

# LONDON BOROUGH OF TOWER HAMLETS

## ANNUAL FINANCIAL REPORT 2016-17

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## **Narrative Report**

### **Overview by Zena Cooke Corporate Director of Resources**

I am pleased to introduce Tower Hamlets Council's Statement of Accounts for 2016/17, 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 2016/17, and the Service Reporting Code of Practice. These constitute "proper accounting practice" with which councils must comply by statute. The Council also produces a summary of the accounts, which is less detailed than the full statement. This has been produced following consultation with stakeholders and is available from the Council's website at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk)

Although the UK economy has shown signs of improvement, on-going reductions in main stream government grant funding and a continuing upward trend in the demand for key front line services in adult social care, children's services and housing have collectively created a challenging financial environment for the Council.

Through sound financial management the Council's spend for the year is in line with the revenue budget with a slight underspend of £0.7million. The Council reviewed its reserves and has agreed to earmark reserves for key priorities. This included the transfer of general fund balances for priorities such as the New Civic Centre and IT and Transformation programmes.

After these transfers, the Council's general fund balance is £31.7m. This is considered adequate reserve balance for the stable financial management of the Council considering the challenges it faces in the coming years.

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

Key achievements in 2016/17 include:

- Delivering over 1,000 affordable homes, including stock which are family sized for social rent
- Placed over 2,200 households in new accommodation
- Increasing educational attainment at early years, key stage 2, GCSE and A Level
- Over ¼ million people attended community events organised in the Borough
- Over 6,000 children participated in the holiday childcare scheme
- Provision of over 4.9 million free school meals to school children in the borough

- Nearly 80,000 meals provided to older residents
- Over 1,400 tonnes of waste collected each week
- Making our borough greener, including a programme of tree planting in streets, parks and open spaces.

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

The Council has continued to invest in its infrastructure with nearly £82 million spent on its capital programme. The main areas of investment were in housing and schools, with £43.9 million of improvement works spent through the housing capital programme and £11.4 million spent on school improvements.

During 2016/17, the Government appointed Commissioners completed their review work as they were satisfied that governance processes had improved following the implementation of improvement plans delivery of quality services that are valued by residents.

Looking forward the Council will continue to face significant financial challenges. The Medium Term Financial Plan agreed by Full Council in March 2017 includes a £58m million savings programme in the years to 2020. This forms the basis of a balanced budget over the next three years, Major external challenges include the potential impact of government welfare reforms and changes to the way in which local authority services are funded. The impact of Brexit on the Borough is still to be quantified.

The Council is currently reviewing the Medium Term Financial Plan with a view to developing longer term strategies to deliver savings.

Whilst the strength of the Council's balance sheet will enable it to effectively manage those risks in the short term, over the longer term there will need to be a further, more fundamental review of the way in which local services are delivered.

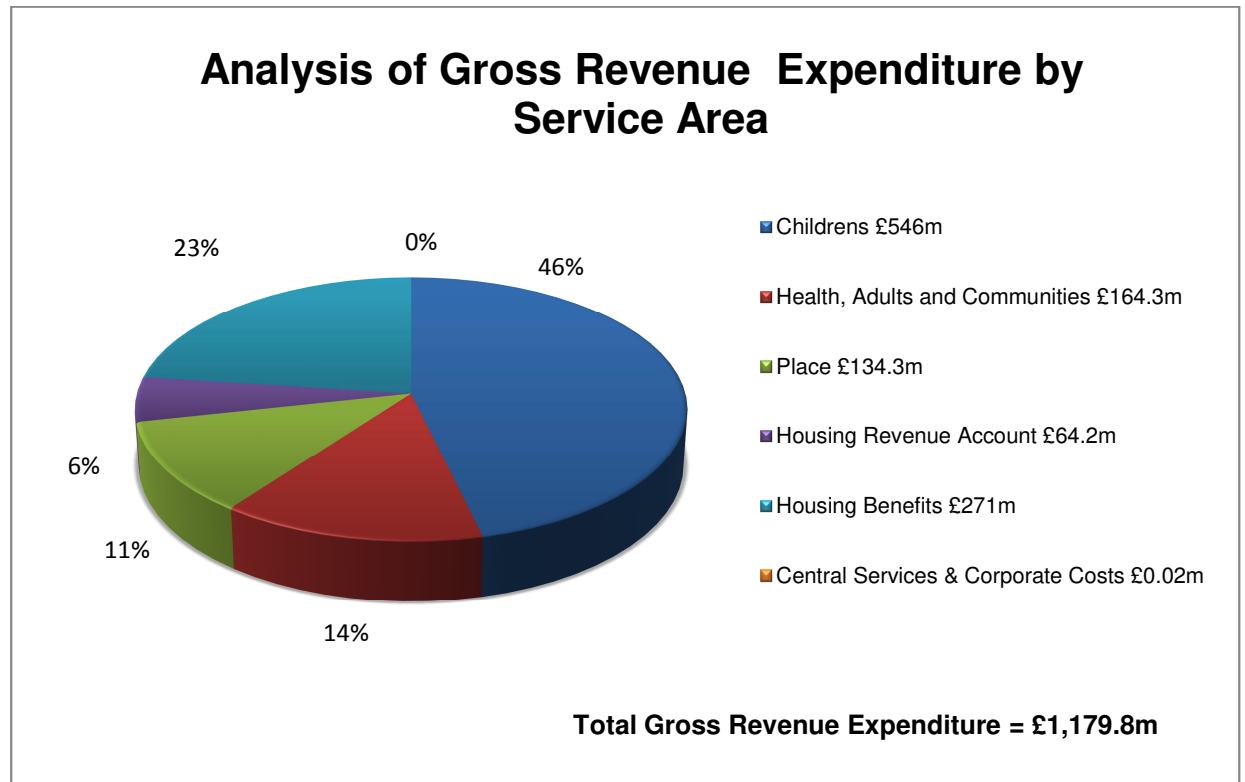
## **Review of the Year**

### **Revenue Income and Expenditure**

The Council's expenditure is reported in line with the Directorate structure in place as at the 31<sup>st</sup> March.

Overall, the Council's Directorate spend was underspent by £0.73 million against the General Fund budget of £361.984 after the planned transfer to earmarked reserves. The HRA account showed an additional surplus of some £9.1 million against budget, this was mainly due to a void property levy of £8.4m not being payable.

The Council's gross expenditure on services, excluding accounting adjustments, was £1.2 billion (£1.4 billion in 2015/16). An analysis by directorate is shown in the following diagram. Note that these expenditure figures are per the Council's management accounts spend and do not include the effect of technical accounting entries that appear in the Comprehensive Income and Expenditure Account.

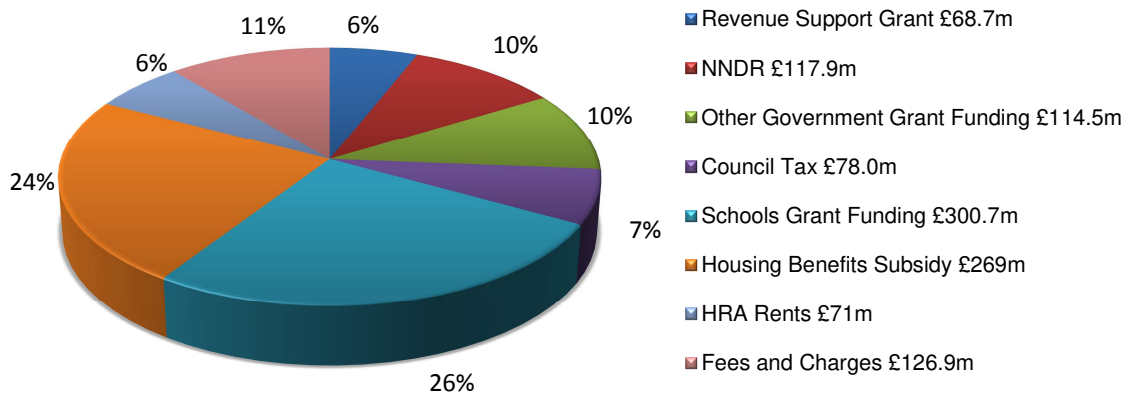


## Revenue Funding

Government grants and subsidies continue to be the main sources of revenue funding (£0.75 billion).

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

## Analysis of Revenue Funding Sources

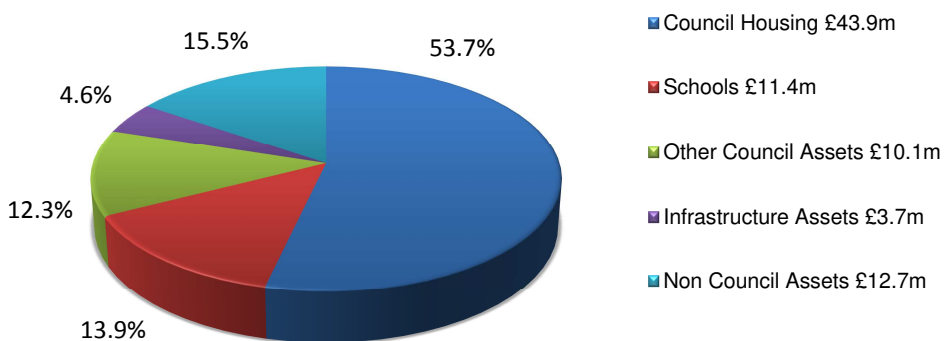


**Total Gross Revenue Funding = £1,146.7m**

### 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 housing and schools.

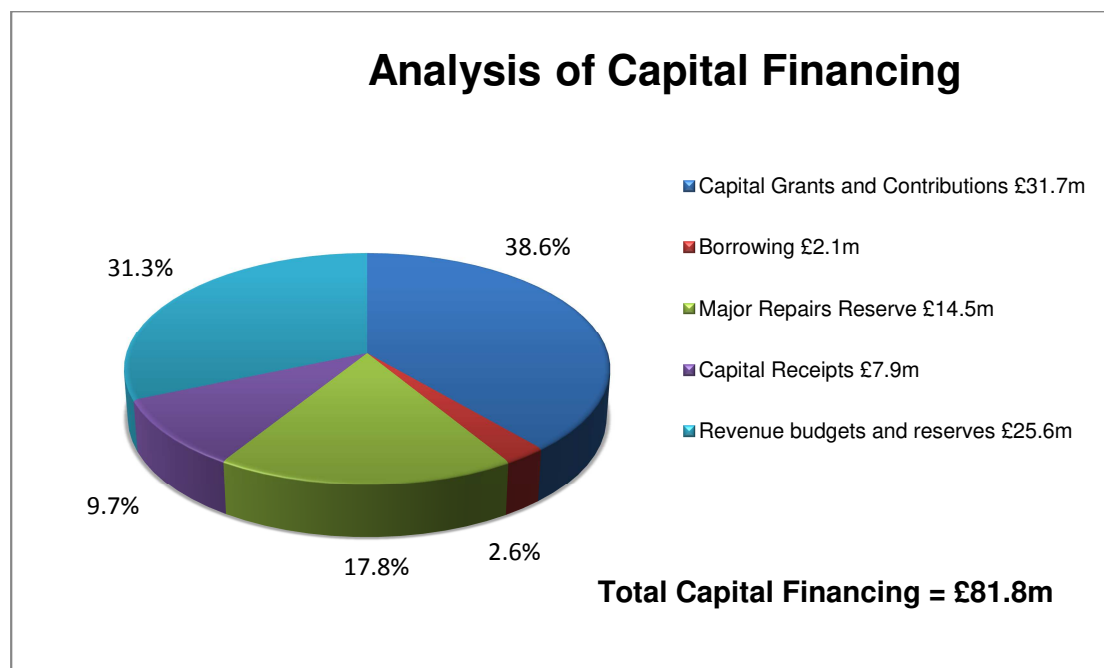
## Analysis of Capital Expenditure



**Total Capital Expenditure = £81.8m**

Investment shown as being in 'non-Council assets' includes £3.2 million of expenditure on schools not owned by the Council and £3.3 million of expenditure on leaseholder properties.

The table below shows the sources of funding for the capital programme. The majority of this funding was from capital grants and contributions. In addition, £25.6 million was also used from earmarked reserves which were set aside for capital investment.



## Borrowing

At the year end the Council had outstanding borrowings of £86.3 million (£88.2 million 2015/16). This was reduced by PWLB loans that matured during the year.

## Pensions

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

At the end of 2016/17 there was a net liability of £619 million (£516 million 2015/16). Although this sum has a significant impact on the net worth of the Council as shown in its Balance Sheet the deficit will be addressed by increased contributions to the scheme in future years. These increased contributions have been reflected in the Council's Medium Term Financial Plan.

Though pension investments increased in value by around £250m in the year, the IAS19 deficit increased as at 31 March 2017 compared to the value reported at 31 March 2016. This is principally due to the impact of financial

assumptions that have significantly increased the estimated liabilities. A significant increase in the net present value discount rate has led to a higher value being placed on liabilities - this has been the case for most LGPS funds. This is a snapshot valuation for accounting purposes and the revaluation for contributory purposes took place at 31 March 2016 reporting a deficit of £235m a £130m improvement on the £365 million deficit from 2013.

**FURTHER INFORMATION**

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



## THE ACCOUNTING STATEMENTS

These comprise:

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

### The **Core Financial Statements**:

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

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

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

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

### **Notes to the Core Financial Statements**

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

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

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

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

## MOVEMENT IN RESERVES STATEMENT

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

	NOTES	USABLE RESERVES							UNUSABLE RESERVES							TOTAL USABLE RESERVES £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000
		GENERAL FUND BALANCE £'000	earmarked GENERAL FUND RESERVES £'000	HOUSING REVENUE ACCOUNT BALANCE £'000	MAJOR REPAIRS RESERVE £'000	CAPITAL RECEIPTS RESERVE £'000	CAPITAL GRANTS UNAPPLIED £'000	TOTAL USABLE RESERVES £'000	REVALUATION RESERVE £'000	CAPITAL ADJUSTMENT ACCOUNT £'000	PENSIONS RESERVE £'000	COLLECTION FUND ADJUSTMENT ACCOUNT £'000	FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT £'000	ACCUMULATED ABSENCES ACCOUNT £'000	DEFERRED CAPITAL RECEIPTS £'000			
<b>Balance as at 31 March 2015</b>		71,450	156,651	21,145	22,174	49,136	55,484	376,040	342,264	1,428,571	(649,564)	8,047	588	(2,988)	11	1,126,909	1,502,949	
<b>Movement in reserves during 2015/16</b>																		
Surplus or (Deficit) on the Provision of Services	8	(24,471)	0	94,939	0	0	0	70,468	0	0	0	0	0	0	0	0	70,468	
Other comprehensive expenditure and income	8	0	0	0	0	0	0	0	64,703	0	151,822	0	0	0	0	0	216,525	
<b>Total Comprehensive Expenditure and Income</b>		<b>(24,471)</b>	<b>0</b>	<b>94,939</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>70,468</b>	<b>64,703</b>	<b>0</b>	<b>151,822</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>286,993</b>	
Adjustments between accounting basis and funding basis under regulations		22,308	0	(83,992)	(12,998)	37,247	711	(36,724)	(5,312)	67,883	(18,855)	(7,319)	(284)	618	(9)	36,724	0	
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>(2,163)</b>	<b>0</b>	<b>10,947</b>	<b>(12,998)</b>	<b>37,247</b>	<b>711</b>	<b>33,744</b>	<b>59,391</b>	<b>67,883</b>	<b>132,969</b>	<b>(7,319)</b>	<b>(284)</b>	<b>618</b>	<b>(9)</b>	<b>253,249</b>	<b>286,993</b>	
Transfers to or from earmarked reserves	8	(1,368)	1,368	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Transfers to or from school reserves	8	4,177	(4,177)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
<b>Increase or (Decrease) in 2015/16</b>		<b>646</b>	<b>(2,809)</b>	<b>10,947</b>	<b>(12,998)</b>	<b>37,247</b>	<b>711</b>	<b>33,744</b>	<b>59,391</b>	<b>67,883</b>	<b>132,969</b>	<b>(7,319)</b>	<b>(284)</b>	<b>618</b>	<b>(9)</b>	<b>253,249</b>	<b>286,993</b>	
<b>Balance as at 31 March 2016</b>		<b>72,096</b>	<b>153,842</b>	<b>32,092</b>	<b>9,176</b>	<b>86,383</b>	<b>56,195</b>	<b>409,784</b>	<b>401,655</b>	<b>1,496,454</b>	<b>(516,595)</b>	<b>728</b>	<b>284</b>	<b>(2,370)</b>	<b>2</b>	<b>1,380,158</b>	<b>1,789,942</b>	
carried forward																		
<b>Movement in reserves during 2016/17</b>																		
Surplus or (Deficit) on the Provision of Services		(314)	0	63,122	0	0	0	62,808	0	0	0	0	0	0	0	0	62,808	
Other comprehensive expenditure and income		0	0	0	0	0	0	0	82,645	0	(91,986)	0	0	0	0	(9,341)	(9,341)	
<b>Total Comprehensive Expenditure and Income</b>		<b>(314)</b>	<b>0</b>	<b>63,122</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>62,808</b>	<b>82,645</b>	<b>0</b>	<b>(91,986)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(9,341)</b>	<b>53,467</b>	
Adjustments between accounting basis and funding basis under regulations		(34,552)	0	(56,137)	284	70,466	25,834	5,895	(19,705)	29,224	(10,541)	(3,029)	(284)	(1,559)	(2)	(5,895)	0	
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>		<b>(34,866)</b>	<b>0</b>	<b>6,985</b>	<b>284</b>	<b>70,466</b>	<b>25,834</b>	<b>68,703</b>	<b>62,941</b>	<b>29,224</b>	<b>(102,527)</b>	<b>(3,029)</b>	<b>(284)</b>	<b>(1,559)</b>	<b>(2)</b>	<b>(15,236)</b>	<b>53,467</b>	
Transfers to or from earmarked reserves	8	(12,590)	12,590	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Transfers to or from school reserves	8	7,097	(7,097)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
<b>Increase or (Decrease) in Year</b>		<b>(40,359)</b>	<b>5,493</b>	<b>6,985</b>	<b>284</b>	<b>70,466</b>	<b>25,834</b>	<b>68,703</b>	<b>62,941</b>	<b>29,224</b>	<b>(102,527)</b>	<b>(3,029)</b>	<b>(284)</b>	<b>(1,559)</b>	<b>(2)</b>	<b>(15,236)</b>	<b>53,467</b>	
<b>Balance as at 31 March 2017</b>		<b>31,737</b>	<b>159,335</b>	<b>39,077</b>	<b>9,460</b>	<b>156,849</b>	<b>82,029</b>	<b>478,487</b>	<b>464,596</b>	<b>1,525,678</b>	<b>(619,122)</b>	<b>(2,301)</b>	<b>0</b>	<b>(3,929)</b>	<b>0</b>	<b>1,364,922</b>	<b>1,843,409</b>	

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2015/16 (as restated)			Note	2016/17		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
<b>Continuing Operations</b>						
578,410	465,940	112,470	Children's Services	554,767	439,884	114,883
163,120	66,549	96,571	Health, Adults and Communities	168,107	64,494	103,613
144,775	79,340	65,435	Place	141,027	74,304	66,723
13,940	1,132	12,808	Governance	12,256	2,473	9,783
33,985	92,177	(58,192)	Local Authority Housing (Housing Revenue Account)	64,209	91,545	(27,336)
303,443	281,975	21,468	Resources	294,998	275,378	19,620
12,520	2,419	10,101	Corporate Cost and Central Items	14,388	745	13,643
<b>1,250,193</b>	<b>989,532</b>	<b>260,661</b>	<b>NET COST OF SERVICES</b>	<b>1,249,752</b>	<b>948,823</b>	<b>300,929</b>
		(13,150)	Other Operating Expenditure			(38,985)
		26,783	Financing and Investment Income and Expenditure			26,422
		(344,762)	Taxation and Non-Specific Grant Income			(351,174)
		<b>(70,468)</b>	<b>(SURPLUS) OR DEFICIT ON THE PROVISION OF SERVICES</b>			<b>(62,808)</b>
			<b>Other Comprehensive Income and Expenditure</b>			
		(64,703)	(Surplus)/Deficit on revaluation of non-current assets			(82,645)
		(151,822)	Actuarial (gains) or losses on pension assets and liabilities			91,986
		<b>(216,525)</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>9,341</b>
		<b>(286,993)</b>	<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(53,467)</b>

## BALANCE SHEET

This statement shows the Council's balances and reserves, its long term indebtedness and the non-current assets and net current assets employed in its operations as at 31st March 2017.

31 March 2016 £'000		Notes	31 March 2017 £'000
<b>Long-term Assets</b>			
2,156,575	Property, plant and equipment	<a href="#">12</a>	2,275,180
9,310	Heritage Assets	<a href="#">43</a>	9,311
572	Long Term Debtors	<a href="#">13</a>	618
<b>2,166,457</b>	<b>Total Long-term assets</b>		<b>2,285,109</b>
<b>Current Assets</b>			
291,589	Short-term investments	<a href="#">15</a>	311,667
13,695	Assets held for sale	<a href="#">21</a>	3,850
97,268	Short-term debtors	<a href="#">19</a>	80,487
160,712	Cash and cash equivalents	<a href="#">20</a>	184,299
<b>563,264</b>	<b>Total Current Assets</b>		<b>580,303</b>
<b>Current liabilities</b>			
3,644	Short-term borrowing	<a href="#">15</a>	3,533
204,158	Short-term creditors	<a href="#">22</a>	154,154
2,076	Provisions	<a href="#">23</a>	4,855
<b>209,878</b>	<b>Total Current liabilities</b>		<b>162,542</b>
<b>Long Term Liabilities</b>			
7,623	Provisions	<a href="#">23</a>	7,173
85,936	Long-term borrowing	<a href="#">15</a>	84,966
516,595	Liability related to defined benefit pension schemes	<a href="#">41</a>	619,122
76,126	Capital grants receipts in advance	<a href="#">37</a>	83,120
42,040	Deferred liabilities	<a href="#">40</a>	63,871
1,576	Deferred Income - Receipt in Advance		1,205
<b>729,896</b>	<b>Total Long-Term Liabilities</b>		<b>859,457</b>
<b>1,789,947</b>	<b>NET ASSETS</b>		<b>1,843,413</b>
<b>Reserves</b>			
<b>Usable Reserves</b>			
72,100	General Fund		31,740
32,092	Housing Revenue Account		39,079
122,031	Earmarked reserves	<a href="#">8</a>	134,619
31,811	Schools reserves	<a href="#">8</a>	24,714
86,383	Capital receipts reserve		156,848
56,195	Capital grants unapplied		82,030
9,176	Major repairs reserve		9,459
<b>409,788</b>	<b>Total Usable Reserves</b>		<b>478,489</b>
<b>Unusable Reserves</b>			
401,655	Revaluation Reserve	<a href="#">25</a>	464,596
1,496,454	Capital Adjustment Account		1,525,680
728	Collection Fund Adjustment Account		(2,301)
284	Financial Instruments Adjustment Account		0
(516,595)	Pensions reserve		(619,122)
(2,369)	Accumulated Absences Account		(3,929)
2	Deferred capital receipts		0
<b>1,380,159</b>	<b>Total Unusable Reserves</b>		<b>1,364,924</b>
<b>1,789,947</b>	<b>TOTAL RESERVES</b>		<b>1,843,413</b>

## 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.

2015/16 £'000		Notes	2016/17 £'000
70,468	Net surplus or (deficit) on the provision of services		62,808
52,405	Adjustments to net surplus or deficit on the provision of services for non cash movements	<u>26A</u>	44,145
(55,854)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>26A</u>	(92,215)
<b>67,019</b>	<b>Net cash flows from Operating Activities</b>		<b>14,738</b>
(105,756)	Investing Activities	<u>27</u>	9,777
(2,907)	Financing Activities	<u>28</u>	(928)
<b>(41,645)</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>23,587</b>
202,357	Cash and cash equivalents at the beginning of the reporting period		160,712
<b>160,712</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<u>20</u>	<b>184,299</b>

## 1. Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31st March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the *Service Reporting Code of Practice (SeRCOP) 2016/17*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003.

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

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council for the year ending 31st March 2017 and to ensure it is compliant with relevant statutory accounting requirements issued by the International Accounting Standards Board (IASB). Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

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

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

### 2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. This includes the accounting for fees, charges and rents due from

customers; these are accounted for as income at the date the Council provides the relevant goods or services.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet if material.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.
- The Council operates a de minimis of £10,000 below which items of income and expenditure are not required to be accrued.

### **3. Cash and Cash Equivalents**

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

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

### **4. Exceptional Items**

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

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

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

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

## **6. Accounting Standards not yet adopted**

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the code.

There are no new standards in the 2017/18 code which are likely to have a material effect on upon the accounts.

## **7. Charges to Revenue for Long-term Assets**

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

- Depreciation attributable to the assets used by the relevant service
- Revaluation losses (general fall in prices across the board) and impairment losses (fall in price specific to an asset) on tangible non-current assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

The Council is not required to raise Council Tax to fund depreciation, revaluation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. The Minimum Revenue Provision (MRP) relating to non-housing assets has been calculated for 2016/17 in accordance with Option 1 (the Regulatory Method) set out in the statutory guidance on MRP.

## **8. Employee Benefits**

### **a. Benefits Payable during Employment**

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

### **b. Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate



service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy and a reliable estimate can be made of the cost.

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

### **c. Post-Employment Benefits**

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

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

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

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined 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 iBoxxSterling Corporates Index, AA over 15 years) as at 31st March 2017.

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

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

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

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

### **Discretionary Benefits**

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

## **9. 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 after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue.

## **10. Financial Instruments**

### **a. Financial Liabilities**

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

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

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

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

### **b. Financial Assets**

Financial assets are classified into two types:

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

## **Loans and Receivables**

Loans and receivables are 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.

## **11. Foreign Currency Translation**

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

## **12. Government Grants and Contributions**

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

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

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

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

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

Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **13. Heritage assets**

The Code of Practice on Local Authority Accounting in the United Kingdom requires material heritage assets held by the Council to be disclosed.

The Council does not actively acquire or dispose of heritage assets as part of its normal day-to-day business. Where the Council holds heritage assets, these have usually been donated. Where the Council does acquire or dispose of a heritage asset, treatment of each asset will be considered on a case by case basis.

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £9.3 million at 31 March 2017. This valuation is based on valuations for art and museum collections where the asset has a material value. The council holds information on the value of an item of material value within the art collection (one painting), two public sculptures and civic regalia (value held for insurance purposes).

Valuations are made by what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous. For example this may include 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.

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

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

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

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

### **14. Interests in Companies and Other Entities**

The Council has an interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council but is not considered material and does not require group accounts to be prepared (a summary of this interest can be found in note 44). 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. Leases**

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

### **The Council as a Lessee**

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

#### **a. Finance Leases**

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

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

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

#### **b. Operating Leases**

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

### **The Council as a Lessor**

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

## **Operating Leases**

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

### **17. 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 2016/17 (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.

### **18. Property, Plant and Equipment**

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

#### **Recognition**

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

#### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost.
- dwellings – current 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 current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current 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 current value – this is commonly used as a basis for valuing vehicles, plant and equipment.

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

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

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

The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup> 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:

- **dwelling**s - equivalent to the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation
- **other buildings** – straight-line allocation over the useful life of the property as estimated by the valuer



- **vehicles, plant, furniture and equipment** – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. For equipment, over five years
- **infrastructure** – straight-line allocation over 40 years

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

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

Any assets with a depreciable value below £1 million are not considered material for containing separate components. Separate components will be considered in an asset with a value greater than £1 million if the component has a value of greater than 25% of the asset and the remaining life of the asset is materially different from the underlying asset.

### **Disposals and Non-Current Assets Held for Sale**

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

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

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

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

## 19. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

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

## 20. Provisions, Contingent Liabilities and Contingent Assets

### a. Provisions

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

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

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

## **b. Contingent Liabilities**

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in note 30 to the accounts.

## **c. Contingent Assets**

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

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

## **21. 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.

## **22. 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.

## **23. Fair value measurement**

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

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

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

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

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

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

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

## **24. Value added Tax (VAT)**

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

## **25. Collection Fund**

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

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

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

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

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

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

## **26. Carbon Reduction Commitment Scheme**

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its second phase which commenced on 1 April 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 Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

## **27. Community Infrastructure Levy**

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

## **28. Schools**

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

## 2 Restated Accounting Statements

The Comprehensive Income and Expenditure Statement was restated to 2015/16 to record expenditure in line with the Council Directorate structure as at 31st March 2017. The Expenditure and Funding Analysis is a new reporting requirement for 2016/17 - comparatives for 2015/16 have also been included.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or events 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 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

Valuations at 1st April 2016 and 31st March 2017 have been used to construct the balance sheet.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £1.3 million for every year that useful lives had to be reduced.

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

**NNDR Appeals** - There are approximately 6,200 NNDR (Business Rates) appeals that are yet to be heard by the Government's Valuation Tribunal. Of these 3,467 will not result in a reduction in rateable value and 1,936 are considered speculative. Provision has been made for the remaining appeals.

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

The assumptions interact in complex ways within the IAS19 calculation basis. During 2016/17, the Council's actuaries advised that the net pensions liability had increased by over £100 million to £619 million mainly as a result of a higher discount factor used to calculate the net present value of future pension payments. This is despite the value of the pension fund increasing in value by over £200 million in the year due to rising investment values.

## 4 Material Items of Income and Expense

### Current Year Items

**Actuarial gain on pension fund** - there was a £102.0 million actuarial loss on the pension fund mainly due to an decrease in the discount factor used to calculate the net present value of future pension payments.

**Revaluation of HRA dwellings** - The valuation of property, plant and equipment as at 1st April 2016 resulted in an increase in the value of dwellings of £99.7m, of which £11.4m was credited to HRA gross expenditure as a reversal of previous revaluation losses. The remaining £88.3 was credited to the revaluation reserve and is shown as part of other comprehensive income and expenditure.

## 5 Events After the Balance Sheet Date

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

## 6 EXPENDITURE AND FUNDING ANALYSIS

This statement shows the reconciliation between the net expenditure in the Comprehensive Income and Expenditure Account and the expenditure chargeable to the General Fund and Housing Revenue Account balances.

Expenditure Chargeable to GF and HRA balances	2015/16		2016/17		
	£'000	Adjustments between funding and accounting basis £'000	Expenditure in the CIES	Adjustments between funding and accounting basis £'000	Net Expenditure in the CIES
					£'000
103,532	8,938	112,470	106,739	8,144	114,883
136,463	(39,892)	96,571	136,684	(33,071)	103,613
62,027	3,408	65,435	68,763	(2,040)	66,723
11,985	823	12,808	10,564	(781)	9,783
(10,948)	(47,244)	(58,192)	(6,988)	(20,348)	(27,336)
17,847	3,621	21,468	19,220	400	19,620
(48,974)	59,075	10,101	19,279	(5,636)	13,643
<b>271,932</b>	<b>(11,271)</b>	<b>260,661</b>	<b>354,261</b>	<b>(53,332)</b>	<b>300,929</b>
(283,521)	(47,608)	(331,129)	(320,888)	(42,849)	(363,737)
<b>(11,589)</b>	<b>(58,879)</b>	<b>(70,468)</b>	<b>33,373</b>	<b>(96,181)</b>	<b>(62,808)</b>
(92,603)		<b>Opening General Fund and HRA balances</b>	(104,192)		
(11,589)		Less Deficit/(Surplus) on General Fund and HRA Balance in Year	33,373		
<b>(104,192)</b>		<b>CLOSING GENERAL FUND AND HRA BALANCES</b>	<b>(70,819)</b>		





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

2016/17	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
<b>Adjustments involving the Capital Adjustment Account</b>									
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>									
Charges for depreciation and impairment of non current assets	24,398	0	0	14,801	0	0	39,199	(39,199)	0
Revaluation losses on PPE (charged to SDPS)	(425)	0	(11,370)	0	0	0	(11,795)	11,795	0
Capital grants and contributions applied	(5,917)	0	(6,164)	0	0	(19,510)	(31,591)	31,591	0
Revenue expenditure funded from capital under statute	9,333	0	3,341	0	0	0	12,674	(12,674)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	8,338	0	29,313	0	0	0	37,651	(37,651)	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(7,096)	0	(504)	0	0	0	(7,600)	7,600	0
Capital expenditure charged against the General Fund and HRA balances	(20,340)	0	(5,287)	0	0	0	(25,627)	25,627	0
<b>Adjustments involving the Capital Receipts Reserve</b>									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(17,953)	0	(56,039)	0	73,992	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(7,913)	0	(7,913)	7,913	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,755	0	0	0	(1,755)	0	0	0	0
Unattached capital receipts	(1,853)	0	(4,287)	0	6,140	0	0	0	0
Deferred Capital Receipts	0	0	0	0	2	0	2	(2)	0
<b>Adjustment involving the Major Repairs Reserve</b>									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(14,517)	0	0	(14,517)	14,517	0
<b>Adjustments involving the Financial Instruments Adjustment Account</b>									
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	102	0	182	0	0	0	284	(284)	0
<b>Adjustment involving the Pensions Reserve</b>									
Reversal of items relating to retirement benefits debited or credited to the CIES	55,294	0	1,203	0	0	0	56,497	(56,497)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(42,915)	0	(3,041)	0	0	0	(45,956)	45,956	0
<b>Adjustments involving the Collection Fund Adjustment Account</b>									
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	3,029	0	0	0	0	0	3,029	(3,029)	0
<u>Other adjustments include</u>									
<b>Adjustments involving the Capital Grants Unapplied Account</b>									
Capital grants and contributions unapplied credited to CIES when receivable	(41,860)	0	(3,484)	0	0	45,344	0	0	0
<b>Adjustment between the Capital Adjustment Account and the Revaluation Reserve</b>									
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
<b>Adjustments involving the Accumulated Absences Account</b>									
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,559	0	0	0	0	0	1,559	(1,559)	0
<b>Total Adjustments</b>	<b>(34,552)</b>	<b>0</b>	<b>(56,137)</b>	<b>284</b>	<b>70,466</b>	<b>25,834</b>	<b>5,895</b>	<b>(5,895)</b>	<b>0</b>

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

2015/16	USABLE RESERVES							UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	GENERAL FUND BALANCE	EARMARKED GENERAL FUND RESERVES*	HOUSING REVENUE ACCOUNT BALANCE	MAJOR REPAIRS RESERVE	CAPITAL RECEIPTS RESERVE	CAPITAL GRANTS UNAPPLIED	TOTAL USABLE RESERVES	TOTAL UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments involving the Capital Adjustment Account</b>									
<u>Reversal of items debited or credited to the Comprehensive I&amp;E</u>									
Charges for depreciation and impairment of non current assets	24,159	0	0	15,321	0	0	39,480	(39,480)	0
Revaluation losses on PPE (charged to SDPS)	4,717	0	(40,892)	0	0	0	(36,175)	36,175	0
Capital grants and contributions applied	(6,097)	0	(9,903)	0	0	(41,073)	(57,073)	57,073	0
Revenue expenditure funded from capital under statute	9,533	0	1,365	0	0	0	10,898	(10,898)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	4	0	23,221	0	0	0	23,225	(23,225)	0
<u>Inclusion of items not debited or credited to the Comprehensive</u>									
Statutory provision for the financing of capital investment	(7,084)	0	(82)	0	0	0	(7,166)	7,166	0
Capital expenditure charged against the General Fund and HRA balances	(1,929)	0	(4,671)	0	0	0	(6,600)	6,600	0
<b>Adjustments involving the Capital Receipts Reserve</b>									
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(82)	0	(36,063)	0	36,145	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(841)	0	(841)	841	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,774	0	0	0	(1,774)	0	0	0	0
Unattached capital receipts	(1,897)	0	(1,811)	0	3,708	0	0	0	0
Deferred Capital Receipts	0	0	0	0	9	0	9	(9)	0
<b>Adjustment involving the Major Repairs Reserve</b>									
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(28,319)	0	0	(28,319)	28,319	0
<b>Adjustments involving the Financial Instruments Adjustment Account</b>									
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	102	0	182	0	0	0	284	(284)	0
<b>Adjustment involving the Pensions Reserve</b>									
Reversal of items relating to retirement benefits debited or credited to the CIES	60,306	0	4,093	0	0	0	64,399	(64,399)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	(42,713)	0	(2,833)	0	0	0	(45,546)	45,546	0
<b>Adjustments involving the Collection Fund Adjustment Account</b>									
Amount by which council tax credited to the CIES is different from council tax income calculated in accordance with statutory requirements	7,319	0	0	0	0	0	7,319	(7,319)	0
<b>Adjustments involving the Unequal Pay Back Pay Adjustment Account</b>									
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>									
<b>Adjustments involving the Capital Grants Unapplied Account</b>									
Capital grants and contributions unapplied credited to CIES when receivable	(25,186)	0	(16,598)	0	0	41,784	0	0	0
<b>Adjustment between the Capital Adjustment Account and the Revaluation Reserve</b>									
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
<b>Transfers from General Fund (as directed by Secretary of State)</b>									
	0	0	0	0	0	0	0	0	0
<b>Adjustments involving the Accumulated Absences Account</b>									
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(618)	0	0	0	0	0	(618)	618	0
<b>Total Adjustments</b>	<b>22,308</b>	<b>0</b>	<b>(83,992)</b>	<b>(12,998)</b>	<b>37,247</b>	<b>711</b>	<b>(36,724)</b>	<b>36,724</b>	<b>0</b>

## 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 2016/17.

	BALANCE AT 1 APRIL 2015 £000	TRANSFERS OUT 2015/16 £000	TRANSFERS IN 2015/16 £000	BALANCE AT 31 MARCH 2016 £000	TRANSFERS OUT 2016/17 £000	TRANSFERS IN 2016/17 £000	REALLOCATIO NS 2016-17 £000	BALANCE AT 31 MARCH 2017 £000
<b>GENERAL FUND</b>								
<b>General Fund Reserve</b>	71,456	0	644	72,100	(40,360)	0	0	31,740
<b>EARMARKED RESERVES</b>								
1 Transformation	16,917	(1,936)	9,047	24,028	(8,194)	0	9,166	25,000
2 Severance	15,000	(4,152)	1,152	12,000	(1,176)	0	(10,824)	0
3 ICT / Finance Systems	2,510	0	0	2,510	(1,932)	25,000	(2,510)	23,068
4 ICT Refresh	1,549	(218)	0	1,331	0	0	(1,331)	0
5 Olympic Legacy Schemes	651	(651)	0	0	0	0	0	0
6 Education Grant Reduction	1,333	0	1,110	2,443	(370)	0	(2,073)	0
7 Employment and other Corporate Initiatives	13,845	(4,471)	3,859	13,233	(3,765)	0	(9,468)	0
8 Other	3,534	(2,334)	0	1,200	0	116	(354)	962
9 Homelessness	2,214	(559)	0	1,655	(496)	0	(1,159)	0
10 Parking Control	1,919	0	1,376	3,295	0	0	0	3,295
11 Building Control	0	0	0	0	0	0	373	373
12 Land Charges	0	0	0	0	0	0	749	749
13 Place (formerly Development & Renewal) Other	4,554	(113)	1,440	5,881	(1,551)	0	(4,330)	0
14 Communities, Localities & Culture	1,837	(190)	1,013	2,660	(413)	0	(2,247)	0
15 Children, Schools & Families	2,181	(1,610)	667	1,238	(160)	0	(1,078)	0
16 Adults, Health & Wellbeing	1,938	(328)	1,092	2,702	(1,402)	0	(1,300)	0
17 Law, Probity & Governance & Resources	564	0	60	624	0	0	(624)	0
18 Insurance	23,065	(1,005)	0	22,060	(1,289)	0	0	20,771
19 Schools Balances	35,988	(4,177)	0	31,811	(7,097)	0	0	24,714
20 CSF - Early Intervention	2,462	(2,244)	0	218	(218)	0	0	0
21 Housing Revenue Account (HRA)	20,145	1,000	10,947	32,092	6,987	0	0	39,079
22 Housing Revenue Account - Future Housing Supply	1,000	(1,000)	0	0	0	0	0	0
23 Capital Programme (General Fund)	24,588	(288)	651	24,951	(19,305)	0	(5,646)	0
24 New Civic Centre	0	0	0	0	0	20,000	0	20,000
25 New Homes Bonus	0	0	0	0	0	7,258	0	7,258
26 Free School Meals	0	0	0	0	0	0	6,000	6,000
27 Mayor's Investment Priorities	0	0	0	0	0	0	10,000	10,000
28 Risk Reserve	0	0	0	0	0	0	10,500	10,500
29 Revenue Grants	0	0	0	0	0	487	1,156	1,643
30 Mayor's Tackling Poverty Reserve	0	0	0	0	0	0	5,000	5,000
<b>Earmarked Reserve Total</b>	<b>177,794</b>	<b>(24,276)</b>	<b>32,414</b>	<b>185,932</b>	<b>(40,381)</b>	<b>52,861</b>	<b>0</b>	<b>198,412</b>
<b>Total Usable Reserve Total</b>	<b>249,250</b>	<b>(24,276)</b>	<b>33,058</b>	<b>258,032</b>	<b>(80,741)</b>	<b>52,861</b>	<b>0</b>	<b>230,152</b>

A review has been conducted of the Council's reserves to re-allocate them towards the Council's priorities. These priorities cover the transformation programme, ICT systems improvements, the New Civic Centre, housing, free school meals, welfare reform and the Mayor's Priorities. Reserves marked \* have been reallocated to these priorities. In addition £40.36m of the general fund balance has been earmarked for these priorities.

### Corporate Reserves

- 1 Reserve created to support the delivery of the Council's transformation programme.
- 2 Reserve for potential severance / redundancy payments\*.
- 3 & 4 Reserve to support the planned investment in Council's finance systems.
- 5 Reserve created from grant income to support initiatives related to the Olympics programme.\*
- 6 Reserve to mitigate the impact of reductions to education improvement grant funding.\*
- 7 Reserve for employment, business support and corporate initiatives.\*
- 8 Other - mainstream grants fund.\*
- 9 A reserve to mitigate the impact of the increased cost of managing homelessness.\*
- 10 Parking control reserve.
- 11 Building Control reserve created from Building Control service revenue.
- 12 Reserve created from Land Charges revenue.
- 13-17 Reserves held for service specific initiatives.\*
- 18 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.
- 19 Reserves held by schools under the scheme of delegation.
- 20 Reserve created from grant for Children, School & Families early intervention schemes.
- 21 The reserve balance on the ring-fenced Housing Revenue Account to be used for the provision of social housing in the Borough.
- 23 An earmarked Housing Revenue Account reserve to fund housing projects.
- 24 Reserve to contribute towards funding of new Civic Centre.
- 25 Unspent New Homes Bonus receipts to be used to fund housing schemes.
- 26 Reserve to fund free school meals programme.
- 27 Reserve to fund Mayor's Investment Priority schemes.
- 28 Risk Reserve to manage funding of risks arising.
- 29 Unspent revenue grants without repayment conditions.
- 30 Contribution toward funding of welfare reform programme.

## 9 Other Operating Expenditure

2015/16 £'000	Note	2016/17 £'000
<b>Levies</b>		
237	- Lee Valley Regional Park Authority	239
180	- Environment Agency	190
1,286	- London Pensions Fund Authority	1,312
<b>1,703</b>	<b>Total Levies</b>	<b>1,741</b>
1,774	Payments to Housing Capital Receipts Pool	1,755
(12,919)	Net (gain)/loss on disposal of non-current assets	(36,341)
(3,708)	Unattached capital receipts	(6,140)
<b>(13,150)</b>	<b>Total</b>	<b>(38,985)</b>

Of 635 grant payments made during 2016/17, 5 grant payments totalling £78,997.57 were paid in error by the Council as appropriate premises rental agreements were not in place at the time of payment. As the Commissioners required appropriate premises agreements to be in place before payment was made, this expenditure is considered unlawful. These payments represent 2.7% of all £2.9m grants payments in the financial year and 2.6% of the number of payments processed. The £78,997.57 of expenditure is included within the Comprehensive Income and Expenditure Statement. The approval process has been strengthened and work continues to address grants related premises issues. Progress has been reported to the Commissioners' public decision making meetings and since 17 January 2017, to the Grants Determination (Cabinet) Sub Committee.

## 10 Financing and Investment Income and Expenditure

2015/16 £'000		2016/17 £'000
9,761	Interest payable and similar charges	10,939
20,509	Pensions interest cost and expected return on pensions assets	17,901
(3,131)	Interest receivable and similar income	(2,519)
(356)	Surplus or deficit of trading operations	101
<b>26,783</b>	<b>Total</b>	<b>26,422</b>

## 11 Taxation and Non Specific Grant Income

2015/16 £'000		2016/17 £'000
(71,793)	Council Tax income	(78,043)
(112,493)	Non domestic rates	(117,870)
(111,500)	Non-ringfenced Government grants	(105,025)
(48,976)	Capital grants and contributions	(50,236)
<b>(344,762)</b>	<b>Total</b>	<b>(351,174)</b>

## 12 PROPERTY, PLANT AND EQUIPMENT

MOVEMENTS IN 2016/17	COUNCIL DWELLINGS £'000	OTHER LAND AND BUILDINGS £'000	VEHICLES, PLANT, FURNITURE & EQUIPMENT £'000	INFRA-STRUCTURE ASSETS £'000	COMMUNITY ASSETS £'000	SURPLUS ASSETS £'000	ASSETS UNDER CONSTRUCTION £'000	TOTAL PROPERTY, PLANT AND EQUIPMENT £'000	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
<b>Cost or Valuation</b>									
At 1 April 2016	1,244,394	971,542	24,428	153,803	53,891	11,885	10,705	2,470,648	250,625
Additions	36,447	31,900	263	3,743	523	0	20,812	93,688	6,759
Revaluation increases/(decreases) recognised in the Revaluation Reserve	74,882	(10,050)	0	0	0	0	0	64,832	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the provision of services	11,370	(346)	0	0	0	0	0	11,024	0
Derecognition - Disposals	(24,601)	0	0	0	0	(742)	0	(25,343)	0
Derecognition - Other Assets Reclassified (to)/from Held for Sale	0	(713)	0	0	0	0	0	(713)	0
Other Reclassification of Assets	0	0	0	0	0	(3,568)	0	(3,568)	0
At 31 March 2017	1,342,492	992,333	24,691	157,546	54,414	7,575	31,517	2,610,568	257,384
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2016	151,963	95,190	21,121	46,220	5	(426)	0	314,073	17,250
Depreciation charge	13,525	21,485	666	3,720	0	0	0	39,396	6,532
Depreciation written out to the Revaluation Reserve	(13,465)	(4,349)	0	0	0	0	0	(17,814)	0
Derecognition - Disposals	(278)	0	0	0	0	0	0	(278)	0
Derecognition - Other Assets reclassified (to)/from Held for Sale	0	11	0	0	0	0	0	11	0
Other Reclassification of Assets	0	0	0	0	0	0	0	0	0
At 31 March 2017	151,745	112,337	21,787	49,940	5	(426)	0	335,388	23,782
<b>Net Book Value</b>									
At 31 March 2017	1,190,747	879,996	2,904	107,606	54,409	8,001	31,517	2,275,180	233,602
At 31 March 2016	1,092,431	876,352	3,307	107,583	53,886	12,311	10,705	2,156,575	233,375

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPARATIVE MOVEMENTS IN 2015/16	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	PFI ASSETS INCLUDED IN PROPERTY, PLANT AND EQUIPMENT £'000
<b>Cost or Valuation</b>									
At 1 April 2015	1,125,613	958,446	24,176	149,030	53,577	24,873	2,840	2,338,555	278,021
Additions	60,244	11,802	252	4,773	253	7	10,741	88,072	6,302
Revaluation increases/(decreases) recognised in the Revaluation Reserve	35,852	2,046	0	0	0	5,896	0	43,794	(176)
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the provision of services	40,892	980	0	0	0	(4,322)	0	37,550	(29)
Derecognition - Disposals	(22,213)	(440)	0	0	0	0	0	(22,653)	0
Derecognition - Other	0	(418)	0	0	0	0	0	(418)	0
Assets Reclassified (to)/from Held for Sale	0	(223)	0	0	0	(14,029)	0	(14,252)	0
Other Reclassification of Assets	4,006	(651)	0	0	61	(540)	(2,876)	0	(33,493)
<b>At 31 March 2016</b>	<b>1,244,394</b>	<b>971,542</b>	<b>24,428</b>	<b>153,803</b>	<b>53,891</b>	<b>11,885</b>	<b>10,705</b>	<b>2,470,648</b>	<b>250,625</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2015	152,134	80,036	20,177	42,619	0	966	0	295,932	14,424
Depreciation charge	13,753	21,222	944	3,601	0	157	0	39,677	5,971
Depreciation written out to the Revaluation Reserve	(13,635)	(6,060)	0	0	0	(1,214)	0	(20,909)	(134)
Derecognition - Disposals	(289)	0	0	0	0	0	0	(289)	0
Derecognition - Other	0	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	(3)	0	0	0	(335)	0	(338)	0
Other Reclassification of Assets	0	(5)	0	0	5	0	0	0	(3,011)
<b>At 31 March 2016</b>	<b>151,963</b>	<b>95,190</b>	<b>21,121</b>	<b>46,220</b>	<b>5</b>	<b>(426)</b>	<b>0</b>	<b>314,073</b>	<b>17,250</b>
<b>Net Book Value</b>									
At 31 March 2016	1,092,431	876,352	3,307	107,583	53,886	12,311	10,705	2,156,575	233,375
At 31 March 2015	973,479	878,410	3,999	106,411	53,577	23,907	2,840	2,042,623	263,597

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

### Depreciation

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

- Council Dwellings – As a method of depreciation, the council has used the Major Repairs Allowance (MRA) to adjust the value of the housing stock to reflect the effects of use, deterioration and obsolescence. In 2016/17, the council compared the MRA figure to a depreciation figure calculated based on figures from a qualified valuer to ensure the depreciation charge to the HRA was adequate to finance the HRA's long-term financial plan.
- Other Land and Buildings – As advised by qualified valuer
- Vehicles, Plant & Equipment - 5 years on a straight line basis
- Infrastructure assets - 40 years

### Capital Commitments

The Council had contractually binding capital commitments, in respect of schemes costing in excess of £1 million, totalling £38.555 million at 31st March 2017 (£82.186 million at 31st March 2016).

	Committed sum £m	Costs to 31/3/2017 £m	2017/18 onwards £m	Contract End Date
Decent Homes Contract	51.767	26.379	25.388	31/03/2017
Watts Grove - GLA Pipeline	24.550	21.929	2.621	22/07/2017
Whitechapel Civic Centre	2.837	0.799	2.038	03/04/2020
St Paul's Way Trust School	11.379	8.261	3.118	24/08/2018
Stepney Green School 6th Form	4.077	1.722	2.355	22/12/2017
Stephen Hawking School Expansion	3.298	0.263	3.035	22/12/2017
<b>TOTAL</b>	<b>97.908</b>	<b>59.353</b>	<b>38.555</b>	

### Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are as at 1st April in the year of valuation. In 2016/17, school assets were also subject to a desktop valuation as at 31st March 2017. A summary of total valuation per asset category is shown below.

In 2016/17, the housing stock and the non-dwellings assets were valued by Wilks Head and Eve. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation of council dwellings is in accordance with guidelines produced by Communities and Local Government in the 'Stock Valuation for Resource Accounting: Guidance for Valuers 2016'.

All surplus assets and assets held for sale are valued at fair value under IFRS 13. These have been categorised by the valuers as being within level 2 of the fair value hierarchy, which are based on observable inputs such as market rents and recent sales of similar properties. Further details of fair value can be found within the accounting policies.

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	-	12,727	2,904	107,606	54,409	-	31,517	209,163
Valued at current value in:								
2016/17	1,190,747	682,595	-	-	-	282	-	1,873,624
2015/16	-	59,755	-	-	-	7,719	-	67,474
2014/15	-	63,783	-	-	-	-	-	63,783
2013/14	-	58,984	-	-	-	-	-	58,984
2012/13	-	2,152	-	-	-	-	-	2,152
<b>Value at 31 March 2017</b>	<b>1,190,747</b>	<b>879,996</b>	<b>2,904</b>	<b>107,606</b>	<b>54,409</b>	<b>8,001</b>	<b>31,517</b>	<b>2,275,180</b>

## 13 LONG TERM DEBTORS

	1st April 2015 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2016 £'000	Advances £'000	Income and Adjustments £'000	Balance at 31st March 2017 £'000
Mortgages on Right to Buy properties	28	11	(10)	29	0	(3)	26
Sundry Loans	585	83	(125)	543	160	(111)	592
	<b>613</b>	<b>94</b>	<b>(135)</b>	<b>572</b>	<b>160</b>	<b>(114)</b>	<b>618</b>

## 14 INTANGIBLE ASSETS

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



## 15 FINANCIAL INSTRUMENT NOTES

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

### Amortised Cost

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

### Fair Value

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

### Compliance

The Council has:

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

### Types of Financial Instruments

Financial Instrument Categories	Long-Term		Current		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2016	2017	2016	2017	2016	2017
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>						
Borrowings at amortised cost	85,936	84,966	2,267	1,310	88,203	86,276
Deferred Liabilities (PFI and Finance Leases)	42,040	63,871	1,377	2,223	43,417	66,094
Creditors - Financial Liabilities carried at contract amount	0	0	49,681	40,292	49,681	40,292
<b>Total Liabilities</b>	<b>127,976</b>	<b>148,837</b>	<b>53,325</b>	<b>43,825</b>	<b>181,301</b>	<b>192,662</b>
<b>Financial Assets</b>						
Loans and receivables	0	0	291,589	311,667	291,589	311,667
Debtors - financial assets carried at contract amounts	0	0	25,560	7,701	25,560	7,701
Cash held at bank and cash equivalents	0	0	160,712	184,299	160,712	184,299
<b>Total Financial Assets</b>	<b>0</b>	<b>0</b>	<b>477,861</b>	<b>503,667</b>	<b>477,861</b>	<b>503,667</b>

### NOTES

1. Market loans of £77.5 million have been included in long term borrowing. At 31st March 2016, these were all LOBO (lender's option, borrower's option) loans, however during 2016/17 £17.5m of these loans had the interest rate change option removed at the request of the lender.
2. Included in loans and receivables is £10m of deposits due to be settled within 1 and 3 years as at 31 March 2017.
3. The Authority's investment portfolio consists of fixed term deposits, callable deposits, stepped deposits, collar/structured deposits, certificates of deposits, call accounts and money market funds.
4. The terms of the stepped deposits of £5m from 30.04.2015 - 29.04.2018 are from 30.04.2015 - 29.04.2016 to earn interest rate of 0.90%; from 30.04.2016 - 29.04.2017 to earn interest rate of 1.25% and from 30.04.2017 - 30.04.2018 to earn interest rate of 1.79%.
5. Balances in the money market funds at 31 March 2017 are shown under 'cash and cash equivalent' in the balance sheet. Cash equivalents are highly liquid deposits which are readily convertible into cash at short notice. They include £136.9 million (£89.8 million as at 31st March 2016) of short-term deposits with banks and building societies excluded from loans and receivables.
6. The above long term figures are based on paragraph B9, Module 7 of the 2016/17 code of practice guidance notes which states an instrument will be held for its full term unless the Council has a specified intention to repay/call in early or reliable experience of similar instruments being derecognised before the full term.
7. In addition to the above financial liabilities, the Council has contingent liabilities for warranties provided to landlords. Details are outlined in note 30 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:

	2015/16		2016/17	
	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	9,761	0	10,939	0
Interest income	0	3,131	0	2,519
<b>TOTAL INTEREST AND INVESTMENT INCOME</b>	<b>9,761</b>	<b>3,131</b>	<b>10,939</b>	<b>2,519</b>

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 2017.
- 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 2016	31 March 2016	31 March 2017	31 March 2017
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Public Works Loans Board	10,375	13,019	8,458	10,871
Market Loans - Fixed Interest	0	0	17,577	29,278
Market Loans - Lender's option, borrower's option loans	77,828	132,814	60,241	93,895
Deferred liabilities - (PFI/Finance Leases)	43,417	43,417	66,092	66,092
Creditors - Financial Liabilities carried at contract amount	49,681	49,681	40,292	40,292
<b>Financial Liabilities</b>	<b>181,301</b>	<b>238,931</b>	<b>192,660</b>	<b>240,428</b>

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

Fair Value of Assets Carried at Amortised Cost	31 March 2016	31 March 2016	31 March 2017	31 March 2017
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Fixed term deposits with banks and building societies	291,589	318,842	311,660	312,237
Equity Shares (not quoted in an active market)	7	7	7	7
Debtors - financial assets carried at contract amounts	25,560	25,560	7,701	7,701
Cash held at Bank	68,398	68,398	47,448	47,448
Cash equivalents (deposits with banks and other financial institutions)	92,314	92,314	136,851	136,851
<b>Financial Assets</b>	<b>477,868</b>	<b>505,121</b>	<b>503,667</b>	<b>504,244</b>

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

## 15 FINANCIAL INSTRUMENTS (continued)

### Nature and extent of risks arising from Financial Instruments

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

#### 1. Credit Risk

Credit risk is the possibility that other parties may not pay amounts due to the Council. This risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. The Council invests primarily on the basis of prudence and then the level of returns. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution or those underwritten by the Government. The Council has a policy of limiting deposits with institutions to a maximum of £10 million for financial institutions and £70 million for government backed borrowing, in any one transaction. The authority's minimum credit rating criteria is as detailed in the Treasury Management Strategy.

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

	Amounts at 31 March 2016 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2016 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	97,888	0%	0%	0%
Money Market Funds	62,824	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	0%	0%	0%
3 - 6 months	50,142	0%	0%	0%
6 - 12 months	135,729	0%	0%	0%
Over 12 months	105,718	0%	0%	0%
<b>TOTAL</b>	<b>452,301</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

	Amounts at 31 March 2017 £'000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2017 %	Estimated maximum exposure to default and non- collection £'000
Cash & cash equivalents deposits	142,485	0%	0%	0%
Money Market Funds	41,814	0%	0%	0%
Fixed term deposits with banks and other financial institutions:				
1 - 3 months	0	0%	0%	0%
3 - 6 months	55,023	0%	0%	0%
6 - 12 months	211,409	0%	0%	0%
Over 12 months	45,228	0%	0%	0%
<b>TOTAL</b>	<b>495,959</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

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 £4.0 million of the £52.6 million balance (2015/16 - £3.7 million of the £64.0 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 2016 £'000	31 March 2017 £'000
Three to six months	570	344
Six months to one year	626	401
More than one year	2,553	721
<b>TOTAL</b>	<b>3,749</b>	<b>1,466</b>

### 2. Liquidity Risk

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

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

Loans outstanding	31 March 2016 £'000	31 March 2017 £'000
Public Works Loans Board	10,375	8,458
Market debt	77,828	77,818
PFI / Finance Leases	43,417	66,092
<b>TOTAL</b>	<b>131,620</b>	<b>152,368</b>
Less than 1 year	3,643	3,532
Between 1 and 2 years	3,157	4,090
Between 2 and 5 years	8,885	12,804
Between 5 and 10 years	27,354	28,152
More than 10 years	88,581	103,790
<b>TOTAL</b>	<b>131,620</b>	<b>152,368</b>

In the more than 10 years category, there are £60 million of Lender's Option, Borrower's Option (LOBO) market loans. The Council uses money market funds to provide liquidity.

### 3. Market Risk

#### Interest rate risk

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

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

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

The Council has a number of strategies for managing interest rate risk. The policy is to keep variable rate borrowings to a minimum. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

## 15 FINANCIAL INSTRUMENTS (continued)

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

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

According to this assessment, at 31st March 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be :

Interest Rate Risk	2015/16 £'000	2016/17 £'000
Increase in interest payable on variable rate borrowings	645	600
Increase in interest receivable on variable rate investments	(3,000)	(3,000)
<b>Impact on Income and Expenditure Account</b>	<b>(2,355)</b>	<b>(2,400)</b>

Fair Value Movements	2015/16 £'000	2016/17 £'000
Decrease in fair value of fixed rate investments	508	1,016
Decrease in fair value of fixed rate borrowing liabilities	1,458	293
<b>Impact on Income and Expenditure Account</b>	<b>1,966</b>	<b>1,309</b>

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)

	2015/16 £'000	2016/17 £'000
The Tower Hamlets Local Education Partnership	7	7
<b>Total</b>	<b>7</b>	<b>7</b>

## 16 CONSTRUCTION CONTRACTS

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

## 17 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 2016 and concluded that there was no significant impairment to report.

## 18 HERITAGE ASSETS

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

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

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

	Balance at 31st March 2015 £'000	2015/16 Acquisitions £'000	2015/16 Disposals £'000	2015/16 Revaluation £'000	Balance at 31st March 2016 £'000	2016/17 Acquisitions £'000	2016/17 Disposals £'000	2016/17 Revaluation £'000	Balance at 31st March 2017 £'000
<b>Value of Heritage Assets held by Council</b>									
(a) - Works of art	8,910	0	0	0	8,910	0	0	0	8,910
(b) - Civic Regalia	389	0	0	0	389	0	0	0	389
(c) - Local History Library and Archive Collections	0	0	0	0	0	0	0	0	0
(d) - Public Art (Middlesex Street)	11	0	0	0	11	1	0	0	12
<b>TOTAL HERITAGE ASSETS</b>	<b>9,310</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,310</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>9,311</b>

- (a) The council holds a number of works of art. The council has three works of art with a material value - the council has received indications of value on these assets from art experts at auction houses.
- There are 109 works of art across the borough for which the council has a duty of care. These include sculptures, statues, murals, memorials and other works. The majority of these reflect the history of the borough. It was not cost effective to obtain formal valuations for these immaterial items, however public data is available of sale proceeds of similar works by the same artists - none of these values are considered material. The estimated value of these assets has not changed since 2010.
- The council also has a collection of 75 other paintings which are held at the local history library. These paintings are of local scenes and past local dignitaries so intrinsic value is in local interest rather than realisable value.
- (b) These comprise the Mayor's chain and other civic regalia. These were valued by the auctioneers Bonhams in January 2012.
- (c) Tower Hamlets Local History Library & Archives holds an extensive and unique collection of books, pamphlets, maps, photographs, press cuttings and ephemera, deeds, archives, audio-visual material, oral histories and sound recordings, digital records, and a range of other sources, all of which reflect and provide evidence of the history of the borough.
- It was not considered appropriate or practicable to place a value on these items due to their unique nature. It is highly unlikely that any of these assets would ever be sold as the council has a legal obligation to maintain its archives.
- These collections are preserved and made publicly available at the library on Bancroft Road and increasingly through the web and a range of exhibitions and outreach projects. The library & archives continues to proactively collect resources which illustrate and provide evidence of the activities and experiences of residents, organisations and businesses active in the borough, including the local authority.
- (d) A new capital scheme started in 2012/13 to create a piece of public art funded by section 106 contributions from developments in the area. The agreed budget for the scheme is £250k and is not yet completed. The asset is shown at historical cost, which is 2012/13 expenditure.

## 19 DEBTORS

	31 March 2016 £'000	31 March 2017 £'000
Central government bodies	23,835	21,669
Other local authorities	7,107	3,320
Other entities and individuals	63,583	52,661
Payments in advance	2,743	2,837
<b>Total</b>	<b>97,268</b>	<b>80,487</b>

## 20 CASH AND CASH EQUIVALENTS

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

	31 March 2016 £'000	31 March 2017 £'000
Cash held by the Council	68,398	47,448
Short-term deposits with banks and building societies	92,314	136,851
<b>Total Cash and Cash Equivalents</b>	<b>160,712</b>	<b>184,299</b>

## 21 ASSETS HELD FOR SALE

As at the 31st March 2017, the Council has one property which is classified as an Asset Held for Sale.

	Current		Non Current	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
<b>Value at 1st April</b>	225	13,695	0	0
Assets newly classified as held for sale:				
Property, Plant and Equipment	13,914	3,850	0	0
Revaluation losses	0	(1,550)	0	0
Revaluation gains	0	0	0	0
Assets declassified as held for sale:				
Property, Plant and Equipment	0	(282)	0	0
Assets sold	(444)	(11,863)	0	0
<b>Value at 31st March</b>	<b>13,695</b>	<b>3,850</b>	<b>0</b>	<b>0</b>

## 22 CREDITORS

	31 March 2016 £000	31 March 2017 £000
Central government bodies	30,025	29,330
Other local authorities	21,946	8,871
Other entities and individuals	87,001	61,174
Accruals	49,681	40,292
Receipts in advance	15,505	14,487
<b>Total</b>	<b>204,158</b>	<b>154,154</b>

## 23 PROVISIONS

SHORT-TERM PROVISIONS	Balance at 1 April 2015 £'000	Amounts used in 2015/16 £'000	Contributions in 2015/16 £'000	Balance at 31 March 2016 £'000	Amounts used in 2016/17 £'000	Contributions in 2016/17 £'000	Balance at 31 March 2017 £'000
(a) Single Status	174	(112)	0	62	0	0	62
(b) ICT provision and other corporate provisions	1,455	(200)	53	1,308	(436)	3,034	3,906
(c) Contract disputes	102	0	21	123	0	181	304
(d) Business rates appeals provision	3,010	(2,427)	0	583	(2,446)	2,446	583
<b>TOTAL</b>	<b>4,741</b>	<b>(2,739)</b>	<b>74</b>	<b>2,076</b>	<b>(2,882)</b>	<b>5,661</b>	<b>4,855</b>

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

LONG-TERM PROVISIONS	Balance at 1 April 2015 £'000	Amounts used in 2015/16 £'000	Contributions in 2015/16 £'000	Balance at 31 March 2016 £'000	Amounts used in 2016/17 £'000	Contributions in 2016/17 £'000	Balance at 31 March 2017 £'000
(e) Insurance Fund	6,777	(75)	358	7,060	(244)	188	7,004
(f) Repayment of deposits	169	0	0	169	0	0	169
(g) Repayment of European funding	394	0	0	394	(394)	0	0
<b>TOTAL</b>	<b>7,340</b>	<b>(75)</b>	<b>358</b>	<b>7,623</b>	<b>(638)</b>	<b>188</b>	<b>7,173</b>
							<b>12,028</b>

- (a) For additional costs resulting from the single status agreement which changed employees' conditions of service.
- (b) Provision for ICT licences and corporate provisions including adult social care payments due in 2017/18.
- (c) Provision for contract disputes.
- (d) Council share of provision for NNDR business rates appeals.
- (e) To cover a range of self-insured risks including personal accident cover for staff, motor car credit guarantee insurance and miscellaneous items of property. Amounts are transferred to the provision from the insurance reserve on an annual basis if a reliable estimate can be made of the likely settlement amount. The nature of insurance claims means it is not possible to accurately forecast when settlement of claims will take place. The Council is active in risk management, identifying areas of particular risk and taking management steps with a view to reducing possible future claims and losses. There are no material risks which are not covered by either direct insurance or self insurance via the provision.
- (f) The provision is used to hold deposits received from contractors with approval for erecting temporary structures. On completion of the work, the deposits will be refunded to the contractors, less deductions for any liabilities incurred. The refund of deposits will depend on the successful completion of contracts.
- (g) There are a number of European funded schemes where there is a probability that grant will need to be repaid. The potential for repayment expired in 2016/17, ten years after the grant was received.



## 24 USABLE RESERVES

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

## 25 UNUSABLE RESERVES

31 March 2015 £'000		31 March 2016 £'000
401,655	Revaluation Reserve	464,596
1,496,454	Capital Adjustment Account	1,525,680
284	Financial Instruments Adjustment Account	0
(516,595)	Pensions Reserve	(619,122)
728	Collection Fund Adjustment Account	(2,301)
(2,370)	Accumulating Compensated Absences Adjustment Account	(3,929)
2	Deferred Capital Receipts	0
<b>1,380,159</b>	<b>Total Unusable Reserves</b>	<b>1,364,923</b>

### Revaluation Reserve

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

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

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

2015/16 £'000		2016/17 £'000
342,265	<b>Balance at 1 April</b>	401,655
106,896	Upward revaluation of assets	102,462
(42,193)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(19,817)
<u>64,703</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	82,645
(3,735)	Difference between current value depreciation and historical cost depreciation	(4,046)
(1,577)	Accumulated gains on assets sold or scrapped	(15,659)
(5,312)	Amount written off to the Capital Adjustment Account	(19,705)
<b>401,655</b>	<b>Balance at 31 March</b>	<b>464,596</b>

## 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 current value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

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

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

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

2015/16 £'000		2016/17 £'000
<b>1,428,571</b>	<b>Balance at 1 April</b>	<b>1,496,454</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(39,480)	Charges for depreciation and impairment of non current assets	(39,199)
36,175	Revaluation losses and reversals on Property, Plant and Equipment	11,795
(10,898)	Revenue expenditure funded from capital under statute	(12,674)
(23,225)	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	(37,651)
<u>(37,428)</u>		<u>(77,729)</u>
5,312	Adjusting amounts written out of the Revaluation Reserve	19,705
(32,116)	Net written out amount of the cost of non current assets consumed in the year	(58,025)
	Capital financing applied in the year:	
841	Use of the Capital Receipts Reserve to finance new capital expenditure	7,913
28,319	Use of the Major Repairs Reserve to finance new capital expenditure	14,517
57,073	Application of grants and contributions to capital financing from the Capital Grants Unapplied Account	31,591
7,167	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,601
6,600	Capital expenditure charged against the General Fund and HRA balances	25,627
<u>100,000</u>		<u>87,250</u>
<b>1,496,454</b>	<b>Balance at 31 March</b>	<b>1,525,680</b>

## 25 UNUSABLE RESERVES (continued)

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account was charged to the General Fund over 10 years with the final charge in 2016/17.

2015/16 £'000		2016/17 £'000
568	<b>Balance at 1 April</b>	284
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with	
(284)	statutory requirements	(284)
<b>284</b>	<b>Balance at 31 March</b>	<b>0</b>

### Pensions Reserve

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

2015/16 £'000		2016/17 £'000
(649,564)	<b>Balance at 1 April</b>	(516,595)
151,822	Actuarial gains or losses on pensions assets and liabilities	(91,986)
(64,399)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(56,497)
45,546	Employer's pensions contributions and direct payments to pensioners payable in the year	45,956
<b>(516,595)</b>	<b>Balance at 31 March</b>	<b>(619,122)</b>

## 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.

2015/16 £'000		2016/17 £'000
8,047	<b>Balance at 1 April</b>	728
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in	
(7,319)	accordance with statutory requirements	(3,029)
<b>728</b>	<b>Balance at 31 March</b>	<b>(2,301)</b>

### Accumulated Absences Account

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

2015/16 £'000		2016/17 £'000
(2,988)	<b>Balance at 1 April</b>	(2,370)
2,988	Settlement or cancellation of accrual made at the end of the preceding year	2,370
(2,370)	Amounts accrued at the end of the current year	(3,929)
	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from	
618	remuneration chargeable in the year in accordance with statutory	(1,559)
<b>(2,370)</b>	<b>Balance at 31 March</b>	<b>(3,929)</b>

### Deferred Capital Receipts

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

2015/16 £'000		2016/17 £'000
11	<b>Balance at 1 April</b>	2
(9)	Transfer to the Capital Receipts Reserve upon receipt of cash	(2)
<b>2</b>	<b>Balance at 31 March</b>	<b>0</b>

## 26a NOTE A TO THE CASH FLOW STATEMENT

2015/16 £'000		2016/17 £'000
70,468	<b>Net Surplus or (Deficit) on the Provision of Services</b>	<b>62,808</b>
	<b><u>Adjust net surplus or (deficit) on the provision of services for non cash movements</u></b>	
39,480	Depreciation	39,199
(36,175)	Impairment and downward valuations	(11,795)
(2,168)	Adjustments for effective interest rates	338
	Increase/Decrease in Interest Creditors	
(6,469)	Increase/Decrease in Creditors	(50,850)
18,022	Increase/Decrease in Debtors	16,732
18,873	Pension Liability	10,541
(2,382)	Contributions to/(from) Provisions	2,329
23,225	Carrying amount of non-current assets sold (property, plant and equipment, investment property and intangible assets)	37,651
<b>52,406</b>		<b>44,145</b>
	<b><u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u></b>	
(16,001)	Capital Grants credited to surplus or deficit on the provision of services	(12,082)
0	Proceeds from the sale of short and long term investments	
	Premiums or Discounts on the repayment of financial liabilities	
	Proceeds from the sale of property plant and equipment, investment property and intangible assets	
(39,853)		(80,133)
<b>(55,854)</b>		<b>(92,215)</b>
<b>67,020</b>	<b>Net cash flows from operating activities</b>	<b>14,738</b>

## 26b CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2015/16 £'000		2016/17 £'000
1,621	Interest received	2,519
(10,419)	Interest paid	(8,090)
<b>(8,798)</b>		<b>(5,571)</b>

## 27 CASH FLOW STATEMENT - INVESTING ACTIVITIES

2015/16 £'000		2016/17 £'000
(86,126)	Purchase of property, plant and equipment, investment property and intangible assets	(70,455)
(75,841)	Purchase of short-term and long-term investments	(20,078)
36,154	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	73,995
	Proceeds from short-term and long-term investments	
20,056	Other receipts from investing activities	26,315
<b>(105,757)</b>	<b>Net cash flows from investing activities</b>	<b>9,777</b>

## 28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

2015/16 £'000		2016/17 £'000
(1,572)	Billing Authorities - Council Tax and NNDR adjustments	0
(964)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(557)
(371)	Repayments of short- and long-term borrowing	(371)
<b>(2,907)</b>	<b>Net cash flows from financing activities</b>	<b>(928)</b>

## 29 TRADING OPERATIONS

The following services are reported as trading activities

	2015/16			2016/17			Balance 31/03/2017 £'000
	Expenditure £'000	Income £'000	Surplus/ (Deficit) £'000	Expenditure £'000	Income £'000	Surplus/ (Deficit) £'000	
Street Trading	2,125	2,481	356	2,520	2,419	(101)	767
<b>TOTAL TRADING ACCOUNTS</b>	<b>2,125</b>	<b>2,481</b>	<b>356</b>	<b>2,520</b>	<b>2,419</b>	<b>(101)</b>	<b>767</b>

## 30 CONTINGENT LIABILITIES

### Housing Transfers to Registered Social Landlords

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

### Death of Child in Mile End Park

In 2015, a child died in Mile End Park. A coroners hearing is to consider the cause of death pending further investigations. Provision has been made within the insurance provision to meet the maximum potential insurance liability. At this time, it is uncertain if further liabilities will be raised against the Council.

## 30a CONTINGENT ASSETS

### Regeneration Schemes

Over recent years the Council has entered into development agreements to develop sites as part of its regeneration of the Ocean Estate and Blackwall Reach areas. In the event of any of the individual sites achieving overall profit for the development partners, an overage payment may become due to the Council. Any subsequent use of overage receipts arising from the Ocean Estate scheme must contribute towards the development of new affordable homes as agreed with the Greater London Authority.

### Leisure Contracts

The Council has agreement in principle to recover over £1 million of leisure contract payments made in 2016/17. This is awaiting ratification as at the balance sheet date.

## 31 POOLED BUDGETS

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

- (a) Integrated Community Equipment Service (ICES)
- (b) Better Care Fund (BCF)

The purpose of the arrangements for ICES and BCF 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.

2016/17	ICES £'000	BCF £'000
<b>Income</b>		
The Council	1,167	9,015
Barts and the London Trust health services	813	0
Clinical Commissioning Group (CCG)	0	12,448
	<b>1,980</b>	<b>21,463</b>
<b>Expenditure</b>	1,980	19,195
<b>Surplus/(Deficit) for the year</b>	<b>0</b>	<b>2,268</b>
2015/16	ICES £'000	BCF £'000
<b>Income</b>		
The Council	812	9,092
Barts and the London Trust health services	836	0
Clinical Commissioning Group (CCG)	0	12,357
	<b>1,648</b>	<b>21,449</b>
<b>Expenditure</b>	1,680	20,329
<b>Surplus/Deficit for the year</b>	<b>(32)</b>	<b>1,120</b>

## 32 MEMBERS' ALLOWANCES

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

	2015/16 £'000	2016/17 £'000
Allowances	788	882
<b>Total</b>	<b>788</b>	<b>882</b>

### 33 OFFICERS' REMUNERATION

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

2015/16	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive <sup>1</sup>	86,503	0	0	13,448	0	99,951
Mr S Halsey - Head of Paid Service & Corporate Director CLC <sup>2</sup>	94,540	0	0	13,712	0	108,252
<b>Total Head of Paid Service</b>	<b>181,043</b>	<b>0</b>	<b>0</b>	<b>27,160</b>	<b>0</b>	<b>208,203</b>
<b>Corporate Directors</b>						
Adults Services (Interim) <sup>3</sup>	62,792	0	0	9,921	0	72,713
Childrens Services <sup>4</sup>	6,682	0	0	0	0	6,682
Childrens Services (Interim) <sup>5</sup>	115,600	0	0	0	0	115,600
Communities, Localities and Culture <sup>6</sup>	62,361	0	0	9,634	0	71,995
Development and Renewal	138,086	0	0	21,331	0	159,417
Education, Health and Wellbeing <sup>7</sup>	79,172	0	147,940	6,525	0	233,637
Law, Probity & Governance <sup>8</sup>	64,612	0	0	9,947	0	74,559
Public Health	100,472	0	0	14,755	0	115,227
Resources <sup>9</sup>	80,996	0	0	12,476	0	93,472
Resources (Acting) <sup>10</sup>	41,486	0	0	6,390	0	47,876
<b>Other</b>						
Monitoring Officers <sup>11</sup>	41,715	0	0	0	0	41,715
	<b>975,017</b>	<b>0</b>	<b>147,940</b>	<b>118,139</b>	<b>0</b>	<b>1,241,096</b>

<sup>1</sup> Commenced 19/10/2015

<sup>2</sup> Head of paid service role ended 18/10/2015

<sup>3</sup> Commenced 01/07/2015

<sup>4</sup> Commenced 14/03/2016

<sup>5</sup> From 14/07/2015 to 11/03/2016

<sup>6</sup> From 19/10/2015

<sup>7</sup> Left 13/07/2015

<sup>8</sup> Commenced 17/09/2015

<sup>9</sup> Commenced 03/08/2015

<sup>10</sup> Acting up ended 02/08/2015

<sup>11</sup> Monitoring Officer role within Director for Law Probity & Governance post from 17/09/2015. Cost of monitoring officers until 16/09/2015 shown

2016/17	Salary, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Pension Contribution £	Other £	Total £
Mr W Tuckley - Chief Executive	196,926	0	0	30,623	110	227,659
<b>Total Head of Paid Service</b>	<b>196,926</b>	<b>0</b>	<b>0</b>	<b>30,623</b>	<b>110</b>	<b>227,659</b>
<b>Corporate Directors</b>						
Childrens Services	139,568	0	0	0	0	139,568
Communities, Localities and Culture <sup>1</sup>	34,090	0	236,777	109,386	0	380,253
Health, Adults & Community <sup>2</sup>	116,938	0	0	18,005	0	134,943
Law, Probity & Governance <sup>3</sup>	80,605	0	0	14,450	0	95,055
Mr G White - Law, Probity & Governance & Monitoring Officer (Interim) <sup>4</sup>	111,978	7	0	0	0	111,985
Place (formerly Development & Renewal) <sup>5</sup>	139,467	0	0	21,545	0	161,012
Public Health	101,562	0	0	14,523	0	116,085
Resources	126,162	0	0	19,443	0	145,605
	<b>1,047,296</b>	<b>7</b>	<b>236,777</b>	<b>227,975</b>	<b>110</b>	<b>1,512,165</b>

<sup>1</sup> Left 30/06/2016

<sup>2</sup> Post title Director of Adult Services until 08/01/2017

<sup>3</sup> Left 27/11/2016

<sup>4</sup> Commenced 15/08/2016

<sup>5</sup> Post title Director of Development & Renewal until 08/01/2017

amounts:

amounts:\*

Remuneration band (£)	2015/16					2016/17				
	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	246	(1)	117	(17)	363	199	0	110	(4)	309
55,000 - 59,999	159	0	48	(6)	207	156	(3)	50	(7)	206
60,000 - 64,999	53	0	53	(9)	106	70	(2)	45	(6)	115
65,000 - 69,999	36	0	24	(2)	60	36	(1)	26	(2)	62
70,000 - 74,999	35	0	27	(6)	62	34	(1)	24	0	58
75,000 - 79,999	20	(1)	13	(1)	33	18	0	15	(3)	33
80,000 - 84,999	17	(2)	4	0	21	15	(3)	8	(1)	23
85,000 - 89,999	4	0	6	(3)	10	8	0	2	(1)	10
90,000 - 94,999	6	0	2	(1)	8	3	0	2	0	5
95,000 - 99,999	7	0	4	(3)	11	5	(1)	3	(2)	8
100,000 - 104,999	2	0	7	(1)	9	3	0	3	0	6
105,000 - 109,999	3	0	4	(2)	7	4	0	4	(2)	8
110,000 - 114,999	2	0	1	0	3	2	0	3	(2)	5
115,000 - 119,999	0	0	0	0	0	1	0	0	0	1
120,000 - 124,999	0	0	1	(1)	1	0	0	0	0	0
125,000 - 129,999	1	0	0	0	1	2	0	0	0	2
130,000 - 134,999	1	0	0	0	1	1	(1)	0	0	1
140,000 - 144,999	2	0	0	0	2	0	0	0	0	0
145,000 - 149,999	0	0	0	0	0	0	0	1	(1)	1
150,000 - 154,999	0	0	1	(1)	1	1	0	0	0	1
155,000 - 159,999	1	0	0	0	1	1	0	1	(1)	2
160,000 - 164,999	0	0	2	(2)	2	0	0	0	0	0
180,000 - 184,999	0	0	0	0	0	0	0	2	(2)	2
185,000 - 189,999	0	0	1	(1)	1	0	0	0	0	0
190,000 - 194,999	0	0	0	0	0	0	0	1	(1)	1
230,000 - 234,999	0	0	0	0	0	0	0	1	(1)	1
	<b>595</b>	<b>(4)</b>	<b>315</b>	<b>(56)</b>	<b>910</b>	<b>559</b>	<b>(12)</b>	<b>301</b>	<b>(36)</b>	<b>860</b>

## Exit Payments

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

Exit Package cost band (£)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£000)	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
0 - 20,000	3	0	109	78	112	78	981	667
20,001 - 40,000	1	0	55	40	56	40	1,649	1,137
40,001 - 60,000	0	0	30	25	30	25	1,434	1,233
60,001 - 80,000	0	0	18	5	18	5	1,205	320
80,001 - 100,000	0	0	9	6	9	6	813	554
100,001 - 150,000	0	0	11	10	11	10	1,352	1,207
150,001 - 200,000	0	0	3	0	3	0	494	0
200,001 - 250,000	0	0	1	0	1	0	226	0
300,001 - 350,000	0	0	0	1	0	1	0	339
<b>Total</b>	<b>4</b>	<b>0</b>	<b>236</b>	<b>165</b>	<b>240</b>	<b>165</b>	<b>8,154</b>	<b>5,457</b>

The above table includes any compensation for loss of office payments included within the senior officer remuneration note on previous page.

## 34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

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

	2015/16 £'000	2016/17 £'000
<b>Expenditure</b>		
Property, Plant and Equipment	82,081	69,070
Intangible Assets	0	0
Heritage Assets	0	1
Revenue Expenditure Funded from Capital Under Statute	10,898	12,674
<b>TOTAL</b>	<b>92,979</b>	<b>81,745</b>
<b>Sources of Finance</b>		
Borrowing	145	2,096
Capital Grants and Contributions	57,073	31,591
Capital Receipts	841	7,913
Major Repairs Reserve	28,319	14,517
Direct Revenue Funding	6,600	25,627
<b>TOTAL</b>	<b>92,978</b>	<b>81,744</b>

	2015/16 £'000	2016/17 £'000
<b>Opening Capital Financing Requirement</b>	<b>263,618</b>	<b>262,588</b>
<b>Capital investment</b>		
Property, Plant and Equipment	88,072	93,689
Intangible Assets	0	0
Heritage Assets	0	1
Revenue Expenditure Funded from Capital under Statute	10,898	12,674
<b>Sources of finance</b>		
Capital grants and contributions	(57,073)	(31,591)
Capital receipts	(841)	(7,913)
Major repairs reserve	(28,319)	(14,517)
Sums set aside from revenue:		
• Direct revenue contributions	(6,600)	(25,627)
• Minimum Revenue Provision <sup>1</sup>	(7,084)	(7,097)
• HRA Revenue Provision for Debt Repayment on Finance Lease Principal	(83)	(504)
<b>Closing Capital Financing Requirement</b>	<b>262,588</b>	<b>281,703</b>
<b>Explanation of movements in year</b>		
Decrease in underlying need to borrow (supported by government financial assistance)	(7,166)	(7,599)
Increase in underlying need to borrow (unsupported by government financial assistance)	145	2,096
Assets acquired under finance leases	5,991	24,618
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(1,030)</b>	<b>19,115</b>



### 35 EXTERNAL AUDIT COSTS

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

	2015/16 £'000	2016/17 £'000
Fees payable to appointed external auditor with regard to external audit services carried out by the appointed auditor for the year	210	210
Addition fees payable to external Audit for inquiries relating to previous year	20	2
Fees payable to appointed external auditor for the certification of grant claims and returns for the year	20	23
Fees payable in respect of other services provided by external auditors during the year	46	53
<b>Total</b>	<b>296</b>	<b>288</b>

The fees payable to the external auditors for other services comprise £6.5k for Pooling of Housing Capital Receipts & Teachers Pensions and other Audit work; £28k for consideration of objection to accounts relating to the use of LOBO loans (including legal fees to date); and £18k for 2015/16 additional work and testing.

### 36 DEDICATED SCHOOLS GRANT

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

Notes	DSG Receivable for 2015/16	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2015/16 before Academy Recoupment	44,933	276,075	321,008
B	Academy figure Recouped 2015/16	0	(22,350)	(22,350)
C	Total DSG after Academy Recoupment 2015/16	44,933	253,726	298,659
D	Brought forward from 2014/15			7,913
E	Carry forward to 2016/17 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2015/16	52,845	253,726	306,571
G	In-year adjustments	0		0
H	Final budget distribution for 2015/16	52,845	253,726	306,571
I	Less actual central expenditure	(49,980)	0	(49,980)
J	Less actual ISB deployed to schools	0	(254,334)	(254,334)
K	Council contribution for 2015/16	3,818	0	3,818
L	<b>Carry forward to 2016/17</b>	<b>6,683</b>	<b>(608)</b>	<b>6,075</b>

- A DSG figure as issued by DfE in July 2014.
- B .Academy figure Recouped 2015/16
- C Total DSG after Academy Recoupment 2015/16.
- D Figure brought forward from 2014/15.
- E The amount which the Council decided after consultation with the schools forum to carry forward to 2016/17 rather than distribute in 2015/16.
- F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
- G Changes to Initial distribution in 2015/16.
- H Budgeted distribution of DSG at year end.
- I Actual amount of central expenditure items in 2015/16.
- J Amount of ISB distributed to schools.
- K Contribution from the Council in 2015/16 which substituted for DSG in funding the Schools Budget
- L Difference between budgeted distributions and actuals plus carry forward agreed in advance.

Notes	DSG Receivable for 2016/17	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	DSG for 2016/17 before Academy Recoupment	30,684	295,847	326,531
B	Academy figure Recouped 2016/17		(30,745)	(30,745)
C	Total DSG after Academy Recoupment 2016/17	30,684	265,102	295,786
D	Brought forward from 2015/16	6,074		6,075
E	Carry forward to 2017/18 agreed in advance	0	0	0
F	Agreed initial budgeted distribution in 2016/17	36,758	265,102	301,860
G	In-year adjustments	0	0	0
H	Final budget distribution for 2016/17	36,758	265,102	301,860
I	Less actual central expenditure	(35,103)	0	(35,103)
J	Less actual ISB deployed to schools	0	(265,102)	(265,102)
K	Council contribution for 2016/17	0	0	0
L	<b>Carry forward to 2017/18</b>	<b>1,655</b>	<b>0</b>	<b>1,655</b>

- A DSG figure as issued by DfE in March 2017.
- B Academy figure Recouped 2016/17.
- C Total DSG after Academy Recoupment 2016/17.
- D Figure brought forward from 2015/16.
- E The amount which the Council decided after consultation with the schools forum to carry forward to 2016/17 rather than distribute in 2016/17.
- F Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.
- G Changes to Initial distribution in 2016/17.
- H Budgeted distribution of DSG at year end.
- I Actual amount of central expenditure items in 2016/17.
- J Amount of ISB distributed to schools.
- K Contribution from the Council in 2016/17 which substituted for DSG in funding the Schools Budget.
- L Difference between budgeted distributions and actuals plus carry forward agreed in advance.

## 37 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17:

	2015/16 Restated <sup>1</sup> £'000	2016/17 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Non-Ringfenced Government Grants</b>		
Business Rate Related Grants	(7,972)	(7,486)
Council Tax Freeze Grant	(901)	0
Council Tax Related Grants	(96)	0
Local Service Support Grant	(88)	0
New Homes Bonus	(18,143)	(28,875)
Revenue Support Grant (Formula Grant)	(84,300)	(68,664)
<b>Total Non-Ringfenced Government Grants</b>	<b>(111,500)</b>	<b>(105,025)</b>
<b>Capital Grants and Contributions</b>		
Non-conditional grants:		
Schools-funded Capital Programme	(1,815)	(1,824)
Transport for London Funding	(2,315)	(2,895)
Major Works Contributions (cash received)	(3,328)	(3,236)
Capital Maintenance Grant	(3,126)	(3,165)
Basic Needs/New Pupil Places	(6,459)	(11,477)
Decent Homes Backlog Funding	(13,270)	0
Community Infrastructure Levy (CIL)	(6,832)	(18,165)
Other Non-Conditional Grants Received	(99)	(1,071)
Conditional grants:		
Energy Efficiency Grant (Fuel Poverty Fund)	(2,254)	0
Building the Pipeline Housing Grant	(5,828)	0
National Affordable Housing Programme	0	(6,163)
Other Conditional Grants Applied	245	(346)
Developers' Contributions (capital)	(3,895)	(1,894)
<b>Total Capital Grants and Contributions</b>	<b>(48,976)</b>	<b>(50,236)</b>
<b>Credited to Services</b>		
Capital Grants funding REFCUS	(6,615)	(4,397)
Developers' Contributions (capital) funding REFCUS	(2,192)	(2,793)
Developers' Contributions (revenue)	(4,491)	(2,117)
Dedicated Schools Grant	(300,087)	(300,651)
Education Services Grant	(4,153)	(3,751)
PFI Credits	(8,148)	(7,922)
School Sixth Form Grant	(17,660)	(16,448)
Pupil Premium Grant	(24,606)	(22,231)
Public Health Grant	(34,017)	(36,883)
Reception Baseline Assessment	(3,229)	(3,009)
Housing Benefit Subsidy	(273,497)	(270,375)
Other Revenue Grants	(16,430)	(16,601)
<b>Total Credited to Services</b>	<b>(695,125)</b>	<b>(687,178)</b>
<b>Total Grant Income in Comprehensive Income &amp; Expenditure Account</b>	<b>(855,601)</b>	<b>(842,439)</b>
The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:		
	31st March 2016 £'000	31st March 2017 £'000
<b>Receipt in Advance Grant Balances</b>		
<b>Capital Grants Receipts in Advance</b>		
Developers' Contributions (capital)	61,788	74,350
Major Works Invoices	6,028	6,123
National Affordable Housing Programme	6,163	0
New Homes Bonus London Enterprise Panel (LEP) - capital element	1,000	1,000
Other conditional capital grants and contributions	1,147	1,647
<b>Total Capital Grants Receipts in Advance</b>	<b>76,126</b>	<b>83,120</b>
<b>Revenue Grants Receipts in Advance</b>		
Developers' Contributions (revenue)	6,029	8,151
Dedicated Schools Grant	6,115	1,655
PFI Credits	2,541	4,001
New Homes Bonus London Enterprise Panel (LEP) - revenue element	5,685	4,355
Housing Benefit Subsidy	18,726	31,929
Other conditional revenue grants	5,744	1,206
<b>Total Revenue Grants Receipts in Advance</b>	<b>44,840</b>	<b>51,297</b>
<b>Total Grant Receipt in Advance Balances</b>	<b>120,966</b>	<b>134,417</b>

<sup>1</sup> 2015/16 figures restated to include Dedicated Schools Grant, Education Services Grant and Benefit Subsidy and to show receipt in advance balances for revenue grants with conditions

## 38 RELATED PARTIES

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

### Central Government

Central government has effective control over the general operations of the Council– it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from central government departments and other grant making bodies are set out in the subjective analysis in Note 37 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2017 are within the creditors note.

### Partnerships

The Council has partnership arrangements with the following organisations:

NDC (New Deal for the Community)  
CCG (Clinical Commissioning Group)

### Pension Fund

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

### Subsidiary

Tower Hamlets Homes is a wholly owned subsidiary of London Borough of Tower Hamlets. Details of Tower Hamlets Homes are within note 44.

### 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 2015/16 £'000	Payments by the Council over £10k 2016/17 £'000	Amounts due to Orgs. > £10k at 31/03/17 £'000
Aldgate and Allhallows Barking Foundation	S Islam	Council Representative			
	D Jones	Council Representative			
Balagonji Educational Trust	S Ali				
Bangladesh Football Association	A Begum	Husband - Trustee	28		
Bangladesh Youth Movement	A Khan	Employee	41	39	
Bengali Educational Society	S Islam	Treasurer			
Betar Bangla	S Islam	Member		13	
Bromley By Bow Centre	H Uddin	Employee	994	961	153
Central Foundation Girls School	M M Miah	Governor		30	
Culloden Bangladeshi Parents Association	A M O Ahmed	Member	13	15	
Community Martial Arts Trust	A Miah	Employee			
Developmental Council of Bangladeshis in the UK	K U Ahmed	Joint Treasurer			
Docklands Sailing & Watersports Centre	D Chesterton	Member		13	
Department for Work and Pensions	O Rahman	Employee			
East London Foundation Trust	A W Gibbs	Council Representative	3,557	3,549	220
Eastside Books Ltd	D Jones	Director of bookshop that supplies books to LBTH schools			
East End Homes	A Cregan	Council Representative	758	622	21
	G Robanni	Member			
Gateway Housing Association	H Uddin	Employer has a Working Relationship with this Organisation	69	46	11
Golapgonj Education Trust	A M O Ahmed	Trustee			
	S Khatun	Member			
Green Candle Dance Company	P Golds	Council Representative	40	52	
Hermitage Primary School	M Alam	Governor			
Ian Mikardo High School	D Hassell	Governor			
Island Homes Housing Association	M Miah	Resident Board Member - receives a monthly allowance			
Island Neighbourhood Project	M Miah	Employee	11		
Island Sports Trust	P Golds				
Isle of Dogs Community Foundation	D J Edgar	Council Representative			
John Scurr Primary School	S Islam	Governor			
Leaside Regeneration Ltd	D J Edgar	Council Representative			
Lee Valley Regional Park Authority	D Jones	Council Representative	237*		
London Councils	C Harrison	Pensions CIV Joint Committee	1,143	923	287
London Education Trust	M A Mustaqim				
London Legacy Development Corporation	R Blake	Council Representative	186		
	J Biggs	Member			
Mile End Park Partnership Board	D Jones	Council Representative			
Mulberry Girls School	D Jones	Governor	12	29	26
National Housing Federation	J Pierce	Employee			
National Union of Teachers	D Hassell	Member			
Norton Folgate Almshouses Charity	J Pierce	Council Representative			
Old Ford Housing Association	M Francis	Board Director	90	153	16
Old Palace School	M Miah	Governor			
Olga Primary School	C Harrison	Governor	34	12	20
Poplar Bangladeshi Project	A M O Ahmed	Member	11		
Poplar Harca	A M O Ahmed		5,819	4,220	1,034
Rich Mix Cultural Foundation	D Jones	Director	711	11	
	A Begum	Council Representative			
Solander Gardens Community & Education	H Miah	Secretary			
Spitalfields Housing Association Ltd	A Mukit*	Board Member			
	A Begum	Family Member- Trustee			
St Katherine & Shadwell Trust	S Haque	Deputy			

Organisations	Councillor	Relationship With Organisation	Payments by the Council over £10k 2015/16 £'000	Payments by the Council over £10k 2016/17 £'000	Amounts due to Orgs. > £10k at 31/03/17 £'000
St Matthias Primary School	A Mukit*	School Governer			
St Pauls Way Trust School	R Saunders	Council Representative	41	19	28
St Peters Bengali Associaltion	M A Mustaqim		60		
Sylhet Divisional Welfare Council	K U Ahmed	General Secretary			
The Childrens Society	A Whitelock				
Tower Hamlets Cemetry	D J Edgar	Member	47		
	R Blake	Member			
Tower Hamlets Community Housing	G Robanni	Council Representative	199	139	28
	C Harrisson	Member			
	R Khan	Member			
	A W Gibbs	Husband - Member			
Tower Hamlets Homes	G Robanni	Council Representative	15,282	12,385	
Tower Hamlets Youth Sport Foundation	A Begum	Husband - Trustee	19	74	
Toynbee Hall	S Khatun	Employee	643	680	168
Trinity Buoy Wharf	D Jones	Director			
Unison	C Harrisson	Employee	424	469	35
	D Hassell*	Member			
	S Islam	Member			
	A W Gibbs	Member			
	R Saunders	Member			
	A Ali	Member			
Victoria & Albert Museum of Childhood	D Jones	Council Representative			
Wadajir Somali Centre	A M O Ahmed	Member	32	28	16

\* Lee Valley Regional Park Authority levy shown

24,482

## 39 LEASES

### Authority as Lessee

#### **Finance Leases**

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

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

#### Leased In Assets

	Buildings 31 March 2016 £'000	Buildings 31 March 2017 £'000
Poplar Baths Leisure Centre	0	15,429
Poplar Baths Housing	0	9,189
Dame Colet Residential Development	5,991	8,165
<b>Total</b>	<b>5,991</b>	<b>32,783</b>

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

	Buildings 31 March 2016 £'000	Buildings 31 March 2017 £'000
Finance lease liabilities (net present value of minimum lease payments)	5,908	29,789
Finance costs payable in future years	14,281	65,053
<b>Minimum lease payments</b>	<b>20,189</b>	<b>94,842</b>

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

	Minimum Lease		Finance Lease	
	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
Not later than one year	585	2,785	171	875
Later than one year and not later than five years	2,340	11,138	685	3,498
Later than five years	17,264	80,919	5,052	25,416
	<b>20,189</b>	<b>94,842</b>	<b>5,908</b>	<b>29,789</b>

The minimum lease payments do not include rents that are contingent on event taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 no contingent rents were payable by the Authority.

## 39 LEASES

### Authority as Lessee

#### Operating Leases

The Council leases in some properties (including office accommodation, car parks and business units), and as well as a number of vehicles (including minibuses and vans), plant and equipment (including office equipment, specialised health and safety and security equipment). These leases are for variable lengths and range between 1 and 25 years in duration.

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

#### Leased In Assets

	Land & Buildings 31 March 2016 £'000	Vehicles Plant & Equipment 31 March 2016 £'000	Land & Buildings 31 March 2017 £'000	Vehicles Plant & Equipment 31 March 2017 £'000
<b>Adults Health and Wellbeing</b>				
Not later than one year	149	0	149	0
Later than one year and not later than five years	597	0	597	0
Later than five years	1,519	0	1,370	0
<b>Chief Executive's</b>				
Not later than one year	0	82	0	98
Later than one year and not later than five years	0	2	0	74
Later than five years	0	0	0	0
<b>Children Schools and Families</b>				
Not later than one year	113	255	74	246
Later than one year and not later than five years	244	244	210	283
Later than five years	537	1	498	1
<b>Communities Localities and Culture</b>				
Not later than one year	0	517	0	405
Later than one year and not later than five years	0	1,193	0	958
Later than five years	0	170	0	0
<b>Development and Renewal</b>				
Not later than one year	2,905	13	2,840	4
Later than one year and not later than five years	9,360	4	6,480	0
Later than five years	1,863	0	1,824	0
<b>Total</b>				
<b>Not later than one year</b>	3,167	867	3,063	753
<b>Later than one year and not later than five years</b>	10,201	1,443	7,287	1,315
<b>Later than five years</b>	3,919	171	3,692	1
	<b>17,287</b>	<b>2,481</b>	<b>14,042</b>	<b>2,069</b>

## 39 LEASES (continued)

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

	Land & Buildings 31st March 2016 £'000	Vehicles Plant & Equipment 31st March 2016 £'000	Land & Buildings 31st March 2017 £'000	Vehicles Plant & Equipment 31st March 2017 £'000
<b>Adults Health and Wellbeing</b>				
Minimum Lease Payments	149	0	149	0
<b>Chief Executive's</b>				
Minimum Lease Payments	0	166	0	55
<b>Communities Localities and Culture</b>				
Minimum Lease Payments	0	751	0	533
<b>Children Schools and Families</b>				
Minimum Lease Payments	240	369	113	287
<b>Development and Renewal</b>				
Minimum Lease Payments	2,905	13	2,840	13
<b>Total</b>				
<b>Minimum Lease Payments</b>	<b>3,294</b>	<b>1,299</b>	<b>3,102</b>	<b>888</b>

### Authority as Lessor Finance Leases

As a Lessor the Council has no finance leases to report .

### Operating Leases

The Council leases out property and equipment under operating leases for economic development purposes to provide suitable affordable accommodation for local businesses.

As the primary purpose of holding these assets is to provide support to the community, rather than generating financial gain for the Council, these assets are not considered as investment properties.

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

	31st March 2016 £'000	31st March 2017 £'000
Not later than one year	(3,469)	(3,320)
Later than one year and not later than five years	(10,618)	(10,700)
Later than five years	(15,736)	(19,286)
	<b>(29,823)</b>	<b>(33,306)</b>

## 40 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

The Council is party to two Private Finance Initiative (PFI) schemes in respect of the design, construction, maintenance and servicing of 28 schools - the Mulberry and Group Schools schemes - until the years 2029 and 2027 respectively. 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 and contract ends in 2026.

Movement on PFI Assets	Mulberry School £'000	Grouped Schools £'000	Barkantine Energy £'000	Total £'000
<b>Asset value at 31 March 2016</b>	29,804	201,326	2,244	233,374
Depreciation	(760)	(5,591)	(181)	(6,532)
Revaluations	0	0	0	0
Enhancements	0	6,760	0	6,760
Derecognition	0	0	0	0
<b>Asset value at 31 March 2017</b>	<b>29,044</b>	<b>202,495</b>	<b>2,063</b>	<b>233,602</b>

Movement on PFI Liabilities	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liabilities at 31 March 2016</b>	6,228	29,107	2,175	37,510
Repayments/Amortisation of deferred liability	(302)	(706)	(198)	(1,206)
<b>Liabilities at 31 March 2017</b>	<b>5,926</b>	<b>28,401</b>	<b>1,977</b>	<b>36,304</b>
<b>Consisting of:</b>				
Long term liability	5,592	27,585	1,779	34,957
Short-term liability	333	817	198	1,348
<b>Liability value at 31 March 2017</b>	<b>5,925</b>	<b>28,402</b>	<b>1,977</b>	<b>36,305</b>

Payments due under PFI schemes	Mulberry School £'000	Group Schools £'000	Barkantine Energy £'000	Total £'000
<b>Liability</b>				
Within 1 year	333	817	198	1,348
Within 2 - 5 years	1,360	6,150	791	8,301
Within 6 - 10 years	2,812	18,816	988	22,616
Within 11 - 15 years	1,420	2,619	0	4,039
	<b>5,925</b>	<b>28,402</b>	<b>1,977</b>	<b>36,304</b>
<b>Interest</b>				
Within 1 year	665	4,469	0	5,134
Within 2 - 5 years	2,282	16,196	0	18,478
Within 6 - 10 years	1,808	11,898	0	13,706
Within 11 - 15 years	243	412	0	655
	<b>4,998</b>	<b>32,975</b>	<b>0</b>	<b>37,973</b>
<b>Service Charges</b>				
Within 1 year	673	1,709	0	2,382
Within 2 - 5 years	2,694	11,721	0	14,415
Within 6 - 10 years	3,367	13,701	0	17,068
Within 11 - 15 years	1,347	1,104	0	2,451
	<b>8,081</b>	<b>28,235</b>	<b>0</b>	<b>36,316</b>



## 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	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Account</b>						
<b>Cost of Services</b>						
Current service costs	42,358	37,301	385	274	42,743	37,575
Impact of settlements and curtailments	1,147	918	0	103	1,147	1,021
<b>Total Service Cost</b>	<b>43,505</b>	<b>38,219</b>	<b>385</b>	<b>377</b>	<b>43,890</b>	<b>38,596</b>
Interest income on plan assets	(32,439)	(35,790)	(1,587)	(1,667)	(34,026)	(37,457)
Interest cost on defined benefit obligation	52,532	53,333	2,003	2,025	54,535	55,358
<b>Total Net Interest</b>	<b>20,093</b>	<b>17,543</b>	<b>416</b>	<b>358</b>	<b>20,509</b>	<b>17,901</b>
<b>Net Charge to the Comprehensive Income and Expenditure Account</b>	<b>63,598</b>	<b>55,762</b>	<b>801</b>	<b>735</b>	<b>64,399</b>	<b>56,497</b>
<b>Remeasurement of the Scheme Liabilities</b>						
Changes in demographic assumptions	0	(25,190)	0	(1,744)	0	(26,934)
Changes in financial assumptions	(149,342)	290,196	(4,424)	10,217	(153,766)	300,413
Other experience	(22,390)	(27,267)	(10)	(2,375)	(22,400)	(29,642)
Return on plan assets excluding amounts included in net interest	29,352	(140,952)	2,104	(9,091)	31,456	(150,043)
<b>Total remeasurements recognised in Comprehensive Income and Expenditure Statement</b>	<b>(142,380)</b>	<b>96,787</b>	<b>(2,330)</b>	<b>(2,993)</b>	<b>(144,710)</b>	<b>93,794</b>
<b>Movement in Reserves Statement - General Fund Balance</b>						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(63,598)	(55,762)	(801)	(735)	(64,399)	(56,497)
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>	<b>44,753</b>	<b>45,136</b>	<b>793</b>	<b>820</b>	<b>45,546</b>	<b>45,956</b>

In 2016/17 the Council paid £12.794 million into the Teachers Pension Scheme, representing 16.5% of pensionable pay. The figures for 2015/16 were £12.659 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 2016/17 and 2015/16 there were no added year payments by the Council.

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Account, actuarial losses of £92.0 million (£151.822 million in 2015/16) 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 £459.934 million.

## 41 PENSION SCHEME (continued)

### Assets and Liabilities in Relation to Retirement Benefits

#### Reconciliation of present value of scheme liabilities (LGPS):

	The Council		LPFA		Total	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
1st April	(1,777,605)	(1,663,196)	(68,409)	(63,016)	(1,846,014)	(1,726,212)
In-year adjustment to exclude/(incorporate) THH deficit	4,466	37,914	0	0	4,466	37,914
Current service cost	(42,358)	(37,301)	(385)	(274)	(42,743)	(37,575)
Interest cost	(52,532)	(53,333)	(2,003)	(2,025)	(54,535)	(55,358)
Contributions	(9,626)	(9,763)	(78)	(63)	(9,704)	(9,826)
Actuarial gains / (losses)	171,732	(237,739)	4,434	(6,718)	176,166	(244,457)
Benefits paid	43,874	52,488	3,425	3,547	47,299	56,035
Past service costs	0	0	0	(103)	0	(103)
Losses on curtailments	(1,147)	(918)	0	0	(1,147)	(918)
<b>31st March</b>	<b>(1,663,196)</b>	<b>(1,911,848)</b>	<b>(63,016)</b>	<b>(68,652)</b>	<b>(1,726,212)</b>	<b>(1,980,500)</b>

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

	The Council		LPFA		Total	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
1st April	1,139,418	1,155,656	57,032	53,961	1,196,450	1,209,617
In-year adjustment to exclude/(incorporate) THH deficit	2,646	(36,106)	0	0	2,646	(36,106)
Expected rate of return	32,439	35,790	1,587	1,667	34,026	37,457
Actuarial (losses) / gains	(29,352)	140,952	(2,104)	9,711	(31,456)	150,663
Contributions					0	0
Members contributions	9,626	9,763	78	63	9,704	9,826
Employer contributions	44,753	45,136	793	820	45,546	45,956
Benefits paid	(43,874)	(52,488)	(3,425)	(3,547)	(47,299)	(56,035)
<b>31st March</b>	<b>1,155,656</b>	<b>1,298,703</b>	<b>53,961</b>	<b>62,675</b>	<b>1,209,617</b>	<b>1,361,378</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

#### Scheme history

	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities:					
The Council	(1,453,831)	(1,503,100)	(1,777,605)	(1,663,196)	(1,911,848)
LPFA	(67,336)	(61,951)	(68,409)	(63,016)	(68,652)
Fair value of assets					
The Council	947,684	1,012,951	1,139,418	1,155,656	1,298,703
LPFA	50,521	56,154	57,032	53,961	62,675
Deficit in the scheme					
The Council	(506,147)	(490,149)	(638,187)	(507,540)	(613,145)
LPFA	(16,815)	(5,797)	(11,377)	(9,055)	(5,977)
<b>Total deficit in the schemes</b>	<b>(522,962)</b>	<b>(495,946)</b>	<b>(649,564)</b>	<b>(516,595)</b>	<b>(619,122)</b>

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 £619.1 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 2018 are £43.440 million to the Council's scheme and £0.179 million to the LPFA scheme (per actuary's reports).

## 41 PENSION SCHEME (continued)

### Basis for estimating assets and liabilities

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

	The Council		LPFA	
	2015/16	2016/17	2015/16	2016/17
Long-term expected rate of return on assets in the scheme <sup>1</sup>	4.3%	4.3%	4.0%	4.0%
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	22.2 years	22.1 years	21.2 years	20.6 years
Women	24.2 years	24.1 years	24.5 years	23.6 years
Longevity at 65 for future pensioners:				
Men	24.3 years	23.9 years	23.6 years	23.0 years
Women	26.4 years	25.8 years	26.9 years	25.9 years
Rate of inflation			2.9%	2.4%
Rate of increase in salaries	3.7%	2.2%	3.8%	3.9%
Rate of increase in pensions	2.2%	2.4%	2.0%	2.4%
Rate for discounting scheme liabilities	3.5%	2.5%	3.3%	2.3%
Take-up of option to convert annual pension into retirement lump sum	50%*	50%*		

<sup>1</sup> The expected rates of return are set equal to the discount rate.

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

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

The categories of assets are as follows.

	The Council		LPFA	
	2015/16	2016/17	2015/16	2016/17
Equities	64%	73%	46%	59%
Bonds	17%	17%	0%	0%
Property	11%	9%	4%	5%
Infrastructure	0%	0%	5%	5%
Commodities	0%	0%	0%	0%
Cash	5%	1%	13%	9%
Cash flow matching	0%	0%	10%	0%
Target return portfolio/other	3%	0%	22%	22%

### History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2015/16 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2017:

	2012/13	2013/14	2014/15	2015/16	2016/17
	%	%	%	%	%
<b>The Council</b>					
Experience gains and (losses) on assets	6.10	0.05	6.96	-2.87	11.73
Experience gains and (losses) on liabilities	9.89	-2.20	11.94	-11.25	13.11
<b>London Pensions Fund Authority</b>					
Experience gains and (losses) on assets	4.52	13.47	0.00	-0.04	0.15
Experience gains and (losses) on liabilities	12.05	-5.45	10.35	-7.04	9.79

## 42 Income and Expenditure Analysed by Nature

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

2015/16 £'000		2016/17 £'000
	<b><u>Expenditure:</u></b>	
472,587	Employee benefits expenses	477,114
721,639	Other service expenses	708,597
42,585	Support service recharges	21,544
13,025	Depreciation, amortisation and impairment	42,596
30,270	Interest payments	28,840
1,703	Precepts and levies	1,741
1,774	Payments to housing capital receipts pool	1,755
(16,627)	Gains and losses on disposal of non-current assets	(42,481)
<b>1,266,956</b>	<b>TOTAL EXPENDITURE</b>	<b>1,239,706</b>
	<b><u>Income:</u></b>	
(309,983)	Fees, charges and other service income	(286,235)
(3,131)	Interest and investment income	(2,519)
(184,286)	Income from council tax and non-domestic rates	(195,913)
(840,024)	Government grants and contributions	(817,847)
<b>(1,337,424)</b>	<b>TOTAL INCOME</b>	<b>(1,302,514)</b>
<b>(70,468)</b>	<b>SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES</b>	<b>(62,808)</b>

## 43 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 1/4/2015	2015/16 Expenditure	2015/16 Income	Balance at 31/3/2015	2016/17 Expenditure	2016/17 Income	Balance at 31/3/2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) Welfare Savings / Client Financial Affairs	3,643	2,875	2,697	3,465	2,683	2,737	3,519
(b) Social Services Trust Funds - sundry other	67	9	68	126	10	92	208
(c) Tower Hamlets Further Education Trust	101	3	0	98	0	0	98
(d) Globe Town Picture Fund	160	0	0	160	0	0	160
(e) Sundry Other	14	0	142	156	6	28	178
<b>TOTAL TRUST FUNDS</b>	<b>3,985</b>	<b>2,887</b>	<b>2,907</b>	<b>4,005</b>	<b>2,699</b>	<b>2,857</b>	<b>4,163</b>

- (a) The fund represents monies held by Social Services on behalf of deputyship and appointeeship service users. It is held to protect the service users monies and to finance the purchase of goods and services on behalf of residents.
- (b) These Funds represent monies held by the Council on behalf of residents of the borough in various social care trust funds.

The Council also holds a number of deposits relating to Trust Funds administered by the Council. The funds are held in an interest bearing account maintained by the Council. The account is excluded from the financial statements relating to the Council. The relevant Trusts and transactions during the financial year ended 31st March 2017 may be summarised as follows:

- (c) This was established by the Council in conjunction with Canary Wharf Limited with the objective of "the advancement of education and training for the residents of the London Borough of Tower Hamlets". The Council is the sole Trustee and the Trust is registered with the Charities Commission (No. 1002772). Accounts relating to the Trust have been deposited with the Charities Commissioners.
- (d) This Fund was established with the proceeds of the sale of a painting by the Council.
- (e) Sundry Other includes funds representing a number of miscellaneous deposits.

## 44 TOWER HAMLETS HOMES

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

In previous years, the Council produced Group Accounts to incorporate THH, however as the assets and liabilities of THH are not material compared to the Council, a summary of the ALMO's accounts are provided for information. A copy of THH's accounts is available from the company's registered office at Tower Hamlets Homes Limited, Jack Dash House, 2 Lawn Close, London E14 9YQ or from Companies House, Cardiff.

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

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

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

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

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

The 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	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
Non-current assets - equipment	3,307	2,904	83	68	3,390	2,972
Inventories	0	0	0	0	0	0
Short-term debtors	97,268	80,487	(617)	(865)	96,651	79,622
Cash and cash equivalents	160,712	184,299	7,744	7,820	168,456	192,119
Short-term creditors	204,158	154,154	2,508	3,065	206,666	157,219
Pensions liability	516,595	619,122	0	0	516,595	619,122
Pensions reserve	(516,595)	(619,122)	0	0	(516,595)	(619,122)
Income and Expenditure Reserve	0	0	4,702	3,958	4,702	3,958

## 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	2015/16 £'000	2016/17 £'000
<b>EXPENDITURE</b>			
Repairs and maintenance		19,807	18,726
Supervision and management		37,990	33,503
Rents, rates, taxes and other charges		2,821	2,528
Depreciation of non-current assets	6		
On dwellings		13,754	13,525
On other assets		1,570	1,276
Revaluation losses (and reversals)		(42,267)	(9,049)
Debt management costs		73	73
Movement in the allowance for bad debts		(1,128)	287
Sums directed by the Secretary of State that are expenditure in accordance with the Code		1,365	3,341
<b>TOTAL EXPENDITURE</b>		<b>33,985</b>	<b>64,210</b>
<b>INCOME</b>			
Gross rental income			
Dwelling rents		68,116	66,802
Non dwelling rents		4,253	4,188
Charges for services and facilities		19,693	20,440
Contributions towards expenditure		115	115
<b>TOTAL INCOME</b>		<b>92,177</b>	<b>91,545</b>
<b>NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT</b>		<b>(58,192)</b>	<b>(27,335)</b>
HRA services share of Corporate and Democratic Core		157	157
<b>NET COST OF HRA SERVICES</b>		<b>(58,035)</b>	<b>(27,178)</b>
<b>HRA share of operating income and expenditure included in the whole authority Income and Expenditure Account</b>			
(Gain)/loss on sale of HRA non-current assets		(12,841)	(26,726)
Unattached capital receipts		(1,811)	(4,287)
Interest payable and similar charges	12	3,516	4,059
Interest and investment income		(560)	(545)
Pensions interest cost and expected return on pension assets	7	1,293	1,203
Capital grants and contributions receivable		(26,501)	(9,648)
<b>DEFICIT / (SURPLUS) FOR THE YEAR ON HRA SERVICES</b>		<b>(94,939)</b>	<b>(63,122)</b>

## 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	2015/16 <sup>1</sup>		2016/17	
		£'000	£'000	£'000	£'000
Balance on the Statutory HRA Brought Forward			(21,144)		(32,092)
Deficit / (Surplus) for the year on the HRA Income and Expenditure Account		(94,939)		(63,123)	
Net additional amount required by statute to be credited to the HRA balance for the year		83,991		56,136	
Decrease (Increase) in the HRA Balance			<b>(10,948)</b>		<b>(6,987)</b>
Transfers to or (from) reserves			0		0
<b>Balance on the Statutory HRA Carried Forward</b>			<b>(32,092)</b>		<b>(39,079)</b>

<sup>1</sup> Brought forward balance corrected as per balance sheet



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

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

	2015/16		2016/17	
	£'000	£'000	£'000	£'000
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year</b>				
Revenue expenditure funded from capital under statute	(1,365)		(3,341)	
Capital grants and contributions	26,501		9,648	
Gain or loss on sale of HRA non-current assets	12,841		26,726	
Unattached capital receipts	1,811		4,287	
Reversal of revaluation losses on non-current assets	40,892		11,370	
Difference between amounts charged to the Income & Expenditure Account for premia and discounts and the charge for the year determined in accordance with statute	(182)		(182)	
Net charges made for retirement benefits in accordance with IAS19	(1,260)		1,837	
Transfers from General Fund (as directed by Secretary of State)	<u>0</u>	79,238	<u>0</u>	50,345
<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year</b>				
Capital expenditure financed from revenue	4,671		5,287	
Transfer to / from Capital Adjustment Account	82		504	
Other adjustments (transfer to capital receipts reserve)	<u>0</u>	4,753	<u>0</u>	5,791
<b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>		<b>83,991</b>		<b>56,136</b>

## 2 HOUSING STOCK

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

	2015/16	2016/17
Low-rise flats (1-2 storeys)	259	257
Medium-rise flats (3-5 storeys)	6,994	6,829
High-rise flats (6 or more storeys)	3,849	3,834
Houses and bungalows	782	772
<b>TOTAL AT 31<sup>st</sup> MARCH</b>	<b>11,884</b>	<b>11,692</b>

## 3 NON-CURRENT ASSETS

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

	2015/16 £'000	2016/17 £'000
Dwellings	1,092,431	1,190,747
Other Land and Buildings	65,248	63,329
Surplus Assets Not Held for Sale	0	282
Assets Under Construction	10,705	31,517
Assets Held for Sale	6,178	0
<b>TOTAL</b>	<b>1,174,562</b>	<b>1,285,875</b>

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

	Dwellings £'000	Other land and buildings £'000	Surplus Assets not held for sale £'000	Assets Under Construction £'000	Assets Held For Sale £'000	TOTAL £'000
Total value at 1 <sup>st</sup> April 2015	973,479	57,087	1,690	2,840	225	1,035,321
Additions, disposals, transfers and revaluations	118,952	8,161	(1,690)	7,865	5,953	139,241
Total value at 31 <sup>st</sup> March 2016	1,092,431	65,248	0	10,705	6,178	1,174,562
Additions, disposals, transfers and revaluations	98,316	(1,919)	282	20,812	(6,178)	111,313
<b>TOTAL VALUE AT 31<sup>st</sup> MARCH 2017</b>	<b>1,190,747</b>	<b>63,329</b>	<b>282</b>	<b>31,517</b>	<b>0</b>	<b>1,285,875</b>

The vacant possession value of dwellings within the Council's HRA was £4,660 million in 2016/17 (£4,154 million in 2015/16). 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

	2015/16 £'000	2016/17 £'000
<b>Balance at 1<sup>st</sup> April</b>	<b>22,174</b>	<b>9,176</b>
Transfer from Capital Adjustment Account - depreciation	15,321	14,801
Financing of capital expenditure	(28,319)	(14,517)
<b>Balance at 31<sup>st</sup> March</b>	<b>9,176</b>	<b>9,460</b>

## 5 CAPITAL TRANSACTIONS

### (i) Capital expenditure and financing

	2015/16			2016/17		
	Dwellings £'000	Other £'000	Total £'000	Dwellings £'000	Other £'000	Total £'000
<b>Expenditure</b>	64,994	1,365	<b>66,359</b>	53,070	7,531	<b>60,601</b>
<b>Sources of finance</b>						
Borrowing	0	0	<b>0</b>	9,189	0	<b>9,189</b>
Capital Receipts	720	0	<b>720</b>	4,839	1,257	<b>6,096</b>
Capital Grants and Contributions	32,649	0	<b>32,649</b>	6,413	0	<b>6,413</b>
Major Repairs Reserve	26,954	1,365	<b>28,319</b>	11,176	3,341	<b>14,517</b>
Direct Revenue Financing	4,671	0	<b>4,671</b>	21,453	2,933	<b>24,386</b>
<b>TOTAL CAPITAL FINANCING</b>	<b>64,994</b>	<b>1,365</b>	<b>66,359</b>	<b>53,070</b>	<b>7,531</b>	<b>60,601</b>

### (ii) Capital Receipts

Capital receipts (gross) in 2016/17 from the disposal of non-current assets within the HRA amounted to £56.650 million (£36.235 million in 2015/16) as follows:

	2015/16 £'000	2016/17 £'000
Dwellings	32,444	42,098
Other land and buildings	3,791	14,552
<b>TOTAL CAPITAL RECEIPTS</b>	<b>36,235</b>	<b>56,650</b>

## 6 DEPRECIATION

The total depreciation charge for the year was £14.801 million (£15.321 million in 2015/16), made up of £13.525 million (£13.754 million in 2015/16) in respect of council houses and £1.276 million (£1.567 million in 2015/16) in respect of other HRA assets. In the case of council housing, assets have been depreciated by an amount equivalent to the Major Repairs Allowance, as this is the amount (based on a 30-year life cycle costing) which the Government estimates the Council needed to spend this year to keep the housing stock in its current state. It is therefore considered an appropriate measure of depreciation. An analysis of the depreciation charges is set out below.

	2015/16 £'000	2016/17 £'000
Dwellings	13,754	13,525
Other Land and Buildings	1,567	1,276
<b>TOTAL DEPRECIATION</b>	<b>15,321</b>	<b>14,801</b>

## 7 PENSION COSTS

These figures represent the cost of pensions attributable to the HRA. Further details of the treatment of pensions costs are shown in note 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	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
<b>Net Cost of Services</b>						
Current service costs	2,726	0	0	0	2,726	0
<b>Net Operating Expenditure</b>						
Interest cost	3,381	3,656	0	0	3,381	3,656
Settlements / Curtailments	74	0	0	0	74	0
Expected return on assets in the scheme	(2,088)	(2,453)	0	0	(2,088)	(2,453)
<b>Net Charge to the Income and Expenditure Account</b>	<b>4,093</b>	<b>1,203</b>	<b>0</b>	<b>0</b>	<b>4,093</b>	<b>1,203</b>
<b>Statement of Movement in the HRA Balance</b>						
Reversal of net charges made for retirement benefits in accordance with IAS19	(4,093)	(1,203)	0	0	(4,093)	(1,203)
<b>Employer's contribution to scheme</b>	<b>2,557</b>	<b>3,040</b>	<b>0</b>	<b>0</b>	<b>2,557</b>	<b>3,040</b>

## 8 RENT ARREARS

	2015/16 £'000	2016/17 £'000
Gross rent arrears at 31 <sup>st</sup> March	4,121	4,421
Arrears as % of rent receivable	6.0	6.6
Provision made for bad debts	3,079	3,337

## 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 2016/17.

## 10 ITEM 8 INTEREST ADJUSTMENT

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

## COLLECTION FUND

	Note	2015/16 £'000	2015/16 £'000	2016/17 £'000	2016/17 £'000
<b>INCOME</b>					
Council Tax (net of benefits)	2	97,503		104,615	
Transfers from General Fund - Council Tax Benefits			97,503		104,615
Distribution of prior year deficit on Collection Fund			0		
National Non-Domestic Rates - Transitional Protection	3	377,998 41	378,039	407,671 (755)	406,916
Business Rate Supplement			11,513		12,529
<b>TOTAL INCOME</b>			<b>487,055</b>		<b>524,060</b>
<b>EXPENDITURE</b>					
<b>Council Tax</b>					
Precepts and demands					
London Borough of Tower Hamlets		69,814		76,885	
Greater London Authority		23,258	93,072	23,044	99,929
Increase in provision for Council Tax bad debts	5		1,793		3,181
Distribution of prior year Council Tax surplus on Collection Fund			2,556		1,863
NNDR Estimated surplus for 2013/14 applied in 2015/16			(95)		0
National Non-Domestic Rates					
Interest		34		48	
Transitional Protection		0		0	
Cost of collection allowance		965	999	963	1,011
National Non-Domestic Rates Precepts & Demands					
London Borough of Tower Hamlets		114,738		118,182	
DCLG		191,230		196,969	
Greater London Authority		76,492	382,460	78,788	393,939
Distribution of Prior Year Surplus on NNDR Collection Fund					
London Borough of Tower Hamlets		4,922		2,598	
DCLG		8,045		1,013	
Greater London Authority		3,218	16,185	405	4,016
Business Rate Supplement					
Payment to Greater London Authority *	4	12,263		11,880	
Cost of collection allowance		19	12,282	15	11,895
National Non-Domestic Rates Provision For Bad Debt					
London Borough of Tower Hamlets		619		1,456	
DCLG		1,032		2,426	
Greater London Authority		413	2,064	971	4,853
National Non-Domestic Rates Provision For Appeals					
London Borough of Tower Hamlets		0		2,446	
DCLG		0		4,076	
Greater London Authority		0	0	1,630	8,152
<b>TOTAL EXPENDITURE</b>			<b>511,316</b>		<b>528,839</b>
<b>INCREASE/(DECREASE) IN FUND BALANCE</b>			<b>(24,261)</b>		<b>(4,779)</b>
BRS Debtor/(Creditor)			700		(634)
<b>COLLECTION FUND BALANCE (Deficit)/Surplus for the year</b>			<b>(23,561)</b>		<b>(5,413)</b>
Balance at the beginning of the year			15,862		(5,851)
LBTH estimated surplus for 2013/14 B/Fwd to apply in future years			1,848		0
<b>BALANCE AT END OF YEAR</b>	1		<b>(5,851)</b>		<b>(11,264)</b>

\* BRS payment includes 69k on account of 2014/15 arrears

# NOTES TO THE COLLECTION FUND

## 1. GENERAL

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

The Council Tax surplus on the Fund (£2.337m) is attributable to the Council (£1.778m) and the Greater London Authority (£0.559m). The latter amount is carried as a creditor in the Council's Balance Sheet.

Under the NNDR collection arrangements, there was a deficit of £5.053m in 2016/17 (a deficit of £23.574m during 2015/16). Back-dated NNDR charges have been raised in 2016/17 to recover the 2015/16 deficit. Of this deficit, £1.516m (30%) is attributable to the Council, £1.011m (20%) to the GLA and £2.526m (50%) to the CLG.

## 2. COUNCIL TAX

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

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

When the 2015/16 Council Tax was set the position was as follows:

Band	2015/16 No. of Properties	2015/16 Council Tax Base	2016/17 No. of Properties	2016/17 Council Tax Base
A	3,527	515	3,517	488
B	25,903	16,741	25,820	16,841
C	36,875	29,260	37,390	29,812
D	24,461	21,939	25,277	22,831
E	18,293	20,077	18,967	20,950
F	8,470	10,987	8,805	11,500
G	3,280	4,966	3,350	5,112
H	507	938	537	998
<b>Total</b>	<b>121,316</b>	<b>105,423</b>	<b>123,663</b>	<b>108,532</b>

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

	2015/16		2016/17		Increase / (Decrease)	
	Band D Tax £	Amount to be raised £'000	Band D Tax £	Amount to be raised £'000	£	%
Tower Hamlets	885.52	69,814	920.85	76,885	35.33	3.99%
Greater London Authority	295.00	23,258	276.00	23,044	-19.00	-6.44%
<b>TOTAL</b>	<b>1,180.52</b>	<b>93,072</b>	<b>1,196.85</b>	<b>99,929</b>	<b>16.33</b>	<b>1.36%</b>

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

NNDR, or business rates, collected by local authorities are the way that those who occupy non-domestic property contribute towards the cost of local services. Under the business rates retention arrangements introduced from 1st April 2013, authorities keep a proportion of the business rates paid locally. NNDR due is calculated by multiplying a national uniform rate (set by the Government) by the rateable value of the property. The national uniform rate in 2016/17 was 49.7p in the £ (49.3p in the £ in 2015/16). The total rateable value in the borough as at 31 March 2017 was £875.2 million (£865.2 million at 31 March 2016). A periodic revaluation of business properties took place in April 2010. At March 2017 there were around 6,200 NNDR appeals that are yet to be heard by the Government's Valuation tribunal. Of these 3,467 will not result in a reduction in rateable value and 1,936 are considered speculative. Provision has been made for the remaining appeals

### 4. CROSSRAIL BUSINESS RATE SUPPLEMENT

The Greater London Authority (GLA) introduced a business rate supplement (BRS) in April 2010 to finance £4.1 billion of the costs of the £15.9 billion Crossrail project. Details on the progress of the project so far and the proposed policies for the BRS in the 2016/17 financial year are set out below.

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

The Crossrail BRS multiplier for 2016/17 is 2p per pound of rateable value. Reliefs for the Crossrail BRS will apply on the same basis and at the same percentage rate as for your National Non Domestic Rates (NNDR) bill, although no transitional relief is provided for the BRS.

[www.london.gov.uk/crossrail-brs](http://www.london.gov.uk/crossrail-brs)

2015/16 £'000		2016/17 £'000
12,345	Non Domestic Rates Due	14,096
	Less Allowances and Other Adjustments	
832	Mandatory & Discretionary Relief	868
0	Provision for Bad Debts	0
19	Cost of Collection	15
<b>11,494</b>	<b>Collectable from Business Rate Supplement Payers</b>	<b>13,213</b>

### 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 2016/17 the Council Tax bad debt provision was increased by £3.181 million (£1.793 million in 2015/16) and £1.269 million of irrecoverable debts were written off (£1.621 million in 2015/16).

## PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2015/16 £'000	2016/17 £'000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
<b>Contributions</b>			
From employers			
Normal	3	26,812	28,524
Augmentation	3	1,697	1,288
Deficit funding	3	20,500	22,000
From members	3	10,951	11,151
<b>Transfers in</b>			
Transfers in from other pension funds	4	2,166	2,195
<b>Benefits</b>			
Pensions	4	(39,103)	(39,485)
Lump sum benefits	4	(13,158)	(12,341)
<b>Payments to and on account of leavers</b>			
Refunds of contributions		(169)	(259)
State scheme premiums		(196)	(29)
Transfers out to other pension funds		(4,092)	(3,517)
<b>Administrative expenses</b>	13,14b	(1,038)	(972)
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>4,370</b>	<b>8,555</b>
<b>RETURN ON INVESTMENTS</b>			
		2015/16 £'000	2016/17 £'000
Investment income	11	14,349	17,776
Taxes on Income		(409)	(363)
Change in market value of investments			
Realised		1,321	415,494
Unrealised	10	(28,625)	(197,036)
Investment management expenses	13	(3,076)	(2,879)
<b>NET RETURN ON INVESTMENTS</b>		<b>(16,440)</b>	<b>232,992</b>
Net increase in the Fund during the year		(12,070)	241,548
Add: Opening net assets of the scheme		1,138,199	1,126,129
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>1,126,129</b>	<b>1,367,677</b>

NET ASSETS STATEMENT AS AT 31ST MARCH		2016 £'000	2017 £'000
<b>Investments Assets</b>			
Equities		214,617	247,485
Pooled Investment Vehicles			
Unit Trusts		572,275	971,562
Property		129,933	133,609
Other		54,607	0
		971,432	1,352,656
Cash deposits	6	5,647	4,096
Other investment balances	5	1,973	1,673
<b>Investments Liabilities</b>			
Other investment balances	5	(35)	(45)
<b>Current Assets</b>			
	5	149,054	19,847
<b>Current Liabilities</b>			
	5	(1,942)	(10,550)
<b>TOTAL NET ASSETS</b>		<b>1,126,129</b>	<b>1,367,677</b>



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

### (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 2017. The actuarial present value of promised retirement benefits, valued on an IAS19 basis is disclosed in note 12 of the Accounts as permitted under IAS26.

#### Fund Account - Revenue Recognition

##### Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which it relates. Any amount due in the year but unpaid will be classified as a current asset.

Employer deficit contributions are accounted for in accordance with the agreement under which they are paid.

### (d) Investments

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

- (i) Listed securities are shown by reference to bid price at the close of business on 31st March 2017.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2017.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2017.
- (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 2017. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.
- (vi) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

### (e) Investment Income

- (i) Interest income is recognised in the Fund account as it accrues.
- (ii) Dividend income is recognised in the Fund account on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- (iii) Distributions from pooled funds are re-invested and as such are recognised in the change in market value.
- (iv) Changes in the net market value of investments held at any time during the year are recognised as income and comprise all realised and unrealised gains/losses.

# NOTES TO THE PENSION FUND ACCOUNTS

## 2 ACCOUNTING POLICIES Cont...

### Fund account - expense items

#### (f) Management Expenses

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

#### Administrative Expenses

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

#### Oversight & Governance Costs

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

#### Investment Management Expenses

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

#### (g) Benefits Payable

Pensions and lump sums payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

#### Net assets statement

#### Financial Assets

- (h) Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

#### (i) Market-quoted investments

Market quoted investments – the value of an investment for which there is a readily available market price is determined by the bid price ruling on the final day of the accounting period.

#### (ii) Fixed interest securities

Fixed Interest Securities – are recorded at net market value based on their bid price.

## 2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

There is just one item in the pension fund account notes (specifically note 12 - Actuarial Position) for which there is a significant risk of material adjustment in the forthcoming financial year.

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

The assumptions interact in complex ways. During 2016/17, the Council's actuaries advised that the net pensions liability had increased by £107.4 million to £612.4 million as a result of falling bond yields.

### 3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 12.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2017 range from 15.8% to 41.4% of pensionable pay. The Council paid an agreed additional monetary contribution of £22.0m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2015/16 £'000	2016/17 £'000
Members normal contributions		
Council	9,673	9,835
Admitted bodies	184	157
Scheduled body	1,094	1,159
<b>Total members</b>	<b>10,951</b>	<b>11,151</b>
Employers		
Normal contributions		
Council	22,105	22,655
Admitted bodies	887	1,992
Scheduled bodies	3,820	3,877
Deficit funding contributions		
Council	20,500	22,000
Other contributions		
Council	1,697	1,288
<b>Total employers</b>	<b>49,009</b>	<b>51,812</b>
<b>Total contributions</b>	<b>59,960</b>	<b>62,963</b>

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

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2016/17 employees made contributions of £12,699.25 (£10,870.28 in 2015/16) into the AVC Scheme operated by Aviva (Norwich Union) and £6,542.88 to Equitable Life (£6,434.33 in 2015/16). The contributions are not included in the Pension Fund Accounts in accordance with regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 but are deducted from salaries and remitted directly to the provider.

### 4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Benefits are index linked to keep pace with inflation based on the consumer price index.

Transfers out/in are those sums paid to, or received from, other pension schemes and relate to the period of previous pensionable employment.

Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2015/16				2016/17			
	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000
Pensions	(37,467)	(585)	(1,051)	(39,103)	(37,650)	(679)	(1,156)	(39,485)
Lump sum retirement benefits	(10,828)	(441)	(425)	(11,694)	(9,688)	(300)	(839)	(10,827)
Lump sum death benefits	(1,080)	(175)	(208)	(1,463)	(1,514)	0	0	(1,514)
<b>Total Pensions and Benefits</b>	<b>(49,375)</b>	<b>(1,201)</b>	<b>(1,684)</b>	<b>(52,260)</b>	<b>(48,852)</b>	<b>(979)</b>	<b>(1,995)</b>	<b>(51,826)</b>
Transfer Values Received (Individual)	2,166	0	0	2,166	2,195	0	0	2,195
Transfer Values Paid (Individual)	(4,092)	0	0	(4,092)	(3,517)	0	0	(3,517)
<b>Total</b>	<b>(51,301)</b>	<b>(1,201)</b>	<b>(1,684)</b>	<b>(54,186)</b>	<b>(50,174)</b>	<b>(979)</b>	<b>(1,995)</b>	<b>(53,148)</b>

## 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.

	2015/16 £'000	2016/17 £'000
<b>Debtors</b>		
<b>Other Investment Balances</b>		
Investment sales	805	0
Dividends receivable	649	961
Tax recoverable	519	712
	<u>1,973</u>	<u>1,673</u>
<b>Current Assets</b>		
Contributions due from admitted bodies	237	241
London Borough of Tower Hamlets	457	1,176
	<u>694</u>	<u>1,417</u>
<b>Total Debtors</b>	<b>2,667</b>	<b>3,090</b>
<b>Creditors</b>		
<b>Other Investment Balances</b>		
Investment purchases	35	45
<b>Current Liabilities</b>		
Unpaid benefits	1,271	1,664
Administrative expenses	671	747
London Borough of Tower Hamlets Pension	0	3,940
HMRC Creditor Income Tax Deducted	0	4,199
	<u>1,942</u>	<u>10,550</u>
<b>Total Creditors</b>	<b>1,977</b>	<b>10,595</b>
<b>Net Debtors</b>	<b>690</b>	<b>(7,505)</b>

## 6. CASH

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

	2015/16 £'000	2016/17 £'000
Aberdeen: Private Equity Portfolio	10	0
GMO	3,702	1,075
Schroders: Multi Asset Portfolio	0	0
Schroders: Property Portfolio	1,934	3,021
London Borough of Tower Hamlets Pension Fund	148,359	18,428
<b>TOTAL CASH</b>	<b>154,005</b>	<b>22,524</b>

## 7. TAXATION

### UK Income Tax

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

### Value Added Tax

As Tower Hamlets Council is the Administering Authority for the Fund, VAT input tax is recoverable on all Fund activities.

### Overseas Tax

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

## 8. INVESTMENT STRATEGY STATEMENT

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish the Investment Strategy Statement (ISS), this replaced the Statement of Investment Principles from 1st April 2016. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.

## 9. MEMBERSHIP OF THE FUND

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

	2016	2017
<b>London Borough of Tower Hamlets</b>		
Active Members	6,365	6,605
Pensioners	4,352	4,536
Deferred Pensioners	6,770	7,076
Dependants	1,018	1,030
	<b>18,505</b>	<b>19,247</b>
<b>Admitted &amp; Scheduled Bodies</b>		
Active Members	657	651
Pensioners	247	275
Deferred Pensioners	375	406
Dependants	26	29
	<b>1,305</b>	<b>1,361</b>

The following bodies have been admitted into the Fund:

### Admitted Bodies

Agilysis  
 City Gateway  
 East End Homes  
 Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)  
 Greenwich Leisure Limited  
 One Housing Group (formerly Island Homes)  
 Swan Housing Association  
 Tower Hamlets Community Housing  
 Vibrance (formerly Redbridge Community Housing Limited)

### Scheduled Bodies

Bethnal Green Academy  
 Canary Wharf College  
 Culloden Primary School  
 London Enterprise Academy  
 Old Ford Primary School  
 Sir William Burrough School  
 Solebay Academy  
 St. Pauls Way Community School  
 Tower Hamlets Homes Limited  
 Wapping High School

## 10. INVESTMENTS

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

### Manager

GMO UK Ltd.  
 Goldman Sachs Asset Management  
 Insight Investment Management (Global) Ltd  
 Legal & General Investment Management  
 London LGPS CIV  
 Schroders Asset Management Property Fund

### Mandate

Global Equity  
 Absolute Return Fund  
 Absolute Return Fund  
 UK Equity / Index Linked Gilts  
 Pooled  
 Property

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

	2016		2017	
	£ million	%	£ million	%
Baillie Gifford Life Ltd - Equities	209.9	21.4	0.0	-
GMO UK Ltd.	248.4	25.4	326.9	24.1
Goldman Sachs Asset Management Property Fund	0.0	-	77.9	5.7
Insight Investment Management (Global) Ltd	0.0	-	71.7	5.3
Legal & General Investment Management - Equities	217.3	22.2	265.9	19.6
Legal & General Investment Management	60.6	6.2	74.0	5.4
Ruffer LLP	54.6	5.6	0.0	-
Schroders Asset Management Property Fund	131.9	13.5	136.7	10.1
London CIV	56.3	5.8	405.2	29.8

## 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 2016 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2017 £'000
Equities	214,616	222,584	(183,549)	42,463	296,114
Pooled Investments	626,883	804,730	(273,727)	(234,953)	922,932
Pooled Property Investments	129,933	19,897	(11,675)	(4,545)	133,610
	<b>971,432</b>	<b>1,047,211</b>	<b>(468,951)</b>	<b>(197,035)</b>	<b>1,352,656</b>
<b>Other Investment Balances</b>					
Cash Deposits	5,647	0	0	0	4,096
<b>Amounts receivable for sales of investments</b>					
Investment income due	1,973	0	0	0	1,673
Amounts payable for purchases of investments	(35)	0	0	0	(45)
<b>Net Investment Assets</b>	<b>7,585</b>				<b>5,724</b>

	Market Value as at 1 Apr 2015 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2016 £'000
Bonds	99,631	0	(98,701)	(930)	0
Equities	270,637	244,815	(256,368)	(16,288)	242,796
Pooled Investments	604,115	67,622	(50,020)	(23,014)	598,703
Pooled Property Investments	116,945	10,359	(8,978)	11,607	129,933
	<b>1,091,328</b>	<b>322,796</b>	<b>(414,067)</b>	<b>(28,625)</b>	<b>971,432</b>
<b>Other Investment Balances</b>					
Cash Deposits	5,414	0	0	0	5,647
Investment income due	978	0	0	0	1,973
Amounts payable for purchases of investments	(223)	0	0	0	(35)
<b>Net Investment Assets</b>	<b>6,169</b>				<b>7,585</b>

## 10. INVESTMENTS (continued)

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2016 £'000	Market Value as at 31 Mar 2017 £'000
<b>Equities</b>		
<b>UK</b>		
Quoted	16,023	21,564
<b>Overseas</b>		
Quoted	198,593	225,922
	<u>214,616</u>	<u>247,486</u>
<b>Pooled Funds - Additional Analysis</b>		
<b>UK</b>		
Fixed Income Unit Trust	60,630	73,978
Unit Trusts	538,072	820,774
<b>Overseas</b>		
Unit Trusts	28,181	76,809
	<u>626,883</u>	<u>971,561</u>
Pooled Property Investments	<u>129,934</u>	<u>133,609</u>
	<u>129,934</u>	<u>133,609</u>
Cash Deposits	5,647	4,096
Investment Income Due	1,973	1,673
	<u>7,620</u>	<u>5,769</u>
<b>Total Investment Assets</b>	<u>979,053</u>	<u>1,358,425</u>
<b>Investment Liabilities</b>		
Amounts Payable for Purchases	(35)	(45)
<b>Total Investment Liabilities</b>	<u>(35)</u>	<u>(45)</u>
<b>Net Investment Assets</b>	<b>979,018</b>	<b>1,358,380</b>

The market value per investment manager is as follows:

	Market Value 31 Mar 2016		Market Value 31 Mar 2017	
	£'000	%	£'000	%
Baillie Gifford	209,888	21.6%	0	0.0%
GMO UK Ltd	242,796	25.0%	324,295	24.0%
Insight Investment Management (Global) Ltd	0	0.0%	71,743	5.3%
Legal & General	277,864	28.6%	339,865	25.0%
London LGPS CIV	56,344	5.8%	405,215	30.0%
Goldman Sachs Asset Management		0.0%	77,929	5.8%
Ruffer	54,606	5.6%	0	0.0%
Schroders Asset Management Property Fund	129,934	13.4%	133,609	9.9%
	<u>971,432</u>	<u>100.0%</u>	<u>1,352,656</u>	<u>100.0%</u>

## 11. INVESTMENT INCOME

Investment income is broken down as follows.

	2015/16 £'000	2016/17 £'000
Dividends from overseas equities	8,660	11,917
Dividends from UK equities	0	89
Net rents from properties	4,733	5,002
Interest on cash deposits	387	130
Foreign tax	160	275
<b>TOTAL</b>	<b>13,940</b>	<b>17,413</b>

## TAXES ON INVESTMENT INCOME

	2015/16 £'000	2016/17 £'000
Withholding tax - equities	360	286
Withholding tax - pooled	49	77
<b>TOTAL</b>	<b>409</b>	<b>363</b>

## 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 2016 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £235 million and the funding level to be 82.8%. This compares to a deficit at the previous revaluation in 2013 of £365 million and a corresponding funding level of 71.8%.

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
2017/18	15.00
2018/19	15.00
2019/20	15.00

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2016 determined that this would require a contribution (additional to the future contribution rate) of 9.1% of members' pensionable pay equivalent to £15.0 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 2016/17 was 19.9%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2016 and the recommendations implemented from 1st April 2017.

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

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with IAS26 took place at 31st March 2016. The main actuarial assumptions used in revaluation and applied during the intervalation period were as follows:

Financial Assumptions	Nominal
Price inflation (CPI)	2.1%
Pay increases	2.0%
Funding basis discount rate	4.2%

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	22.1	24.1
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	23.9	25.8

### 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 £1,983 million (£1,659 million in 2015/16). This includes both vested and non-vested benefits.

### Assumptions

To assess the value of the employer's liabilities the actuary rolls forward the values from the liabilities calculated from the funding valuation as at 31 March 2016 using financial assumptions that comply with IAS 19

### Demographic assumptions

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

Average future life expectancies at age 65 years	Males	Females
Current pensioners	22.1	24.1
Future pensioners	23.9	25.8

### Financial assumptions

Year ended	31st March	31st March
	2016	2017
Pension increase rate	2.2%	2.4%
Salary increase rate	3.7%	2.2%
Discount rate	3.5%	2.5%

## 13. MANAGEMENT EXPENSES

	2015/16 £'000	2016/17 £'000
Administration costs	910	789
Investment management expenses	3,076	2,879
Oversight & governance	107	183
	<b>4,093</b>	<b>3,851</b>

## 14. INVESTMENT EXPENSES

	2015/16 £'000	2016/17 £'000
Management fees	2,901	2,722
Custody fees	29	35
Transaction Costs	146	122
	<b>3,076</b>	<b>2,879</b>

The investment management expenses above includes transaction costs of £160,000 (£74,000 in 2015/16). Costs are also incurred through the bid/offer spread on investment sales and purchases and these are reflected in the costs of purchases and proceeds from sales of investments.

## 14b. EXTERNAL AUDIT FEE

	2015/16 £'000	2016/17 £'000
Audit Fee	21	21
	<b>21</b>	<b>21</b>

## 15. RISK MANAGEMENT

### Nature and extent of risks arising from financial instruments

#### Risk and Risk Management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. The aim of investment risk management is to minimise the risk of a reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level.

#### Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The market value of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers. Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

The Council only invests money with institutions with a minimum Fitch credit rating of A+ or higher.

#### Liquidity risk

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

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

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

#### Market risk

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

#### Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31st March 2016 and 31st March 2017 is set out below.

Interest Rate Risk	As At 31st March 2016	As At 31st March 2017
Asset Type	£'000	£'000
Cash and cash equivalents	5,647	4,096
Cash balances	149,053	19,846
Fixed interest securities	60,630	73,978
<b>Total</b>	<b>215,330</b>	<b>97,920</b>

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2017	Change in year in net assets available	
Asset Type		+100 BPS £'000	-100 BPS £'000
Cash and cash equivalents	4,096	41	(41)
Cash balances	19,846	198	(198)
Fixed interest securities	73,978	(740)	740
<b>Total change in net assets available</b>	<b>97,920</b>	<b>(501)</b>	<b>501</b>

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2016	Change in year in net assets available to pay benefits	
Asset Type		+100 BPS £'000	-100 BPS £'000
Cash and cash equivalents	5,647	56	(56)
Cash balances	149,053	1,491	(1,491)
Fixed interest securities	60,630	(606)	606
<b>Total change in net assets available</b>	<b>215,330</b>	<b>941</b>	<b>(941)</b>

#### Interest rate risk - sensitivity analysis

Interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The table below shows the effect of a +/- 100 BPS change in interest rates.

## 15. RISK MANAGEMENT (continued)

### Currency risk

The Fund invests in financial instruments denominated in currencies other than Sterling and as a result is exposed to exchange rate risk. This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To alleviate this risk the Fund allows investment managers to use derivative contracts, in accordance with the contract conditions:

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 8.8%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2016 £'000	As At 31st March 2017 £'000
Asset Type		
Overseas quoted securities	230,423	306,252
Overseas unit trusts	3,574	0
Cash	0	0
<b>Total overseas assets</b>	<b>233,997</b>	<b>306,252</b>

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2017 £'000	Change in year in net assets available to pay benefits	
		+8.8% £'000	-8.8% £'000
Asset Type			
Overseas quoted securities	306,252	333,202	279,302
Overseas unit trusts	0	0	0
Cash	0	0	0
<b>Total change in net assets available</b>	<b>306,252</b>	<b>333,202</b>	<b>279,302</b>

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2016 £'000	Change in year in net assets available to pay benefits	
		+6.8% £'000	-6.8% £'000
Asset Type			
Overseas quoted securities	230,423	246,092	214,754
Overseas unit trusts	3,574	3,817	3,331
Cash	0	0	0
<b>Total change in net assets available</b>	<b>233,997</b>	<b>249,909</b>	<b>218,085</b>

### 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 2016/17 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Price Risk - sensitivity analysis	Potential Market Movements (+/-)
Asset Type	
UK equities	7.9%
Global equity	11.0%
Total fixed interest	4.9%
Alternatives	6.0%
Cash	0.0%
Pooled Property Investments	2.1%

## 15. RISK MANAGEMENT (continued)

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

Asset Type	Value as at 31 March 2017	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Cash and cash equivalents</b>	22,524	0.0%	22,524	22,524
<b>Investment portfolio assets</b>				
UK equities	265,886	7.9%	286,997	244,775
Global equity	324,294	11.0%	360,064	288,524
Total fixed interest	73,978	4.9%	77,588	70,368
Alternatives	554,887	6.0%	588,402	521,372
Pooled Property Investments	133,611	2.1%	136,457	130,765
Net derivative assets	0	0.0%	0	0
Investment income due	1,673	0.0%	1,673	1,673
Amounts receivable for sales	0	0.0%	0	0
Amounts payable for purchases	(45)	0.0%	(45)	(45)
<b>Total assets available to pay benefits</b>	<b>1,376,808</b>	<b>0%</b>	<b>1,473,660</b>	<b>1,279,956</b>

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 2016	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Cash and cash equivalents</b>	154,005	0.0%	154,005	154,005
<b>Investment portfolio assets</b>				
UK equities	217,234	10.6%	240,261	194,207
Global equity	452,685	11.3%	503,838	401,531
Total fixed interest	60,630	3.8%	62,934	58,326
Alternatives	110,950	4.6%	116,054	105,846
Pooled Property Investments	129,934	2.2%	132,793	127,075
Net derivative assets	0	0.0%	0	0
Investment income due	1,973	0.0%	1,973	1,973
Amounts receivable for sales	0	0.0%	0	0
Amounts payable for purchases	(35)	0.0%	(35)	(35)
<b>Total assets available to pay benefits</b>	<b>1,127,376</b>		<b>1,211,823</b>	<b>1,042,929</b>

### Refinancing risk

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

## 16. VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

### Fair Value Hierarchy

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

Level 1 - inputs that reflect quoted prices for identical assets or liabilities in active markets. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts

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

Level 3 - inputs that are not based on observable data. Such instruments would include unquoted equity investments and hedge fund of funds.

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2017.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	247,485	0	0	247,485
Pooled Funds				
Unit Trusts	971,562	0	0	971,562
Property Unit Trust	133,609	0	0	133,609
Other	0	0	0	0
Derivative Contracts				
Forward Foreign Exchange Contracts	0	0	0	0
Cash and bank Deposits	23,701	0	0	23,701
Current Assets	1,914	0	0	1,914
Current Liabilities	(10,595)	0	0	(10,595)
	<b>1,367,677</b>	<b>0</b>	<b>0</b>	<b>1,367,677</b>

During the year ended 31st March 2017 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2016 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	214,617	0	0	214,617
Pooled Funds				
Unit Trusts	572,275	0	0	572,275
Property Unit Trust	129,933	0	0	129,933
Other	54,607	0	0	54,607
Derivative Contracts				
Forward Foreign Exchange Contracts	0	0	0	0
Cash and bank Deposits	154,464	0	0	154,464
Current Assets	2,210	0	0	2,210
Current Liabilities	(1,977)	0	0	(1,977)
	<b>1,126,129</b>	<b>0</b>	<b>0</b>	<b>1,126,129</b>

## 16. FINANCIAL INSTRUMENTS DISCLOSURES

### Net gains and losses on financial instruments

	Long-term	
	2015/16 £'000	2016/17 £'000
<b>Financial Assets</b>		
Loans and receivables	398	148
Financial assets at fair value through profit or loss	(27,304)	218,459
<b>Total Financial Assets</b>	<b>(26,906)</b>	<b>218,607</b>
<b>Financial Liabilities</b>		
Payables		
Financial liabilities at fair value through profit or loss	0	0
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>

## 17. CURRENT ASSETS

	2015/16 £'000	2016/17 £'000
Contributions due - employees		
Contributions due - employers	236	241
Sundry debtors	458	1,177
Cash balances	148,359	18,428
	<b>149,053</b>	<b>19,846</b>

### Analysis of debtors

	2015/16 £'000	2016/17 £'000
Other entities and individuals	149,053	19,846
	<b>149,053</b>	<b>19,846</b>

## 18. CURRENT LIABILITIES

	2015/16 £'000	2016/17 £'000
Sundry creditors	671	4,687
HMRC creditor		4,199
Benefits payable	1,271	1,664
	<b>1,942</b>	<b>10,550</b>

### Analysis of creditors

	2015/16 £'000	2016/17 £'000
Other entities and individuals	1,942	10,550
	<b>1,942</b>	<b>10,550</b>

## 19. RELATED PARTY TRANSACTIONS

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

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

The Council incurred costs of £669k (£669k 2015/16) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £22.0m (£20.5m 2015/16) 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 2017, the Fund held an average investment of £26.1m (£48.1m 31st March 2016), earning interest of £148k (£398k in 2015/16).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.3m (£3.4m 2015/16) from this company.

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

	2015/16	2016/17
Fund Administration Expenses	£'000	£'000
Payroll / HR Support	494	494
Corporate Finance	175	175
	669	669

### Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2017 include:

Service Head - Finance and Procurement  
Chief Accountant

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

	2015/16	2016/17
	£'000	£'000
Short term benefits	19	30
Long term/post retirement benefits	4	13

### Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. For 2016/17 there were no Members of the Pension Fund Committee who had involvement with other organisations.

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

## 20. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31/03/2017.

## 21. 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.

## 22. IMPAIRMENT LOSSES

During 2016/17 impairment losses were nil (impairment losses in 2015/16 were also nil).



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

We have audited the financial statements of the London Borough of Tower Hamlets for the year ended 31 March 2017 on pages 8 to 94. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **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 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. Our 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 us 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's and the Pension 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, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority's expenditure and income for the year then ended;

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

**Matters on which we are required to report by exception**

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 101 to 114 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' (CIPFA/SOLACE 2016 Edition); or
- the information given in the Narrative Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

**Conclusion on the London Borough of Tower Hamlets' arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Authority's responsibilities**

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.

**Auditor's responsibilities**

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves 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 Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2016, as to whether London Borough of Tower Hamlets had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether London Borough of Tower Hamlets put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

### **Basis for qualified conclusion**

In considering whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources we have reviewed the progress made against the findings of the Best Value Inspection of the London Borough of Tower Hamlets Report (the Report) produced by PricewaterhouseCoopers LLP (PwC) for the Department for Communities and Local Government (DCLG) dated 16 October 2014 and published on 4 November 2014, as well as the evidence gathered from our own audit work.

The DCLG instructed PwC to cover specific matters as part of the Best Value Inspection. The report concluded that the Authority had not achieved the best value duty with regard to the following areas:

- The Authority's payment of grants and connected decisions;
- The disposal of property and the granting of leasehold interests; and
- Spending on publicity.

The Report also commented that the Authority's corporate governance arrangements did not appear to be capable of preventing or responding appropriately to failures of the best value duty in the areas highlighted above. Subsequently the Secretary of State for Communities and Local Government appointed independent Commissioners to undertake an executive decision-making role in relation to all grant decisions, and to oversee the work of the Authority in these areas of operation. The Commissioners played a consultative role in the development of plans to deal with weaknesses in the processes for entering into contracts identified in the report, but were not able to issue binding directions to the Authority except in circumstances where they fail to adopt recommendations of the statutory officers.

These matters, taken together with comments within the Mayoral election judgment (as set out in the High Court of Justice, Queen's Bench Division, in the matter of the Representation of the People Act 1983, and in the matter of a Mayoral election for the London Borough of Tower Hamlets held on 22 May 2014) and other matters raised with us as auditors, indicated that governance processes were not operating effectively for the periods covered by these inspections and judgments.

The Authority developed and published comprehensive action plans including a programme of cultural change (the "BV Action Plans") to address the findings of the reports detailed above. During the course of being delivered at the Council, in September 2016 and February 2017.

In their February 2017 letter to the Secretary of State for Communities and Local Government the Commissioners set out their endorsement of the progress that had been made in all areas of the Direction regime. In particular the Commissioners welcomed the Authority's appreciation not only of what has been done, but also what remains to be done to fulfil the expectations for the Directions. The Authority was clear in its February 2017 submission to the Secretary of State for Communities and Local Government that it would take some twelve months to complete the work required. The Authority has developed this work into a Best Value Improvement Plan ("BV Improvement Plan") under five areas: elections; communications; property; grants; and organisational culture.

In March 2017 the Secretary of State for Communities and Local Government decided to end the 2014 Directions and not to extend the appointment of the Commissioners beyond 31 March 2017 in recognition of the Authority's progress. In light of the remaining work, identified in the BV Improvement Plan, the Secretary of State for Communities and Local Government has made three new Directions, in force until 30 September 2018, which require the Authority to set up a Best Value Improvement Board (with cross party and independent membership); submit quarterly progress reports on the BV Improvement Plan to the Secretary of State for Communities and Local Government; and set up an independent review of achievement of the BV Improvement Plan with a report to the Secretary of State for Communities and Local Government by 1 August 2018.

We have considered the extent to which the Authority's BV Action Plans were implemented during 2016/17. The reports submitted to the Authority's Cabinet meetings in September 2016 and March 2017 clearly show that while progress was meaningful, there remain a significant number of actions that were not completed within 2016/17. Whilst we note the progress made further time is required to fully implement and embed the improvements required under the BV Improvement Plan.

An Ofsted inspection undertaken in January and February 2017, which reported in April 2017, rated the Authority's services for children in need of help and protection, children looked after and care leavers and the local safeguarding children board inadequate overall with some features requiring improvement. The Ofsted report raised concerns in relation to poor frontline practice and ineffective, complacent and sometimes resistant management practices which enabled non-compliance with basic standards (including legal requirements) and in some cases left children at risk of harm. The report also highlighted the need for stronger leadership, management and governance to ensure there is robust performance management and scrutiny of children's social care.

The Authority has established a Children's Services Improvement Board led by an Independent Chair and an Improvement Plan was submitted to the Department for Education in July 2017. Ofsted will be carrying out quarterly monitoring visits to ensure that its recommendations are being robustly addressed.

In October 2015, in relation to our audit for the year ended 31 March 2014, we raised a recommendation under section 11(3) of the Audit Commission Act 1998 that the Authority should undertake a detailed review of its governance processes to satisfy itself that they were appropriate and operating effectively. This reflected our view that the Authority needed to ensure that its governance processes were appropriate in a wider sense for the Authority as a whole and as part of its programme of cultural change and not just the areas referred to in the BV Inspection report. This governance review is being undertaken in conjunction with the other actions currently being undertaken including the programme of cultural change. We are satisfied that the issues referred to have been incorporated into the Authority's BV Implementation Plan relating to organisational culture.

Having considered the findings and conclusions of the above inspections together with the results of our audit work, we have concluded that the Authority did not have proper arrangements in place to meet the requirements of the sub-criteria relating to 'informed decision making' and 'working with partners and other third parties'.

### **Qualified conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, 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 2017.

### **Delay in certification of completion of the audit**

#### **Due to matters brought to our attention by local authority electors and work on the WGA Return not being completed by the 29 September 2017**

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of one matter brought to our attention by a local authority elector under the Audit Commission Act 1998, relating to the year ending 31 March 2014; and one matter brought to our attention by a local authority elector under the Local Audit and Accountability Act 2014, relating to the year ending 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on arrangements to secure value for money.

In addition we have not yet completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

**Andrew Sayers**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square, London, E14 5GL

29 September 2017

## 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.

### Audit Committee Certificate of Approval

The Statement of Accounts for the year ended 2016/17 will be approved by the Council's Audit Committee on 27<sup>th</sup> September 2017.



#### **Cllr Candida Ronald**

Chair of the Audit 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.

### Certificate of the Corporate Director of Resources

I certify that the Statement of Accounts 2016/17 presents a true and fair view of the financial position of the Council in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code of Practice") as at 31<sup>st</sup> March 2017 and its income and expenditure for the year ended 31 March 2017.



#### **Zena Cooke**

Corporate Director of Resources

27<sup>th</sup> September 2017

## Annual Governance Statement 2016/17

We (the Council) are 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 enables stakeholders to have assurance that decisions are properly made and public money is being properly spent on behalf of citizens. The statement below complies with the Accounts and Audit Regulations 2015.

This statement relates to the financial year 2016/17. The Annual Government Statement for 2015/16 was presented in draft to the Audit Committee on 20 September 2016. The governance issues raised in that statement have been reviewed as part of the review of effectiveness the Council's governance arrangements for 2016/17.

### Background

Following an independent inspection in April 2014 the Council was placed under Best Value Directions by the Secretary of State for Department of Communities and Local Government (DCLG) in December 2014. The Directions included the appointment of three Commissioners with decision making powers in the areas of Grants, Procurement, Property, Election and Communication. The Council developed a Best Value Strategy and action plans with 205 activities to deliver improvements across these areas. This, alongside effective engagement with the Commissioners and DCLG, led to the transitional return of power to the Council with full control being given back and removal of Directions and Commissioners confirmed in March 2017. The table below sets out some of the achievements against the Best Value areas during the period of the original Directions.

Best Value area	Achievements
<b>Communication</b>	<ul style="list-style-type: none"> <li>• Delivered a new quarterly magazine 'Our East End';</li> <li>• Annual Communications Strategy detailing delivery plans and budget prepared;</li> <li>• Implementation of a campaigns model to support a range of high level projects; including the Mela and UK Parliamentary Election;</li> <li>• Establishment of the Statutory Notices publication scheme.</li> </ul>
<b>Elections</b>	<ul style="list-style-type: none"> <li>• Delivered a number of successful elections and the EU referendum: -               <ul style="list-style-type: none"> <li>○ UK Parliamentary Election May 2015;</li> <li>○ Tower Hamlets Mayoral Election June 2015;</li> <li>○ Election of Mayor of London and Greater London Authority elections May 2016;</li> <li>○ EU Referendum June 2016;</li> <li>○ Whitechapel ward by-election December 2016;</li> <li>○ UK Parliamentary Election June 2017.</li> </ul> </li> </ul>
<b>Property</b>	<ul style="list-style-type: none"> <li>• Developed and implemented a new Community Benefit Reduction scheme for organisations based in Council buildings;</li> <li>• Implemented a Community Hub model with investment to create a range of accessible work and community spaces across the borough;</li> <li>• Property audits completed on a range of Council assets;</li> <li>• Identified and transferred vacant Council buildings to Housing Management to progress development to residential use;</li> <li>• Refreshed governance arrangements on asset management to strengthen transparency.</li> </ul>
<b>Organisational culture</b>	<ul style="list-style-type: none"> <li>• Series of engagement events completed over 6 months to develop a new set of refreshed core values with staff and members;</li> <li>• Weekly staff bulletin and regular Chief Executive/Corporate Leadership Team Roadshows to engage with staff in the improvement journey and transformation</li> <li>• New corporate senior management structure completed and majority of posts recruited;</li> </ul>

Best Value area	Achievements
	<ul style="list-style-type: none"> <li>• Whistleblowing related activities completed through Clear Up Project to address any remaining issues;</li> <li>• Independent review of whistleblowing processes and procedures completed;</li> <li>• Governance structure refreshed with review of Council Constitution;</li> <li>• Re-constituted Tower Hamlets Local Strategic Partnership with plans to develop a new Community Plan for 2018.</li> </ul>
<b>Grants</b>	<ul style="list-style-type: none"> <li>• Decision making and scrutiny of grants has been established with the Cabinet Grants Determination Sub Committee and Grants Scrutiny Sub Committee;</li> <li>• Delivery of the Mainstream Grants Programme 2015 with independent evaluation work completed;</li> <li>• Development of a comprehensive Grants Register reviewed annually to ensure a co-ordinated approach to grant management;</li> <li>• Three year Voluntary and Community Sector Strategy adopted with a three year action plan, detailing how the Council will work and support the sector.</li> </ul>
<b>Procurement</b>	<ul style="list-style-type: none"> <li>• Established a clear category management strategy to ensure value for money (VFM) for all categories of spend, to reduce costs and oversupply;</li> <li>• Central contracts register linked to contract award implemented to capture all contracts above £25,000 including all procurement waivers;</li> <li>• Supply Chain Ethical Code of Conduct developed and approved to strengthen adherence to ethical standards by suppliers delivering public services on behalf of the Council;</li> <li>• Improved Finance and Procurement controls introduced and implemented to increase compliance with, and transparency of, spend across the organisation;</li> <li>• New e-sourcing system rolled out which requires all procurement opportunities to be tendered through a single e-tendering system that is integrated with the Council's financial systems;</li> <li>• Social Value Act action plan developed for implementation.</li> </ul>

In March 2017 the Secretary of State issued new Directions which will be in force until 30th September 2018. These require the Council to:

- Submit quarterly reports on all outstanding actions in the Best Value Action Plan and Best Value Improvement Plan 2017-18 to the Secretary of State. The first report was sent in June 2017;
- Set up a new Best Value Improvement Board. This met in April 2017 and is chaired by the Mayor, with cross party representation and external representatives to provide challenge to improve all Council activities; and
- Set up an independent review of achievement against the Best Value Action Plans and Best Value Improvement Plan 2017-18 to be submitted to the Secretary of State by 1st August 2018.

In February 2017, Ofsted rated our services for children in need of help and protection, children looked after and care leavers and safeguarding board as inadequate. Information relating to the Ofsted inspection and the steps we have taken can be found at paragraph 3.20 of this report.

We have also set up an Adults Improvement Board to drive up standards in relation to the performance and practice in adult social care. Details of the steps we have taken in this area can be found at paragraph 3.21 of this report.

## 1. Responsibility of the Council

We are responsible for ensuring our 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. We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which our functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, we are responsible for putting in place proper arrangements for the governance of our affairs and facilitating the effective exercise of our functions.



We have 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](http://www.towerhamlets.gov.uk) or can be obtained from the Council's monitoring officer. This statement explains how we comply with the code and also meet the requirements of regulation 4(2) of the Accounts and Audit Regulations 2015 in relation to the publication of the Annual Governance Statement.

## **2. What is Corporate Governance Framework?**

The governance framework comprises the systems and processes, and culture and values, by which we direct and control our activities and through which, we account to, engage with and lead our community. The governance framework allows us to monitor the achievement of our strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

Our 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 2017 and up to the date of approval of the statement of accounts.

## **3. The Council's Governance Framework**

Our governance arrangements aim to ensure that we set out and meet our objectives and responsibilities in a lawful, timely, open, inclusive and honest manner and that our use of public money and resources is safeguarded, properly accounted for and used economically, efficiently and effectively. The key elements of the systems and processes that comprise the Authority's governance arrangements are described below.

### **3.1 Vision and Priorities**

The shared vision for the borough as set out in the Community Plan is to: *'Improve the lives of all those living and working in the borough'*. The Council's Strategic Plan supports the delivery of this vision and focuses on 3 key priorities and 10 outcomes:

*Priority 1: Creating opportunity by supporting aspiration and tackling poverty*

- A dynamic local economy, with high levels of growth that is shared by residents
- Residents in good quality, well-paid jobs
- Children get the best start in life and young people realise their potential
- People are healthy and independent for longer
- Gaps in inequality have reduced and diversity is embraced

*Priority 2: Creating and maintain a vibrant and successful place*

- An improved local environment
- People feel safe and places have less crime and anti-social behaviour
- Better quality homes for all
- Communities are engaged, resilient and cohesive

*Priority 3: Working smarter together as one team with our partners and community*

- An enabling and efficient Council

These priorities are supported by an enabling objective which aims to deliver a transformed Council, making best use of resources and with an outward looking culture.

More information about our performance against the Plan and achievements in 2016/17 can be found on the Council's website.

[http://www.towerhamlets.gov.uk/lqnl/community\\_and\\_living/community\\_plan/strategic\\_plan.aspx](http://www.towerhamlets.gov.uk/lqnl/community_and_living/community_plan/strategic_plan.aspx)

### 3.2 Corporate and Service Plans

The overall planning framework is illustrated in the following diagram. As the diagram below shows, we align our Strategic Plan with the Community Plan structure around the themes, priorities and objectives of the Community Plan.

The Strategic Plan is refreshed each year through Cabinet, at which time it is also reviewed by the Overview and Scrutiny Committee.



Our vision, priorities and objectives are used to structure all directorate service plans and Personal Development Plans (PDPs). This ensures that there is a "golden thread" that runs from the Community Plan to each individual employee's work. This helps ensure that the vision, priorities and objectives are communicated to and delivered at all levels of the organisation. Further communication of core values and key initiatives takes place through the Council's staff newsletter "Tower Hamlets Now".

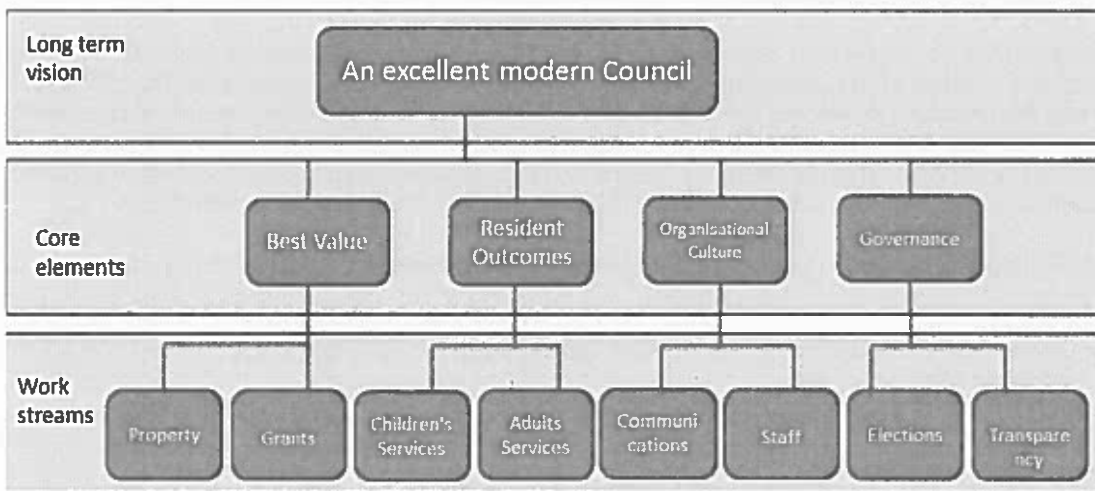
### 3.3 Tower Hamlets Improvement Framework

The Tower Hamlets Improvement Framework sets out the core elements and work streams that will develop the Council into an 'excellent modern Council', these being:

- delivering improved outcomes for local people;
- providing value for money;
- embracing modern technology and innovations;
- working effectively with all stakeholders including staff, local residents and partners from all sectors;
- externally recognised.

The diagram below details the Council's long term vision; core areas of focus and a range of supporting work streams that are taking place across the organisation to develop an 'excellent modern Council'. These work streams are supported by the following groups and boards:

- Best Value Improvement Board
- Children's Services Improvement Board
- Adults' Improvement Board
- Cabinet
- Overview and Scrutiny Committee
- Performance Improvement Board



Given the range of work taking place across the organisation we will share the learning and communicate this to local people and to our staff and partners. We will co-ordinate improvement activities to reduce duplication and ensure learning is embraced from best practice and also undertake a Corporate Peer Challenge with the Local Government Association in 2018 to help understand progress made and areas for further development.

### 3.4 Performance Management

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

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

The Council's Corporate Leadership Team (CLT), comprising the Directors and 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 CLT also has responsibility for reviewing and challenging the Council's performance and delivery of the strategic plan. The Cabinet and the Overview and Scrutiny Committee receive regular reports highlighting Council performance.

During 2016/17 the Governance arrangements of the Council have been considered by all the Statutory Officers of the Council as part of the scheduled CLT meetings. This has contributed to the review of effectiveness outlined below in part 4 of the statement.

### **3.5 Council Constitution**

We have an agreed constitution that details how the Council operates and sets out:

- the rules and procedures to be followed by the Council and committees when conducting their business;
- the decision making powers of the Executive and of Committees;
- the financial and contract regulations;
- the scheme of delegation to chief officers;
- the role of overview and scrutiny;
- the role and responsibilities of the Audit Committee;
- codes of conduct for Councillors and employees; and
- members' scheme of allowance.

Under the Council's constitution, the Executive is the elected Mayor, who makes decisions in respect of all executive matters which cover the operational delivery of Council services within the delegation set out under the executive powers of the constitution. In making his decisions the Mayor is supported by the Cabinet, Directors and Corporate Directors and other officers of the Council. The Full Council retains some strategic decision making responsibilities such as 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.

The constitution has been refreshed during 2016/17. The Monitoring Officer is also undertaking a review of the Officer Scheme of Delegation and when completed this will be appended to the constitution and published in the same timeframe.

The Council considers and approves any changes proposed to the key strategic policies set out in article 4 of the constitution, including:

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

### **3.6 Codes of Conduct**

We have 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 at least annually. Officers are required to generally decline gifts and hospitality to ensure they are not inappropriately influenced. These codes and processes are made available to staff as part of their induction; they are also on the intranet and training is available to ensure every member of staff understands their responsibilities. For the financial year 2016/17, 99.5% of staff completed their annual declarations of interest.

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

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

### **3.7 Rules, Regulations, Policies, and Procedures**

Our rules and procedure are contained in part four of the Council's constitution. We have a duty to ensure that we act in accordance with the law and relevant regulations in the performance of our functions. We have 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, 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.

### **3.8 Overview and Scrutiny**

During 2016/17 the work of the Executive was scrutinised by an Overview and Scrutiny Committee, the Grants Scrutiny Sub Committee and the Housing Scrutiny Sub Committee. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, and to recommend alternative courses of action.

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

An Annual Scrutiny Report detailing the work of the Overview and Scrutiny Committee, the Health, Grants and Housing Scrutiny Panels was presented to Council and noted on 19 July 2017. The work programme also involved a number of in-depth scrutiny reviews and challenge sessions focusing on the Council's Medium Term Financial Strategy and budget monitoring, Strategic Plan and Delivery Plan for 2017/18, Housing Strategy, Substance Misuse Strategy, Community Engagement Strategy, Budget Scrutiny and Monitoring and challenging the Council's performance.

### **3.9 Audit Committee**

For 2016/17, the Audit Committee comprised seven members; four from the majority group and one each from the three largest minority groups in proportion to their representation on the Council. The Audit Committee's remit is to review the Council's systems of internal control and its risk management and governance arrangements, as outlined in the Audit Committee: Guidance for Local Authorities and Police. The Audit Committee also reviews audit findings and the effectiveness of the internal audit function. Specifically, the core functions of the Audit Committee are to consider the annual audit plan and the performance of internal audit; to be satisfied that the authority's annual governance statement properly reflects the risk environment; to demonstrate its fiduciary responsibilities in preventing and detecting fraud; to monitor the authority's risk management framework; to meet the accounts and audit regulations in respect of approving the authority's Annual Financial Report, including the annual statement of accounts, and to consider reports from the Council's external auditor, KPMG. The Audit Committee met five times in 2016/17. The 2015/16 annual accounts received an unqualified audit opinion, but the VFM conclusion was subject to an "adverse" qualification.

### **3.10 Internal Audit**

Internal audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. Internal Audit provides assurance and advice on internal control to the Mayor, the Corporate Leadership Team and Members. Internal Audit reviews and evaluates the adequacy, reliability and effectiveness of internal control and where relevant, recommends

improvements. It also supports the management of the Council in developing its systems and providing advice on matters pertaining to risk and control. In carrying out this function Internal Audit contributes to the discharge of the Corporate Director, Resources' Section 151 responsibilities.

The work of the Internal Audit Section is monitored and reviewed by the Audit Committee. Annually the Head of Audit and Risk Management is required to give an opinion on the Council's internal control framework based upon the work carried out during the year in the form of an annual report. This report is one of the sources of assurance used in the preparation of this statement. A review of internal audit has been carried out in 2017/18 and once the report is finalised any recommendations raised from the review will be implemented during the financial year.

The Head of Audit and Risk Management reports quarterly, on a formal basis, to the Corporate Leadership Team on findings of audit work and investigations. He also meets as required with CLT members individually as well as other officers with roles key to the Governance Framework to discuss governance related issues. The internal audit charter, setting out the purpose and authority and responsibility of internal audit was approved by CLT and the Audit Committee in June 2017.

### **3.11 External Audit**

The Council's external auditors, KPMG:

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

In 2016/17 financial year, KPMG expects to issue an unqualified audit opinion on the Council's financial statements. In respect of whether the authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, KPMG expects to issue a conclusion that is subject to an "except for" qualification.

### **3.12 Whistle Blowing Policy and the Complaints Procedure**

The Council has a whistle blowing policy in addition to the Council's Anti Fraud and Corruption Strategy. The Anti-Fraud and Corruption Strategy was refreshed and reported to the Audit Committee at its meeting in June 2016. We have enhanced current arrangements by promoting the Council's whistle blowing arrangements by raising awareness of the Council's whistle blowing arrangements and improving reporting. The new arrangements were rolled out from May 2016. During 2016/17, we have independently reviewed the Council's whistle blow process to see if further steps can be taken to enhance current arrangements.

We also have a recognised complaints process which is administered by the Complaints and Information team. The complaints process comprises of three stages to enable the public to escalate their complaints if they are not satisfied with the answer they receive. Details of complaints are monitored by the Monitoring Officer and the Standards (Advisory) Committee.

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

### **3.13 Risk Management**

We have a Risk Management Strategy to identify and manage the principal risks which impact on achieving our 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.

We have engaged Zurich Municipal Engineering to review of the Council's risk management arrangements and to suggest enhancements to further embed risk management within the organisation and facilitating workshops with the Corporate Leadership Team and Directorate Leadership Teams. This work looked at our appetite to take risks in pursuit of our strategic objectives and assess whether organisationally we have the same understanding of our risk appetite.

### **3.14 Information Governance**

We have established two groups to oversee Information Governance as a risk area and ensure robust governance arrangements are in place and adhered to across the organisation. An Information Governance Group meets six weekly. In addition, the Information Governance Strategy Board has been established, which is chaired by the Head of Legal Services and is represented by Divisional Directors from each directorate.

### **3.15 Financial Management**

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

Our medium term financial strategy sets out the need to deliver financial savings to 2019/2020. Arrangements have been made to identify opportunities and for the delivery and reporting of savings to CLT and Cabinet.

Internal financial control is based on a well established framework of financial regulations and financial procedures which include the segregation of duties, management supervision and a system of delegation and accountability. On-going development and maintenance of the various processes is a management responsibility. The control arrangements in 2016/17 included:

- comprehensive corporate and directorate budgeting systems;
- an annual budget approved by the Council that reflects strategic priorities;
- a medium-term financial strategy 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.

### **3.16 The Efficient and Effective Use of Resources**

As noted earlier in this statement, we have been subject to a Best Value inspection and the findings arising from the inspection are captured under review of effectiveness (Section 4). KPMG's assessment on the Council's arrangements in place for securing economy, efficiency and effectiveness in its use of resource in relation to 2013/14 to 2015/16 resulted in the issue of adverse opinions in respect of the authority's arrangements to secure value for money.

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

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 in 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.

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

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

### ***3.17 Learning and Organisational Development***

We have 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 programme to keep them up to date with changes and to support training needs. Training is supplemented by information through briefings, conferences and weekly bulletins. For some aspects of Council work members are required to undertake mandatory training to ensure they can demonstrate appropriate competence, for example the Licensing Committee.

### ***3.18 Communication and Engagement***

We publish numerous documents on our website as well as providing a quarterly paper during 2016/17, Our East End to keep residents up-to-date, in an informal and accessible way, on the work of the Council. A review of the value for money and compliance of East End Life was requested as part of the Best Value Action Plan. Following the review, a decision was made for East End life to be published fortnightly from January 2016 and quarterly from May 2016 to bring the publication in line with the Recommended Code of Practice for Local Authority Publicity.

We also engage with citizens through surveys such as the annual resident's survey and a tenants' survey. These help to inform us of the perception of services we provide and the experience of service users. Further, we use portal and a range of digital media to engage with a wide range of stakeholders. Our website is continually being developed to provide more information, enable more services to take place electronically and to receive comments from all stakeholders.

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



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

Elected members of the Council also hold regular surgeries for their wards.

### **3.19 Partnerships**

Our most significant partnership is The Tower Hamlets Partnership.

In February 2012, the partnership structure was refreshed. In the structure, the Partnership Executive and Board has been rationalised but still with responsibility for developing the overall strategy and for ensuring plans are delivered. The Community Plan Delivery Groups have been updated but with continued focus on the five key themes in the community plan including the statutory boards. At a ward level Local Community Ward Forums enable local people to engage with the Council and identify local priorities and projects for co-delivery.

Due to the Care Act and the drive towards more integrated services with the Council we have been working in partnership with the Clinical Commissioning Groups, BARTs and East London Mental Health Trust. A formal partnership called the Tower Hamlets Integrated Provider Partnership has been created and we are committed to working to achieve shared outcomes with the members of the partnership. There are also partnership arrangements with the Police, Probation and Youth Justice services to help to meet the targets for reducing crime and making Tower Hamlets a safer and stronger community.

We have an established Arm's Length Management Organisation, Tower Hamlets Homes, a wholly owned subsidiary limited by guarantee to manage the Council's housing stock. Tower Hamlets Homes has a formal governance structure and manages its internal affairs and delegated budgets through the Company'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.

### **3.20 Children's Services**

An Ofsted inspection undertaken in January and February 2017 rated our services for children in need of help and protection, children looked after and care leavers and the local safeguarding children board inadequate overall with some features requiring improvement. The report made 15 recommendations and highlighted poor frontline practice and ineffective, complacent and sometimes resistant management practices which enabled non-compliance with basic standards (including legal requirements) and in some cases left children at risk of harm. The report also highlighted the need for stronger leadership, management and governance to ensure there is robust performance management and scrutiny of children's social care.

In consultation with the Department of Education (DfE) a Children's Services Improvement Board led by an Independent Chair has been established and an Improvement Plan has been submitted to DfE in July 2017. The Board ensures that there is clear leadership of the improvement journey at corporate, political and partnership levels. The Board's key focus has been on understanding why this happened in Tower Hamlets and how to put this right through the development, implementation and monitoring of the Improvement Plan. An Operational Group has also been set up to support the work of the Board and is chaired by the Corporate Director of Children's Services. The Council is working with its DfE appointed Practice Improvement Partners from Lincolnshire and Islington Councils, to ensure that it learns from best practice in Councils that have achieved a 'good' standard in the Ofsted single inspection framework. Ofsted will be carrying out quarterly monitoring visits to ensure that its recommendations are being robustly addressed. The first of these monitoring visits took place at the end of August 2017.

The Children's Service Improvement Board will continue to focus on the themes identified in the Ofsted report looking at progress made and providing support and challenge on areas of on-going work. Quarterly progress updates will be provided to the Best Value Improvement Board and the Council's Cabinet and Overview and Scrutiny Committee.

### **3.21 Adults' Services**

The Council has set up an internal time limited Adults Improvement Board to drive up standards in relation to performance and practice in adult social care to improve outcomes for vulnerable adults in the borough. There are four broad areas of focus:

- Practice – improving safeguarding practice will be a key feature;
- Culture – adopting a strengths-based approach with a focus on prevention and demand management;
- Capacity planning – a key strand of work will be around our workforce and its development;
- Performance – will focus on performance against the key outcomes identified in the Directorate Plan and associated measures and data.

With support from an LGA Improvement Adviser, the Adults Improvement Board has utilised the ADASS Risk Toolkit to assess risk and inform the prioritisation of improvement activity. The Adults Improvement Board has developed plans to address priorities for action to ensure consistent and effective practice results in improved outcomes for vulnerable adults in the borough. This includes improving: practice, practice governance, safeguarding, workforce stability and planning, skills, quality and performance management. This Board will report on the progress against work streams at a future meeting of the Best Value Improvement Board.

### **4. Review of Effectiveness**

We have responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of effectiveness has been an on-going process throughout the period and is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of governance environment, the head of audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review involved the evaluation of the key sources of assurance:

- The Council evaluated its corporate governance arrangements against good practice criteria set out in the CIPFA/SOLACE guidance. The arrangements were found to be sound albeit recommendations were made to enhance current arrangements.
- The annual Head of Audit Opinion expressed the opinion that overall the Council's system of internal control is adequate.
- The risk management framework, including the corporate and directorate risk registers, provides assurance that the key risks to strategic objectives are managed effectively and are monitored by senior officers and members.
- The Council is subject to external audit activity both corporately and for individual services. The judgements of the external auditors contained in their annual audit letter and other reports provide assurance that the Council has a reasonable system of internal financial controls.
- Performance monitoring shows improvement in performance against external measures, the Council's own targets and in comparison to other authorities.
- Monitoring of the 2015/16 Significant Governance Issues as well as the actions plans arising from the PwC review of best value.
- The outturn on the 2016/17 budget shows that the financial management systems and processes of the Council succeeded in keeping expenditure within planned limits.
- Quarterly monitoring of strategic risks of the Council by the Corporate Leadership Team.

- Meetings with Corporate Leadership Team members who have reviewed their own directorate governance issues and actions with their Directorate Management Teams to seek input to the issues at a corporate level.

There has also been significant work to review and improve our governance arrangements and this work is considered in the process to produce this statement.

In addition to the above there have been independent assurances obtained from:

- Grant Thornton who were commissioned to independently review the organisation against the newly updated Principles of Good Governance;
- Two reviews of the Third Sector team who administer the Council's mainstream grant;
- Grant Thornton / CIPFA who reviewed the Council's Financial Management Arrangements;
- Grant Thornton review of the Council's whistle blow arrangements; and
- OFSTED review of Children's Services.

### Significant Governance Issues

All of the above sources of challenge and assurance have been considered in determining both the status of the 2015/16 significant governance issues and also what issues remains a high priority in relation to 2016/17. The significant issues and the specific actions to address that have been taken and those planned for the future are set out below and in all cases, due to the on-going monitoring of the governance framework, work is already underway to address the action points.

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

The overall process is overseen by the Audit Committee which approves the Annual Governance Statement prior to it being signed off by the Mayor and the Chief Executive. The 2015/16 Annual Governance Statement contained eight Significant Governance Issues. As a result of the 2016/17 review all issues have been closed or superseded by new issues.

The table below details the four Significant Governance Issues relating to 2016/17, the CLT lead responsible, the actions to date and the further actions planned.

Governance Issue and action noted	Proposed action	CLT Lead and expected resolution date
Ofsted assessment of Children's Services	<p>We have developed an improvement board in consultation with the Department of Education for improving our services. The board is chaired by an independent Chair. An operational group has also been established to support the board.</p> <p>The Children's Services improvement board has met three times and has set a clear forward plan to focus on relevant thematic issues for each of its meeting. The improvement plan was submitted to the Secretary of State on 19 July 2017.</p>	<p>Corporate Director, Children's Services.</p> <p>March 2018</p>

Governance Issue and action noted	Proposed action	CLT Lead and expected resolution date
Council's Governance Framework	We have continued to review our constitution at the General Purposes Committee. We plan to complete this exercise by the end of the financial year. We have made changes to our Local Safeguarding Children's Board and provided training for members.	Corporate Director, Governance March 2018
Improve Organisational Culture	We have developed a best value improvement plan for organisational culture and we recognise this is a key component in moving the Council forward. The aims of the organisational culture plan is to; ensure the culture of the organisation continues to be one which strives for continuous improvement and engages and invests in staff and ensure relationships between groups of members and between members and officers are professional, respectful, open and honest.	Chief Executive March 2018
Payments to third sector organisations as part of mainstream grant process.	For the financial year 2016/17, a total of £78,997.57 was identified by the Council's external auditors as unauthorised payments as formal rental agreements were not in place for five organisations. The commissioners had stipulated grant payments should only be made where formal lease agreements are in place.  We are actively working with Third Sector Organisations to regularise lease agreements.	Corporate Director, Resources March 2018

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvement that were identified in our review of effectiveness and will monitor progress periodically and confirm their implementation and operation as part of the process to produce the 2017/18 Annual Governance Statement.



Chief Executive

Date: 28<sup>th</sup> September 2017



Mayor

Date 29/09/2017

## GLOSSARY OF FINANCIAL TERMS AND ABBREVIATIONS

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

### FINANCIAL TERMS

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

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

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

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

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

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

**Actuarial Valuation** – Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates. The most recent valuation was in 2013.

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

**Arm's Length Management Organisation (ALMO)** – Arm's length management organisation. An organisation set up to manage all or part of a local authority's housing stock. Ownership of the stock remains with the local authority.

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

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

**Asset** – Something valuable that the Council owns, benefits from, or has use of, in generating income.

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

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

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

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

**Business Rate Supplement** – The Business Rate Supplements Act 2009 enables levying authorities - county councils, unitary district councils and, in London, the Greater London Authority - to levy a supplement on the Business Rate to support additional projects aimed at economic development of the area.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Corporate and Democratic Core (CDC)** - This includes corporate policy making, activities that relate to the corporate management of the Council and all other member-based activities. Under the terms of SeRCOP, all support costs are allocated to services except for CDC and Non Distributed Costs.

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

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

**Current Assets** - Any asset expected to last or be in use for less than one year is considered a current asset. Examples are stock, cash and debtors.

**Current Liability** - An amount which will become payable or could be called in within the next accounting period. Examples are creditors and Short Term Borrowing.

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

**Dedicated Schools Grant** – Grant monies provided by the Department of Education ring-fenced to schools budgets. This is a ring-fenced grant.

**Deferred Capital Receipts** - Income that is received in instalments over agreed periods of time. They arise from mortgages on sales of Council houses and repayments from loans.

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

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

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

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

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

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

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

**Fees and Charges** – Income receivable as payment for goods or services provided. These charges are reviewed annually as part of the annual budget process.

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

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

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

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

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

**Gross Spending** – the total cost of providing services before any income such as government grants, fees and charges are deducted.

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

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

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

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

**Impairment** – A reduction in the valuation of PPE caused either by a change in the market price of the asset or damage/deterioration of the asset in excess of depreciation.

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

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

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

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

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

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

**Liability** – A liability is where the Council owes payment to an individual or another organisation.

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

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

**Long-Term Liability** – An amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

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

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

**Medium Term Financial Plan (MTFP)** – The Council's strategic plan surrounding its finances for the next 3 years.

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

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

**National Non-Domestic Rates (NNDR) Pool** - Non-Domestic Rates are collected by the Council. From 1<sup>st</sup> April 2013 the Council keeps 30%, gives the GLA 20% and the other 50% is passed over to the DCLG.

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



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

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

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

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

**Precept** – The charge made by the Greater London Authority (the precepting authority) on the Council to finance its net expenditure.

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

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

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

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

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

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

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

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

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

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

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

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)** – Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of long-term assets, that has been charged as expenditure to the relevant service revenue account in the year

**Revenue Support Grant** – General grant paid by the Government to local authorities.

**Right To Buy (RTB)** - The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt, some of which will be retained by the council to spend on capital expenditure, while the remainder must be paid over to the DCLG under pooling arrangements.

**Ring-Fenced Grant** – A grant that can only be spent on a specific purpose, such as the Dedicated Schools Grant.

**Service Level Agreements** - agreements between operational units, which state the price and specifications of the support service by one to another.

**Service Reporting Code of Practice (SeRCOP)** – CIPFA's accounting recommendations for local authorities that legally constitute proper accounting practice, below the statement of accounts level.

**Soft Loan** – Loans given at less than market/commercial rates to community or not-for-profit organisations.

**Supplementary Business Rates (SBR/BRS)** – Locally raised business rates for local projects. London Councils are levying a SBR for the Cross-rail project.

**Support Services** – Activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front line services such as finance, information technology and human resources.

**Surplus Assets** – Those assets which are not being used to deliver services, but do not meet the criteria to be classified as either Investment Properties or Non Current Assets Held for Sale.

**Unusable Reserves** – These represent reserve balances that cannot be spent as part of an organisation's medium term financial plan. An example is the revaluation reserve.

**Usable Reserves** – These represent reserve balances that can be spent as part of an organisation's medium term financial plan. Any organisation has to review reserve levels to ensure long-term financial stability. General fund and Housing Revenue Account reserves are usable reserves.

**Value for money (VFM)** – This term is used to describe the relationship between the economy, efficiency, and effectiveness (known as the 'three Es') of a service, function or activity. Value for money is high when there is an optimum balance between all three.

## **Abbreviations used in Accounts**

**AGS** - Annual Governance Statement  
**ALMO** - Arm's Length Management Organisation (Tower Hamlets Homes)  
**BSF** - Building Schools for the Future  
**CAA** - Capital Adjustment Account  
**CDC** - Corporate and Democratic Core  
**CFR** - Capital Financing Requirement  
**CIES** - Comprehensive Income and Expenditure Statement  
**CIL** - Community Infrastructure Levy  
**CIPFA** - Chartered Institute of Public Finance and Accountancy  
**CCG** - Clinical Commissioning Group  
**CPI** - Consumer Price Index  
**CRR** - Capital Receipts Reserve  
**DCLG** - Department of Communities and Local Government  
**DEFRA** - Department for Environment, Food and Rural Affairs  
**DfE** - Department for Education  
**DRF** - Direct Revenue Funding  
**DSG** - Dedicated Schools Grant  
**DWP** - Department for Work and Pensions  
**EIR** - Effective Interest Rate  
**GAAP** - Generally Accepted Accounting Principles  
**GF** - General Fund  
**GLA** - Greater London Authority  
**HRA** - Housing Revenue Account  
**IAS** - International Accounting Standard  
**IFRS** - International Financial Reporting Standards  
**LABGI** - Local Authority Business Growth Incentive  
**LAML** - London Authorities Mutual Limited  
**LASAAC** - Local Authority (Scotland) Accounts Advisory Committee  
**LATS** - Landfill Allowance Trading Scheme  
**LBTH** - London Borough of Tower Hamlets  
**LGPS** - Local Government Pension Scheme  
**LOBO** - Lender's Option – Borrower's option  
**LPFA** - London Pensions Fund Authority  
**MRA** - Major Repairs Allowance  
**MRP** - Minimum Revenue Provision  
**MTFP** - Medium Term Financial Plan  
**NBV** - Net Book Value  
**NCS** - Net Cost of Services  
**NDC** - Non Distributed Costs  
**(N)NDR** - (National) Non-Domestic Rates

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