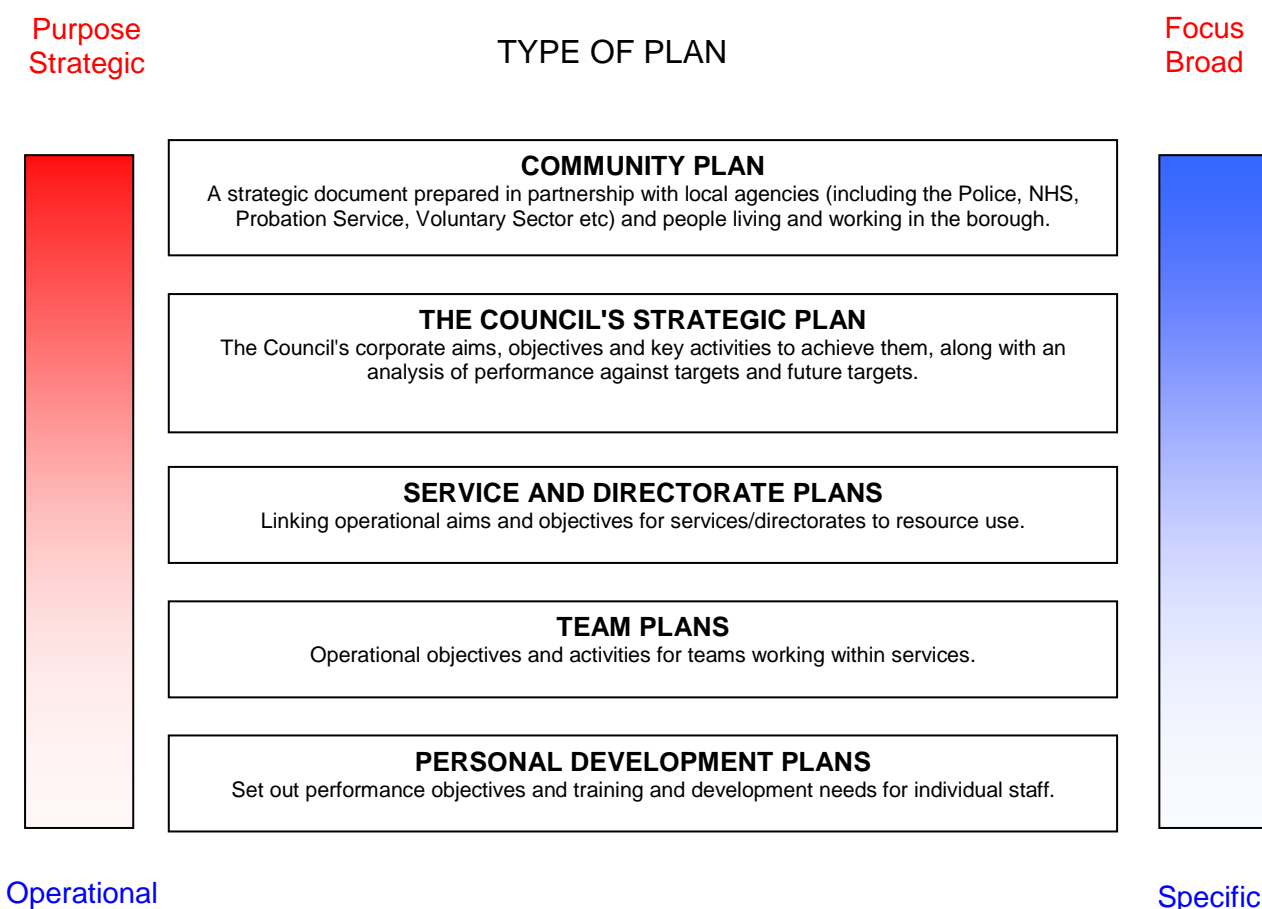
Over the last year, there has been significant consultation with local people to refresh the Community Plan through Local Strategic Partnership (LSP) events, as well as targeted consultation including with young people, older people, faith groups and disabled people. An analysis of key messages from consultation across the Partnership in the last four years was also undertaken. The vision, themes and priorities of the Community Plan were discussed through the Tower Hamlets Partnership structures which comprise the Partnership Board and Executive, the Community Plan Delivery Groups (CPDGs), the issue-based groups and localised governance structures.

The Community Plan and the Strategic Plan fall within the Council’s Budget and Policy Framework. This requires that Overview and Scrutiny Committee are given 10 working days to comment on the draft plans, that the Mayor in Cabinet takes account of Overview and Scrutiny Committee comments in their consideration of the draft plans before recommending them to Full Council. Both plans are subject to approval by Full Council.

3.2 Corporate and Service Plans

The overall planning framework is illustrated in the following diagram. As the diagram below shows, the Council aligns its Strategic Plan with the Community Plan’s and is structured around the themes, priorities and objectives of the Community Plan.

The Strategic Plan is refreshed each year through Cabinet, Overview and Scrutiny and Full Council. The Community Plan is refreshed every three years.



The Council’s vision, priorities and objectives are used to structure all directorate service plans and Personal Development Plans (PDRs). This ensures that there is a “golden thread” that runs from the Community Plan to each individual employees’ work. This helps ensure that the vision, priorities and objectives are communicated to all levels of the organisation. Further communication takes place through the Council’s staff newsletter “Tower Hamlets Now”.

3.3 Performance Management

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

The Council's Corporate Management Team (CMT), comprising the Corporate Directors for each service (including the Council's Section 151 officer and the Monitoring Officer), is responsible for the overall management of the Council. The CMT also has responsibility for reviewing and challenging the Council's performance and delivery of the strategic plan.

3.4 Council Constitution

The Council has an agreed Constitution that details how the Council operates and sets out:

- the rules and procedures to be followed by the Council and committees when conducting their business;
- the decision making powers of the Executive and of Committees;
- the financial and contract regulations;
- the scheme of delegation to chief officers;
- codes of conduct for councillors and employees; and
- members' interests and allowances.

Under the Council's constitution, the Executive is the elected Mayor, who has substantial powers over the running of local services. In taking decisions the Mayor is supported by the Cabinet, Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as the budget approval and the setting of Council Tax. A scheme of delegation is in place to enable officers to manage their services operationally.

All key decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public.

During the year the Constitution was refreshed by the Constitutional Working Party to ensure that it kept abreast of changes within the Council. From November 2011, the Council has delegated to the General Committee responsibility for future changes to the Constitution before ratification at the Full Council. The Council approves and keeps under regular review all of the strategic policies which it reserves for its own consideration, including:

- the constitution;
- the corporate performance plan;
- the corporate strategy;
- the medium term financial plan including the capital programme and annual revenue budget;
- the housing strategy; and
- the local development framework.

3.5 Codes of Conduct

The Council has a code of conduct for officers supported by a requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade and those in certain decision making and procurement positions. Officers are required to generally decline gifts and hospitality to ensure they are not inappropriately influenced. These codes and processes are made available to staff as part of their induction; they are also on the intranet and training is available to ensure every member of staff understands their responsibilities.

Councillors are required to make declarations of interest when elected and to consider their interests and make appropriate declarations at each meeting they attend. Councillors must also declare any gifts and hospitality with the records made public on the Council's website.

3.6 Rules, Regulations, Policies, and Procedures

The Council's rules and procedures are included in Part 4 of the Council's Constitution. The Council has a duty to ensure that it acts in accordance with the law and relevant regulations in the performance of its functions. It has developed policies and procedures to ensure that, as far as are reasonably possible, all Members and officers understand their responsibilities both to the Council and to the public. These include the Constitution, Standing Orders, Financial Regulations and Financial Procedures, Codes of Conduct and Protocols. Key documents are available to Members and staff through the Council's intranet and to a wider audience through publication on the Council's website. All policies are subject to periodic review to ensure that they remain relevant and reflect changes to legislation and other developments in the environment within which the Council operates.

3.7 Overview and Scrutiny

During 2011/12 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.

The Overview and Scrutiny function reviews decisions made by the Mayor in Cabinet and raises proposals for the Cabinet from its annual plan of work. The focus of their role is thus to provide a challenge and to support the development of policies. At their meetings they also consider performance monitoring information and have a key role in reviewing and challenging the Cabinet's budget framework prior to consideration at Full Council.

3.8 Audit Committee

Internal Audit provides assurance and advice on internal control to the Mayor, the Corporate Management Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control and where relevant, recommends improvements. It also supports the management of the Council in developing its systems and providing advice on matters pertaining to risk and control.

Internal Audit is overseen by an Audit Committee comprising seven members; four from the majority group and one each from the three largest minority groups in proportion to their representation on the Council. The Audit Committee's remit is to review the Council's systems of internal control and its risk management and governance arrangements, as outlined in the CIPFA Code of Practice for Audit Committees. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's Annual Financial Report, including the annual statement of accounts, and to consider reports from the Audit Commission. The Audit Committee met four times during the financial year 2011/12.

3.9 Internal Audit

Internal audit is an independent appraisal function that acts as a control that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In carrying out this function Internal Audit contributes to the discharge of the Corporate Director, Resources' Section 151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. For 2011/12, the overall the control environment is adjudged to be satisfactory.

3.10 External Audit

The Council's external auditors, the Audit Commission, review its arrangements for:

- preparing accounts in compliance with statutory and other relevant requirements;
- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice; and
- managing performance to secure economy, efficiency and effectiveness in the use of resources.

The auditors have, in their annual audit letter and their assessment, commented upon the Council's accounts, corporate governance and performance management arrangements.

3.11 Whistle Blowing Policy and the Complaints Procedure

The Council has a recognised complaints process which is administered by the Complaints and Information team. The complaints process comprises of a number of stages to enable the public to escalate their complaints if they are not satisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and the Standards Committee.

Members also receive enquiries and complaints via their surgeries, walkabouts and question time activities. The Council has arrangements to support members in addressing these queries to ensure that the public receive an appropriate answer.

The Council also has a whistle blowing policy which is actively promoted with the number of whistle blows received during the year reported to the Corporate Management Team and the Audit Committee. The effectiveness of this policy and the type of issues raised are reviewed and monitored by the Audit Committee on an annual basis.

Tower Hamlets also participates in the National Fraud Initiative (NFI) a computerised data matching exercise, lead by the Audit Commission, designed to detect fraud perpetrated on public bodies. The Corporate Anti-Fraud team has actively engaged with the Audit Commission to test and improve the output from the NFI exercise.

3.12 Risk Management

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

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

3.13 Financial Management

Statutory responsibility for ensuring that there is an effective system of internal financial control rests with the Corporate Director, Resources (the Council's S151 officer). The system of internal financial control provides reasonable assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or will be detected.

Internal financial control is based on a well established framework of financial regulations and financial procedures which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is a management responsibility. The control arrangements in 2011/12 included:

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

Since the publication of the CIPFA statement on the role of the Financial Officer in Local Government (2010), a self assessment of the Council has shown the authority conforms to the good practice identified within the code. A more recent publication concerning the role of the Head of Audit will be similarly assessed and will be submitted to the Audit Committee in due course.

3.14 The Efficient and Effective Use of Resources

Value for money and continuous service improvement are secured through a range of processes, including the application of best value principles and the carrying out of efficiency reviews. During 2011/12, the Council continued work on its efficiency programme and has made plans to manage with significantly reduced financial resource in the future. As part of its service and financial planning process, the Council set efficiency targets and brought performance data into the consideration of resource allocation. The Audit Commission's most recent assessment continues to be positive in the way the Council seeks to deliver value for money.

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

3.15 Learning and Organisational Development

The Council has a commitment that every member of staff receives an annual appraisal to discuss performance, targets and personal development. The Council provides a range of training opportunities for managers and staff to ensure that they are best equipped to deliver excellent public service. These include a Leadership programme, specific training relating to Recruitment and Selection, Risk Management, and computer based training.

Councillors have a member support officer and a development program to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. The Audit Committee, Standards Committee and Pensions Committee have training as part of their agendas and it is intended that in future they will agree specific training

plans for themselves annually. For some aspects of Council work Members are required to undertake a period of study and pass a test to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

3.16 Communication and Engagement

The Council publishes numerous documents on its website as well as providing a weekly paper, East End Life to keep residents up-to-date, in an informal and accessible way, on the work of the council.

The Council also engages with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform the Council on the perception of the services it provides and the experience of services users. Further, the authority uses its citizen engagement portal to engage with a wide range of stakeholders. The Council's website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

On a more local basis the Council has a number of community forums which are used to engage with the community. Young people make up a greater proportion of the Tower Hamlets population compared to the rest of London, and the Council has thus sought to engage with them by enabling them to vote for a young Mayor of the Council. The young Mayor has a clear manifesto and is working to make a difference to young people's lives within the borough.

3.17 Partnerships

The most significant partnership for the Council is the Tower Hamlets Partnership. In February 2012, the partnership structure was refreshed. In the new structure, the Partnership Executive and Board has been rationalised but still with responsibility for developing the overall strategy and for ensuring plans are delivered. The Community Plan Delivery Groups have been updated but with continued focus on the five key themes in the community plan including the statutory boards. The previously established eight local area partnerships whose role was to allow residents to influence their locality have been changed with the creation of Mayoral Assemblies. The Mayor's Assemblies are a new element of the structure and provide a mechanism for residents to engage with the Mayor, the Cabinet and cross agency public service providers at a local level.

The Council also has partnership arrangements with the local primary care trusts and the partnership has led on a number of public health programmes in recent months. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

The Council has an established Arms Length Management Organisation, Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage its housing stock. Tower Hamlets Homes has a formal governance structure and manages its internal affairs and delegated budgets through the Company's Board. Performance is monitored through a regular review process with senior council officers and elected Members. The company operates its own risk management strategy and is subject to internal and external inspections and audit in compliance with the Companies Acts.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review 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 involved the evaluation of the key sources of assurance:

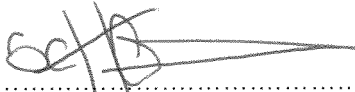
- The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- The annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate.
- The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and Members.
- The Council is subject to 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.
- Monitoring of performance shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- The provisional outturn on the 2011/12 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Monthly monitoring of strategic risks of the Council by the CMT and the Mayor's Advisory Board.

Significant Governance Issues

The review of the effectiveness of the governance arrangements in 2011/12 has identified one area where action is appropriate to enhance the control environment and ensure continuous improvement. The area is set out below.

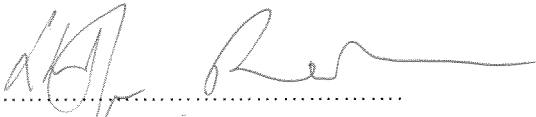
Governance Issue	Action taken and next steps	CMT Lead
The annual external audit raised a number of queries relating to creditors and the year-end cut-off procedures.	Issues raised from the audit process have been reviewed and action taken to improve current arrangements as part of the implementation of the new finance system.	Corporate Director, Resources

We have been advised on the implications of the review of the effectiveness of the governance systems of the Council having regard to the sources of assurance set out in this statement, and we are satisfied that the system of control is effective. We propose over the coming year to take steps to further enhance our governance arrangements.



Head of Paid Service

Date: 27th September 2012



Mayor

Date: 28/9/12

GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

FINANCIAL TERMS

Accounting period - The period of time covered by the Council's accounts. The Council's financial year is from the period 1st April to the following 31st March.

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

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

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

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

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

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

Agency services - Services provided by or for another local authority or public body where the cost of carrying out the service is reimbursed.

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

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

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

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

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

Capital Adjustment Account - Represents amounts set aside from revenue resources or capital receipts to finance expenditure on property, plant, and equipment (PPE) or for the repayment of external loans, or certain other capital financing transactions.

Capital Expenditure - Expenditure on the acquisition of property, plant, and equipment (PPE) or expenditure which adds to the value of an existing item of PPE.

Capital Financing Requirement - Represents the Council's underlying need to borrow for a capital purpose.

Capital Grants Receipts in Advance – Balances of capital grants and contributions that have conditions which may require future repayment if not spent.

Capital Grants Unapplied – Grant balances that will be used for future capital expenditure.

Capital Receipt - Income received from the sale of PPE such as land or buildings.

Capital Receipts Reserve - Represents proceeds from the sale of PPE available to meet future capital investment.

Carrying Value - In relation to the value of financial instruments, it is the amount to be recognised on the Balance Sheet.

Cash equivalents – Highly liquid, safe investments that can easily be converted into cash.

Chartered Institute of Public Finance and Accountancy (CIPFA) – A professional accountancy body, specialising in the Public Sector. It promotes best practice by issuing guidelines and Codes of Practice.

Collection Fund - A statutory account which receives Council Tax and Non-Domestic Rates to cover the costs of services provided by the Council and its precepting authorities.

Collection Fund Adjustment Account - The Collection Fund Adjustment Account represents the Council's share of the Collection Fund Surplus/Deficit.

Community Assets - Assets that a local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of Community Assets are parks and historic buildings.

Comprehensive Income and Expenditure Statement - A statement showing the expenditure and income of the Council's services during the year demonstrating how costs have been financed from general Government grants and income from local taxpayers.

Contingent Liability - Where possible "one-off" future liabilities or losses are identified but the level of uncertainty is such that the establishment of a provision is not appropriate.

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

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

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

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

Deferred Capital Receipts - The balance of outstanding mortgages granted mainly to purchasers of council houses.

Deferred Income – Receipt in Advance – This represents a receipt received as part of entering into a building lease. The credit is being released over the term of the lease.

Deferred Liabilities – These are future payments that the Council is contractually obliged to pay in future years. These liabilities relate to Private Finance Initiative (PFI) schemes.

Defined Benefit Scheme - A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

Depreciation - The measure of the wearing out, consumption or other reduction in the useful economic life of PPE, whether arising from use, passage of time or obsolescence through technological or other changes.

Earmarked Reserves - Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.

Fair Value - In relation to the value of financial instruments, it is the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arms length transaction.

Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of an asset to the lessee.

Financial Instrument - Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Instrument Adjustment Account - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWL) debt.

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

Group Accounts – Where a Council has a material interest in a separate entity, the entity's assets and liabilities may need to be incorporated within the council's group accounts. If the council controls an entity, it is a subsidiary (as in the case of Tower Hamlets Homes for the Council).

Heritage asset - An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

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

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

Impairment - A reduction in the valuation of PPE caused by consumption of economic benefits or by a general fall in prices.

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

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

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

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

Inventories – The value of stocks held and work in progress that have not been completed.

Investment Properties – Those properties that are held solely to earn rentals and/or for capital appreciation, rather than for the delivery of services.

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

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

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

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

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

National Non-Domestic Rates (NNDR) Pool - Non-Domestic Rates (Business Rates) are paid into a central pool controlled by Government. This money is then redistributed to councils on the basis of resident population.

Net Book Value - The amount at which PPE is included in the balance sheet after depreciation has been provided for.

Net Realisable Value - The open market value of the asset less the expenses to be incurred in realising the asset.

Non Current Assets Held for Sale – Items of PPE whose carrying amount is to be recovered principally through a sale rather than continued use by the Council.

Operating Lease - A lease other than a finance lease - a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

Outturn - The actual level of expenditure and income for the year.

Precept - The charge made by the Greater London Authority on the Council to finance its net expenditure.

Private Finance Initiative - Contracts whereby private sector suppliers provide services and/or capital investment in return for a unitary payment; subject to agreed performance targets.

Projected Unit Method - Actuarial valuation method whose key feature is to assess future service cost; the Actuary calculates the employer's contribution rate, which will meet the cost of benefits accruing in the year after the valuation date.

Property, Plant, and Equipment – The land and building assets under the council's control or ownership.

Provisions - Amounts set aside for liabilities and losses, which are certain or very likely to occur but where the exact amount or timing of the payment are uncertain.

Public Works Loans Board (PWLB) - Central Government agency which funds much of local government borrowing.

Registered Social Landlord - A not-for-profit organisation which owns and manages social housing.

Reserves - Amounts set aside which do not fall within the definition of a provision, to fund items of anticipated expenditure. These include general reserves or balances which every Council must maintain as a matter of prudence.

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

Revaluation Reserve - Represents the increase in value of the Council's land and building assets from 1st April 2007.

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

Revenue Expenditure - The day-to-day expenditure of the Council - salaries, goods and services and capital financing charges.

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

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

Soft Loan - Loans given at less than market/commercial rates to community or not-for-profit organisations.

Supplementary Business Rates (SBR) – Locally raised business rates for local projects. London Councils are levying a SBR for the Cross-rail project.

Support Services - Activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front line services such as finance, information technology and human resources.

Surplus Assets – Those assets which are not being used to deliver services, but do not meet the criteria to be classified as either Investment Properties or Non Current Assets Held for Sale.

Unusable Reserves – These represent reserve balances that cannot be spent as part of an organisation's medium term financial plan. An example is the revaluation reserve.

Usable Reserves – These represent reserve balances that can be spent as part of an organisation's medium term financial plan. Any organisation has to review reserve levels to ensure long-term financial stability. General fund and Housing Revenue Account reserves are usable reserves. Contrast to unusable reserves.

Value for money (VFM) – This term is used to describe the relationship between the economy, efficiency, and effectiveness (known as the 'three Es') of a service, function or activity. Value for money is high when there is an optimum balance between all three.

Abbreviations used in Accounts

AGS	Annual Governance Statement
ALMO	Arm's Length Management Organisation (Tower Hamlets Homes)
BSF	Building Schools for the Future
CAA	Capital Adjustment Account
CFR	Capital Financing Requirement
CIES	Comprehensive Income and Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Consumer Price Index
DCLG	Department of Communities and Local Government
DEFRA	– Department for Environment, Food and Rural Affairs
DfE	Department for Education
DSG	Dedicated Schools Grant
DWP	Department for Work and Pensions
EIR	Effective Interest Rate
GAAP	Generally Accepted Accounting Principles
GLA	Greater London Authority
HRA	Housing Revenue Account
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
LABGI	Local Authority Business Growth Incentive
LAML	London Authorities Mutual Limited
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LATS	Landfill Allowance Trading Scheme
LBTH	London Borough of Tower Hamlets
LGPS	Local Government Pension Scheme
LOBO	Lender's Option – Borrower's option
LPFA	London Pensions Fund Authority
MRA	Major Repairs Allowance
MRP	Minimum Revenue Provision
NCS	Net Cost of Services
NPV	Net Present Value
(N)NDR	(National) Non-Domestic Rates
PCT	Primary Care Trust
PFI	Private Finance Initiative
PPA	Prior Period Adjustment
PPE	Property, Plant and Equipment
PWLB	Public Works Loans Board
REFCUS	Revenue Expenditure Funded by Capital Under Statute
RICS	Royal Institute of Chartered Surveyors
RPI	Retail Price Index

RSG Revenue Support Grant

SDPS Surplus or Deficit on the Provision of Services

SeRCOP Service Reporting Code of Practice

SORP Statement of Recommended Practice

TH Tower Hamlets

THH Tower Hamlets Homes

WDA Waste Disposal Authority